

CHAPTER-5

ORGANISATIONAL PROFILE OF THE SPINNING MILLS

- 5.1 Introduction
- 5.2 Organisational Set-up of the Mills
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- 5.5 Cost Accounting System employed by the Mill.
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- 5.8 Model Cost sheet.

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A) THE DECCAN CO-OP. SPINNING MILLS LTD.

B) KOLHAPUR ZILLA SHETKARI VINKARI SAHAKARI SOOT GIRANI LTD

THE DECCAN CO-OP.SPINNING MILLS' LTD.

5.A.1 Introduction :

Prior to 1962 the local powerloom industry was totally dependant on outside sources for its yarn requirement. For sometime the availability of yarn acted as a key factor in the development of powerloom industry. They had to buy yarn form Sangli, Miraj, & Kolhapur. It required additional costs also, like transport, octroi, commission etc. Further the yarn lacked quality, was higher priced and supply was uncertain. These conditions lead to the establishment of the Deccan Co-op. Spinning Mills Ltd. in 1960. The mill was registered on 3rd Dec. 1960 and commenced production on 18th Dec.1962. This mill has been the first co-operative spinning mill in the state of Maharashtra.

Beginning with the initial project of 11,960 spindles in 1962, the mill has within ten years of establishment increased the spindle copacity to 79552. To cope up with the increasing demand for yarn, the mill under took a series of expansions which has been explained in the following table.

Table No.5.1Table Showing the expansion of production

Capacity by the Deccan Co-op. Spinning Mills.

| Project/Expansion  | Year    | Number of Spindles Added | Initial/Additional Investment in Rs. (Lakhs) |
|--------------------|---------|--------------------------|--|
| Initial Project    | 1962-63 | 11,960                   | 55.35  |
| Expansion I        | 1964-65 | 12,064                   | 68.62  |
| Expansion II       | 1965-66 | 13,792                   | 63.39  |
| Marginal Expansion | 1968-69 | 4,640                    | 6.96   |
| Expansion III      | 1969-70 | 12,064                   | 86.27  |
| Expansion IV       | 1972-73 | 25,032                   | 330.00                                       |
| Marginal Expansion | 1985-86 | 3,572                    | 81.98  |
|                    | Total   | 83,124                   | 692.57                                       |

Source : Records of the Deccan Co-op. Spinning Mills Ltd.,

The mill has a licensed capacity of 89,036 spindles and 672 rotors. At present the mill's installed capacity is 83,124 spindles and 336 rotors. Since the establishment the mill has undertaken 4 major and 3 marginal expansions. Now it is undertaking a modernisation plan worth Rs.230/- lakhs with financial assistance of Rs.160/- lakhs from The Industrial Development Bank of India.

5.A.2 Organisational set up of The Deccan Co-op. Spinning Mills Ltd.,

The mill being a co-operative society, its Board of Directors is the supreme authority. It has the Chairman,

Vice-chairman and other directors to look into routine matters. Almost all the major decisions whether routine or exceptional are taken by the Board of Directors. For implementing the decisions there are -

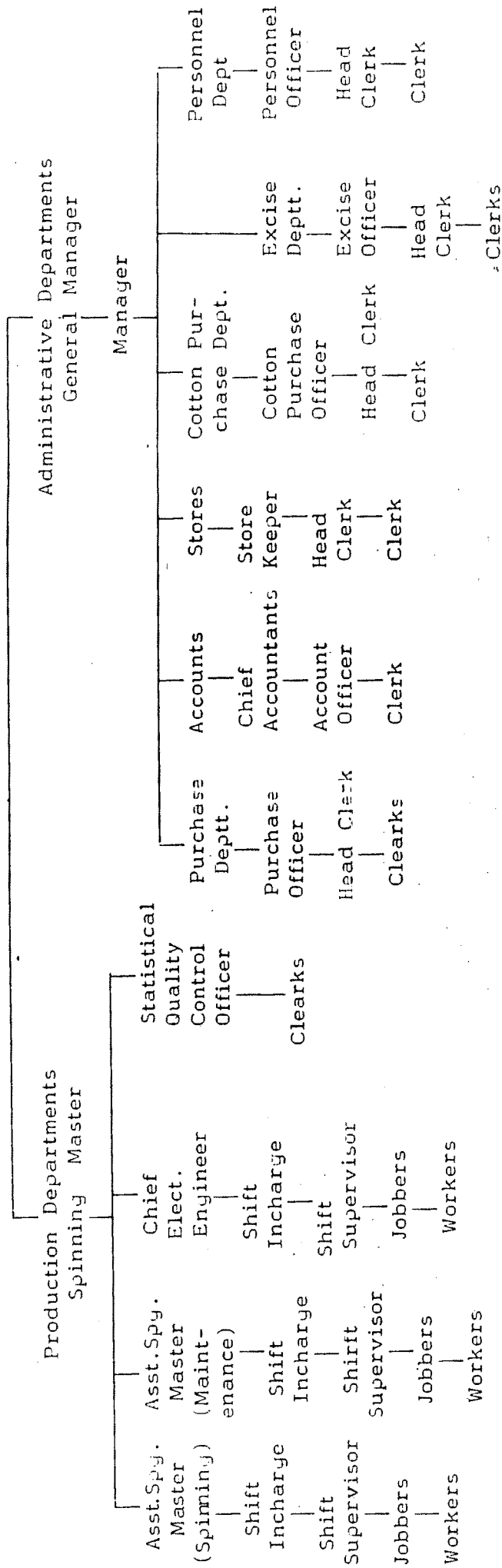
- 1) General Manager in Administrative Sector &
- 2) Spinning Master in Production Departments.

For facilitating the routine work, the mill has several functional departments to supplement the daily routine work. The organisation structure can be understood from the organisation chart as shown below :

P.T.O.for organisation chart

MEMBERS

Board of Directors



In addition to the departments shown in the above organisation chart, there are several other departments/units also, i.e. Guest House, Watch & Ward, Time Office, Primary Health Centre, Laboratory etc.

Since its commencement, the management has concentrated on better performance and improving quality. Within a limited period of years the mill has earned a wide reputation in the yarn market. It has got several awards for showing outstanding results. The mill has been exporting yarn for a quite long time.

#### 5.A.3 Production & Marketing of Yarn :

##### A) Production :

The mill has been following advanced technology in production function. It shapes its production planing in tune with the conditions existing in the yarn markets & does not follow the traditional pattern for production.

Mill has been constantly concentrating on the quality which has created wider market potential for the mill.

Its production varies from 01<sup>S</sup> to 120<sup>S</sup> of yarn, and consists of single yarn, double yarn, hank yarn and open end yarn. Better performance standards have been achieved by the mill. Payment of bonus to workers has been resulted in maximum utilisation of available spindle capacity. The following table shows the production performance of the mill.

Table No.5.2

Table Showing the Production of yarn (packed) in Lakh Kgs.

| Year    | Total | Single | Double | Hank | Open end |
|---------|-------|--------|--------|------|----------|
| 1987-88 | 54.17 | 39.94  | 7.75   | 3.32 | 3.11     |
| 1988-89 | 56.67 | 44.60  | 6.15   | 3.47 | 2.47     |
| 1989-90 | 61.04 | 41.75  | 10.77  | 4.51 | 4.01     |
| 1990-91 | 51.08 | 37.03  | 6.45   | 2.32 | 5.28     |
| 1991-92 | 61.82 | 42.65  | 9.10   | 3.41 | 6.66     |

Source : Annual Report of The Deccan Co-op. Spinning Mills Ltd., for the year ending 31-3-1992.

The above table shows that the production of packed yarn is increasing steadily except the year 1990-91 when due to the increased cotton prices & the unfavourable market conditions, there was a decrease in it. In the total yarn production, production of single yarn is maximum in relation to other varieties. In other varieties the production is not steady.

This is because the mill produces according to market conditions.

#### B) Marketing :

The mill's existing marketing policy is two fold.

- 1) Selling off yarn in the local market by market auctions.
- 2) Selling of the yarn in other markets and in international markets by making contracts. The mill has a marketing office at Bombay. The mill offers commission on sales in other markets considering the conditions

prevailing in the markets. A large number of the mill's exports are through export agencies which is recognised as indirect export. Hence the mill is deprived of some benefits and concessions which are offered to the exporting agencies. The following table shows the mill's sales position for last five years.

TABLE NO.5.3  
Sale of Yarn By Deccan Co.Op. Spg. Mills Ltd.

| Year    | Yarn Sales in Kg.Lakhs |              |                            | Yarn Sales in Rs. lakhs |              |
|---------|------------------------|--------------|----------------------------|-------------------------|--------------|
|         | Total Sales            | Export sales | % of export to total sales | Total Sales             | Export Sales |
| 1987-88 | 52.45                  | 29.98        | 57.16                      | 2550.25                 | 1376.58      |
| 1988-89 | 60.70                  | 26.25        | 43.24                      | 3194.60                 | 1276.72      |
| 1989-90 | 63.13                  | 27.84        | 44.10                      | 3865.02                 | 1770.39      |
| 1990-91 | 48.32                  | 18.22        | 37.71                      | 2713.40                 | 1165.53      |
| 1991-92 | 61.80                  | 23.83        | 38.55                      | 4449.16                 | 1812.82      |

Source : Annual Report of the Deccan Co-op.Spinning Mills Ltd. for the year ending 31-3-1992.

The above table shows that the mill has been selling the yarn nearly 40% in foreign market and helping the country in earning scarce foreign exchange resources.

5.A.4 Control procedures and practices followed by the mill in relation to various cost elements :

In order to achieve organisational efficiency, the mill has been following specified practices and



procedures in various functional activity areas. These being traditionally followed, the mill has achieved a lot of advantages. Let us consider them one by one.

#### 5.4.1 Purchase of Cotton :

The entire efficiency, economy and profitability of the spinning mill largely depends on proper purchase of cotton. The availability of the cotton of the required quality, quantity and at reasonable rates constitutes the basic precondition for the success of any spinning mill. Cotton being the seasonal agricultural produce, necessary stocks have to be maintained throughout the year. Due to the monopoly of Cotton Marketing Federation, the mill has to enquire about the availability of the cotton of required quality and if it is not available or available at prices higher than those offered by private traders, then only the mill can purchase cotton from outside sources, with permission from the State Govt.

For purchasing cotton, there has been a committee called "Cotton Purchase Committee" consisting of Spinning Master, General Manager and the Board Members. During the cotton season the committee makes a study tour of the cotton growing states and the cotton markets especially.

During such visits the committee makes just observations and surveys.

The decision regarding purchase is taken by the committee on testing the sample and passing the quotations.

Then contracts are finalised with the party. Such contracts

are recorded in the respective register.

The cotton purchased is in bales and the bales are given lots. A lot contains normally 50 bales. While buying, they are given lot numbers serially. The serial numbers begin from 1 on 1st April and they are continued till 31st March every year.

After contract is made with the party, the cotton bales are received from him as per delivery schedule.

Mill takes their possession on paying transport, octroi etc. Then sample is drawn from the bales and sent to laboratory for testing and the results are compared to the results of sample tested before purchase contract. If the results tally, the lot is approved.

After approval of bales, it is informed to Accounts section for advance payment as per conditions in the contract. Then the lot is weighed and taken into godown. Once again it is informed to Accounts section to pledge the lot to the Bank.

#### 5.A.4.2 Purchases of stores, spares & the Packing Materials

The material purchased by purchase department other than cotton is the stores, spares and the packing material.

Normally such purchases are made locally. For such purchases the mill adopts the generally adopted ideal purchase procedure. For routine requirements the stores issues purchase requisitions while for special material the concerned departments issue the purchase requisitions.

Such purchase requisitions are collected & inquiry letters are issued by the department. On the basis of quotations received, a comparative rate list is prepared and a

report is placed before meeting. After approval of the meeting, the order is issued. After placing the purchase order, the duty of purchase department is over & that of stores begins.

#### 5.A.4.3 Stores Function :

##### A) Cotton :

After approval of purchased lots on the basis of sample testing in laboratory, the bales are taken into godown. There are in all seven cotton godowns. These are pledged to different banks for working capital requirement. When final weights of bales are known, final weight bills are sent to Accounts for making final payment. Insurance register is maintained godown wise.

Bales are issued as per requisitions to the Blow Room departments. Daily issues of cotton bales are recorded in Daily Issue Register. Monthly consumption figures drawn from this issue register must tally with the consumption shown by the Blow Room Department.

The contract price or the lot price is considered alongwith transport octroi & other related costs as the issue price and accordingly it is reported to Accounts for cost purposes.

##### B) Stores, Spares & Packing Materials :

Goods purchased against official purchase orders are taken into possession, their transport charges, octroi etc. is paid by the stores. There is a consignment Register and entries are made in it regarding the details of delivery & the expenses incurred. Then the packings are opened,

the material is checked with specification in the purchase order. If it is not so or not in order, it is rejected.

Then approval report is prepared by stores in the name of concerned department. The authorised persons in the concerned dept. inspect the material & then approve it or reject it. Accordingly it is reported to Accounts. As the mill has a computer unit, the mill does not maintain store ledger as it is fitted to computer. It keeps only bin cards.

Issues :

Issues of all types of materials are made only on the basis of duly authorised requisitions. Valuable materials are issued only after getting back the used or condemned parts. Issue pricing is on average price method.

5.A.4.4 Procedure Regarding waste Cotton Sales :

In the process of cleaning the cotton, some waste necessarily arises. Such waste is collected and sent to waste cotton godown. Then the waste <sup>is</sup> packed quality-wise like comber, stripping etc. Quality-wise stock registers are maintained and entries in it are made daily. Such waste is sold only once in a month and it is sold by tender method. There is a contract register, Gatepass register & sales Register for waste cotton sales.

5.A.4.5 Other important information relating to stores :

- 1) Periodic inventory taking carried out six monthly.
- 2) Stock levels are fixed & observed in respect of all the materials.

- 3) Bin Cards are maintained.
- 4) ABC analysis system has been operated.
- 5) Cotton godown stock books are maintained separately.
- 6) Bin cards relating to empty bins are kept separate for further action.
- 7) Proper classification & codification is there.

#### 5.A.4.5 Functioning of the Personnel Department :

The mill is employing 2700 workers & 200 employees in administrative offices. The required number of employees to run the mill in three shifts is 1713.00. these 1713 workers, only 80% are permanent; the remaining being temporary & badli workers. Office staff of 200 employees is permanent.

#### Recruitment/Training :

Employees in the mill are recruited through employment exchanges. Interviews are there for selecting proper candidate. Approval of the Board is necessary for all appointments. Previously training facilities were provided but at present no such provision is there.

#### Payscales & Payment of Bonus :

Mill has fixed payscales for employees as per Hand Book of the Mill Owners Assosication and Kale Committee award. Provision of Minimum Wages Act have been observed. Bonus is given as per the negotiations between the Management and the Approved Trade union, Wages & salaries

totally are on the time scale & no overtime or incentive payment is made.

Record of Worker's Attendance :

Employees are provided attendance cards. Supervisors/Jobbers in the sections fill up the attendance reports making similar entries on attendance cards. The attendance reports are daily sent <sup>to</sup> Time Office by the Jobbers or supervisors.

Labour Turnover, Absenteeism and Production :

Since the mill has been paying fair wages & bonus, employees are satisfied. Again bonus-payment has been linked to their attendance. Hence absenteeism as well as labour turnover are not experienced.

Working Conditions & amenities :

Mill has framed rules in respect of leave & promotion. Holidays are observed according to Factories Act, 1948.

Service books are maintained in respect of all the employees.

The mill has been providing many amenities to the employees like subsidized Canteen, Library, Free education to the meritorious children of the employees at specified institutions prizes, free medical facilities.

There are two workers' representatives on the board of directors.

5.A.5 Cost Accounting System in The Deccan Co-op. Spinning

mills Ltd.,

The method of production followed in the spinning

industry is the process production and as such process costing method is applied for cost accounting in this industry.

For operating cost accounting system, fixation of cost units and cost centres is necessary. The cost unit applied is the Kilogram of yarn while cost centres are the processes or departments where production is carried out. In this mill cost centre-wise allocation of expenditure is not maintained. The costing function is carried in two parts :

- A) Clean Cotton Cost, and
- B) Conversion Cost or production cost.

Let us consider them in detail.

A) Clean Cotton Cost :

The mill requires cotton of various qualities for production. For getting finer yarn, the mill uses two or more qualities of yarn by mixing them in specific proportions. Through experience, the mill has standardized such mixing proportions. Depending upon the quality of cotton used for mixing, there are several mixings used by the mill. The price of various qualities used is taken into account to determine the mixing rate. It is the average price of all the qualities used. Taking into account the required count of yarn the mill uses appropriate mixing. For various mixings various mixing rates are prevailing.

The next thing in this connection is the consideration

of waste multiplier. Through past experience, the mill has noted that for carded yarn, there is 15% loss of cotton and for combed yarn, there is 35% loss of cotton in the production process. As such the the mixing rates are got adjusted to processed cotton quantities (i.e.excluding wastage quantity). Then a credit is given in respect of sale value of waste cotton. For this purpose market value of waste cotton is considered. The resulting final figure is the cost of clean cotton.

The mill prepares monthly cost sheet. The monthly cotton consumption is tallied with the yarn output of the month and the waste collected during the month.

**B) Conversion Cost :**

This is the expenditure incurred in converting cotton into yarn & accordingly includes salaries and wages, stores & spares, electricity, insurance, depreciation, etc. Such conversion costs are low where the quantity produced is maximum and high where quantity produced is relatively less.

To know the actual conversion costs, necessary information has to be collected from the production department regarding actual production the spindles worked, production per spindle, salable cotton waste & hard-waste etc. From Accounts Deptt. information is collected in respect of various expenses incurred. Total expenditure of the month is divided by the total output of yarn in kilograms which gives cost per Kg. of yarn produced. For this



purpose various elements of costs are considered as under

1) Wages : The mill's payroll is prepared departmentwise.

As such department-wise wages can be known. For costing purposes the wages include cash wages, bonus & other fringe benefits offered.

The mill has preserved specific number of maintenance department employees for maintenance work to the production departments. Wages of these maintenance workers are grouped in the wages of that production department.

2) Electricity : The mill has placed separate electricity meters for recording power consumption of each department.

This enables to know the power cost of each department separately. The mill has installed a power generating plant also. Its expenditure is kept separate, but there is no record of self generated power and the power purchased from M.S.E.B.

3) Stores & Spares : The stores department prepares a summary of materials issued to departments during the month to Accounts section. From this summary, the cost of stores and spares of each department can be known.

4) Depreciation : Monthly depreciation is known in respect of every item of machinery. When this depreciation is divided by monthly output of such machine in terms of yarn Kgs., it gives the depreciation charge per Kg. of yarn.

5) Packing Materials : The cost of packing materials

is a direct cost. Through past experience, the mill has fixed the packing charges to cover the cost of packing.

These rates are Rs.1.30 per Kg. for local sales & Rs.2.50 per Kg. for export sales.

6) Interest charges : Interest payment for loan obtained for working capital & other loans has to be considered.

Monthly interest has to be divided by the monthly output of the yarn.

7) Overhead expenses : These include the salaries of Office Staff, Watch & ward, guest-house, garden maintenance, laboratory, lighting, travelling, brokerage & commission & such other administrative expenses. All such expenses are totalled monthly and it is divided by the monthly output to arrive at rate of overheads per Kg of yarn.

#### 5.A.6 Concluding Remarks :

The Deccan Co-op. Spinning Mills Ltd., has commenced production since 1962. Its initial spindleage was 11,860 which at present has gone up to 83,124 spindles. In addition the mill has installed 336 rotors also. Its present production averages above 60 lakh Kgs. of yarn. Its normal production ranges from 1<sup>s</sup> to 120<sup>s</sup>. It sells its yarn to member weavers, yarn merchants and in foreign markets. Its production has wider market as it has got good reputation within a limited period of time. It has been practicing fair procedures in respect of control of various elements of cost. The management of mill is sound. It has installed a costing system to provide costing data. Monthly cost sheet is prepared & reported to the management.

KOLHAPUR ZILLA SHETKARI VINAKARI SAHAKARI SOOT GIRANI LTD.5.B.1 Introduction :

The commencement of The Deccan Co-operative Spinning Mills in 1962 could not satisfy the entire needs of the local powerloom industry. Hence necessity of establishment of yet another spinning mill was felt. In view of providing for the increasing demand for yarn, Kolhapur Zilla Shetkari Vinkari Sahakari Soot Girni was registered on 17th Aug. 1964 and it commenced production on 6th July 1968. The mill has dual membership i.e. cotton growers and loom weavers. Such an Agro Industrial venture in textile industry has proved as pioneer in the region. Large areas in talukas Shirol, Kagal, Hatkanangale and Gadhinglaj in Kolhapur District are suitable for cotton cultivation. The mill aims at giving fair prices to cotton grower members for cotton supplied by them and supplying the weaver members good quality yarn in required quantities and at reasonable rates.

The mill was commenced with an initial capacity of 25080 spindles. Like Deccan, this mill also went on increasing the production capacities. The following table shows the expansion of production activity by the mill.

Table No.5.4

Table Showing the expansion of production activity  
By Kolhapur Zilla Shetkari Vinakari Sah.Soot Girni Ltd.,

| Project/Expansion | Year | Number of Spindles added | Initial/Additional Investment in Rs.(Lakh) |
|-------------------|------|--------------------------|--|
| Initial project   | 1968 | 25080                    | 173.90                                     |
| Expansion No.1    | 1975 | 25080                    | 264.00                                     |
| Expansion No.2    | 1980 | 12768                    | 126.00                                     |
| Expansion No.3    | 1983 | 12312                    | 208.00                                     |
| Total             |      | 75240                    | 1025.91                                    |

Source : Records of the Kolhapur Zilla Shetkari Vinkari Sahakari Soot Girni Ltd.,

The mill's licensed capacity is 75240 spindles which is fully utilised. With a view to process the cotton purchased from members, the mill has a ginning unit also which has included in the initial project. In addition to the above expansions the mill has carried out modernisation plans also in the past which has completed in 1983.

At present also there has been a modernisation plan which is 80% complete. The latest modernisation plan costs Rs.750 Lakhs and of this an amount of Rs.550/- Lakhs is financed by Industrial Development Bank of India, Industrial Finance Corporation of India and Industrial credit and investment Corporation of India.

### 5.B.2 Organisational set up of the Kolhapur Zilla Shetkari

#### Vinakari Sah. Soot Girni Ltd.,

The mill being a Co-operative Society, members are the ultimate owners of the mill. Its board of directors is the supreme authority. The managing director acts as the agency between the board and the functional departments.

The organisational set up of this mill is in many aspects in similar lines with the Deccan. But still there are some differences too, the major one being the Cotton Development Department. This is because of cotton Grower Members.

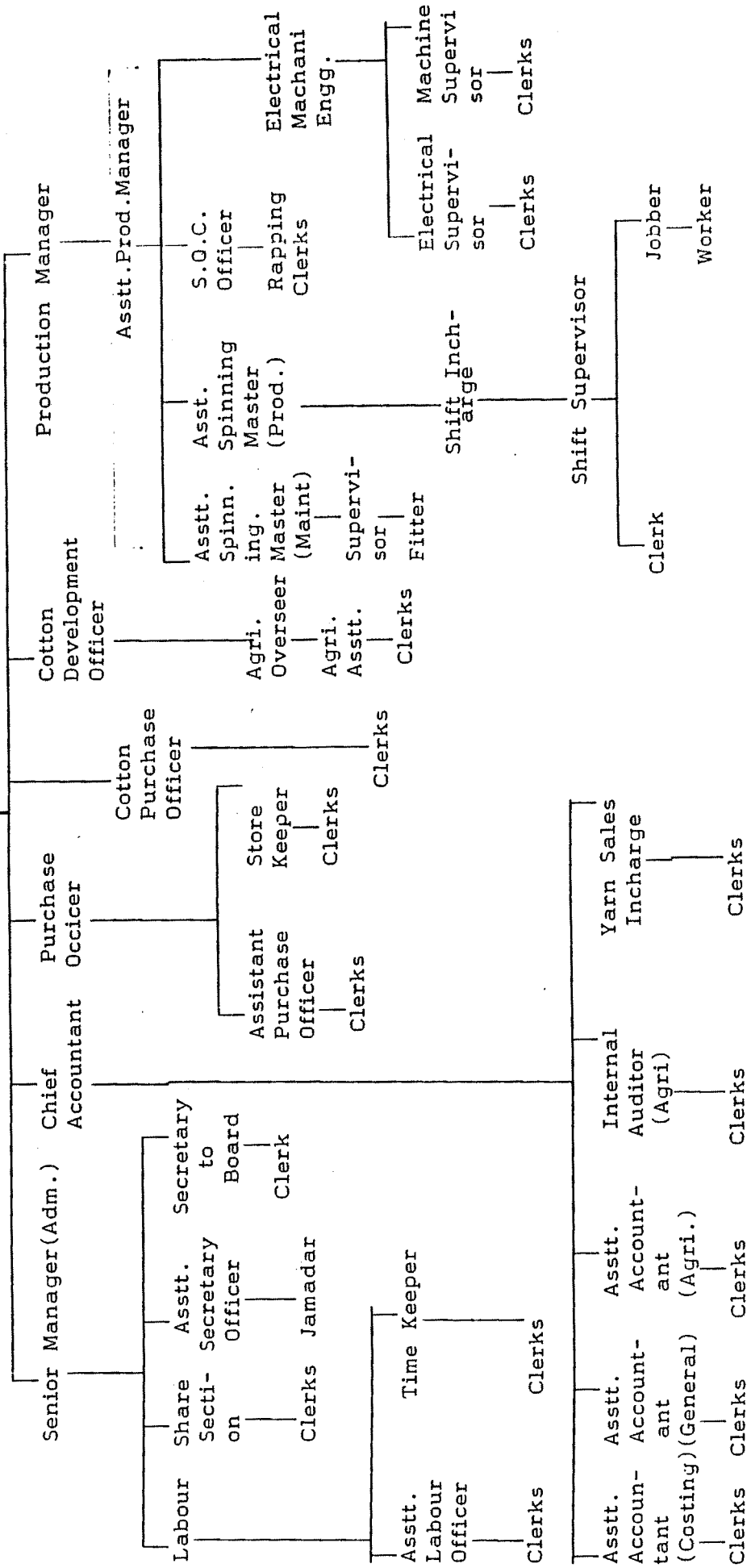
The organisation chart of the mill is presented below which focusses a thorough light on the organisation structure of the mill.

P.T.O. for Organisation Chart

MEMBERS

Board of Directors

Managing Directors



Since the mill has membership of the cotton growers also, it has a distinct cotton development section. In this section there are overseers and supervisors appointed to guide the cotton growers. There has been a "Cotton Development Committee" also. The mill has been providing some incentives to its grower members such as supplying standardised seeds, technical knowledge, supplying pesticides for spraying on plants, and so on.

### 5.B.3 Production and marketing of yarn

#### A) Production :

Table No.5.5

Table showing production of Cone Yarn

| Year                  | Production<br>in Kg.Lakhs | Value in<br>Rs. Lakhs |
|-----------------------|---------------------------|-----------------------|
| 1987-88               | 38.30                     | 1736.51               |
| 1988-89               | 44.60                     | 2036.16               |
| 1989-90               | 54.79                     | 2680.08               |
| 1990-91               | 64.40                     | 3256.70               |
| 1991-92 (Nine months) | 45.81                     | 2790.82               |

Source : Annual Reports of the Kolhapur Zilla Shetkari Vinkari Sah. Soot Girni Ltd.,

The above table shows that the production of the mill is gradually increasing every year. In 1991-92, due to change in the accounting year, only nine months production has been there. Still there are chances of increasing

production by improving utilisation. The mill does not produce hank yarn required for hand looms.

B) Marketing :

The following table focusses on the marketing function of the mill.

Table No.5.6

Table showing the sale of yarn by the mill.

| Year    | Total Yarn Sale |          | Domestic Sales |          | Export Sales |         |
|---------|-----------------|----------|----------------|----------|--------------|---------|
|         | Lakh Kgs        | Lakh Rs. | Lakh Kgs       | Lakh Rs. | Lakh Kgs.    | LakhRs. |
| 1987-88 | 38.30           | 1743.88  | 25.91          | 1221.79  | 12.39        | 522.09  |
| 1988-89 | 43.99           | 2027.58  | 34.31          | 1621.11  | 9.68         | 406.47  |
| 1989-90 | 54.43           | 2688.09  | 38.48          | 1828.82  | 16.49        | 851.28  |
| 1990-91 | 64.63           | 3250.06  | 57.40          | 2854.59  | 7.23         | 397.47  |
| 1991-92 | 43.03           | 2604.16  | 38.89          | 2326.49  | 4.14         | 277.67  |

Source : Annual Report of the Kolhapur Zilla Shetkari Vinkari Sahakari Soot Girni Ltd., for the year ended 31st March 1992.

The overall scene in respect of sales is satisfactory. There is an increasing trend throughout the period of 5 years. In the year 1991-92 due to nine months sales, the sales figure seems to be low. But in fact it is not so. Another important fact is that the export sales constituted more than 25% of total sales in 1987-88 which has reduced below 10% of total sales in the year 1991-92.



There has been a yarn sale committee consisting of Managing Director and eight other directors. Marketing strategies and policies are decided by the committee.

For local sales there is a weekly meeting of the yarn sale committee. Quotations received from yarn merchants and members are placed before the meeting. The committee decides upon the quotation on considering the costing particulars, the position and the market condition. The rates fixed by the committee are effective for the week till the next meeting.

For outside sales a credit period of 15 days is normally allowed. The mill has a yarn marketing office at Bombay. Outside sales are controlled by this office.

#### 5.B.4 Control Procedures and practices followed by the mill in relation to cost elements.

Like Deccan, this mill has also long standing. Through practice, it has also developed some procedures and practices in order to achieve organisational efficiency in functional activity areas. These control procedures and practices existing in some of the concerned areas are discussed below.

##### 5.B.4.1 Purchase of Cotton :

There is a Cotton Purchase Committee consisting of Purchase Officer, Managing Director and eight other directors. Monthly spin plan is prepared by the production Manager. This plan forms the basis of cotton purchasing.

Cotton purchase committee makes few tours of the cotton trading centres in India during cotton season. During such visits the committee just makes the study of cotton market and brings with it samples which are tested in the mill's laboratory. Testing reports are submitted to Cotton purchase office.

As a result of the Monopoly of Cotton Marketing Federation in the field of cotton trade, the mill has to make enquiry with the Federation about the availability of the cotton of that quality in required quantities.

If available, then, the mill has to purchase that cotton from the federation. If the required quality of cotton is not available with the federation, then with the permission of the State Govt. the mill can buy cotton from outside sources. Normally such cotton is coming from Karnataka, Andhra, Gujarat, Punjab and Maharashtra.

On the basis of samples and quotations received and the testing reports of cotton, the cotton purchase committee decides the matter as to whom the order should be placed. For purchases from private traders a contract of supply is entered into.

On arrival of the delivery the mill pays the transport and hamali and then the bales are taken possession.

Samples are drawn from bales, tested in laboratory and the results are compared to the results of samples previously tested. If the results tally, the bales are approved and taken into-godown. Final weight-bills

are approved and passed to Accounts Deptt. Normally a 60 days or more credit is allowed by such traders.

On taking the bales into godown entries in the respective bin cards in godown and in the Cotton Stock Register in the Cotton Purchase office are made. Each bale is allotted a lot number. Lot-wise stock record is kept in the Cotton Purchase Office.

#### 5.B.4.2 Purchase of stores, Spares and packing materials :

Purchase Office is entrusted the responsibility of buying stores, spares and packing materials required by the mill and packing materials required by the mill and the administrative offices. There is an Executive Committee to look after the Purchase function. Each purchase has to be approved by the Executive Committee and the Board of Directors.

The purchasing activity is initiated by the arrival of duly authorised departmental indents for purchasing the specified material.. It has to be routed through stores. Stock remarks are put there and then it is signed by M.D. The same is received by Purchase Deptt. and further action is taken. Enquiry letters are placed with the dealers and on receiving quotations a comparative statement is prepared and placed before Executive committee for consideration. Approved quotations are communicated accordingly and contracts of supply are made. For requiring purchases, there may be a standing purchase order to supply the material specifying the delivery schedule.

When purchase orders are placed, the purchase department ensures that the ordered material is received by stores within the specified time. If not, it draws reminder letters to the parties.

For emergency buying, the purchase office is authorised to buy upto Rs.5000/- with prior permission of M.D.

#### 5.B.4.3 Stores Function :

##### A) Cotton :

Cotton purchased and approved after due testing is stored in godown. There are bin cards in Godown and cotton -Stock Register in Cotton Purchase Office.

Whenever the bales are required by production departments, duly authorised indents from blow-room are necessary for such bales. On issue of the bales, the entries in the bin card and the stock register are made. A monthly summary of bales issued to Blow Room stating the full details such as quality, quantity, weight and value of the cotton issued is prepared by the Cotton purchase office.

The pricing of cotton bales is done on the basis of lot price considering the lot to which the bales relate.

##### B) Stores, Spares and packing materials :

The functioning of stores begins with the arrival of ordered material. On arrival, all such material is entered in the Inward Material Register. Arrival of such material is reported to the department drawing

the purchase indent for approval of the material. On approval, the material is entered into Store Ledger and Bin Card.

After arrival of the ordered material stores makes a verification as to the quantity, rates, terms, conditions etc. The inspection of qualitative conditions is done by the concerned department authorities.

If the material received is short, or not according to specifications, the same is rejected and returned back.

If approved, entries regarding the receipt of material are made in the bin card and store ledger.

Issues :

All the issues are made only against the duly authorised requisitions signed by the head of the department concerned and the Asstt. Production Manager. For materials required for repairs and maintenance, the requisition has to be signed by the maintenance incharge. Valuable material is kept in stores under lock and key.

After issuing the material, entries are made in bin card and stores ledger respectively. Pricing work is done by the Account Office. One copy of the requisition is sent to Accounts office for necessary remarks and entries.

5.B.4.4 Procedure regarding waste cotton sales :

The waste arising in the course of processing of cotton is collected daily and stored in waste cotton godown.

The waste cotton is sold by tender method. Once in a month. The members are also allowed to buy waste cotton in whatever quantities at prevailing rates.

**5.B.4.5 Other important information relating to stores :**

- 1) Physical inventory carried out 6 monthly.
- 2) No stock levels are maintained.
- 3) ABC analysis system not operated.
- 4) For scrap sales, tender method is adopted by the mill.

**5.B.4.6 Functioning of Personnel Department :**

In all there are 2,900 employees of the mill. To run the mill for 3 shifts a day, 1650 workers are needed.

There are 1400 permanent and remaining badli and casual workers.

**Recruitment & Training :**

Recruitment of employees is made through employment exchange and interviews with the Board of Directors. The mill <sup>has</sup> <sub>^</sub> devised a training programme for its workers and at present the mill is providing the training facilities.

**Wages & Payscales :**

Wages are paid as per pay-scales fixed in accordance with 2nd Textile Wage Board & Kale Commission Award.

**Payment of Bonus :**

The mill has been making payments by way of bonus and ex-gratia to workers. Worker's 2 representatives are there on Board of Directors. Wages are paid on time basis.

**Working Conditions :**

The mill has framed rules regarding leave, promotion etc. It has been observing holidays as per Factories Act, 1948. Provisions of Minimum Wages Act are observed duly.

**Record of Workers' attendance :**

For recording attendance of workers attendance cards and muster roll are maintained. Two clerks in the time office are allotted the duty of recording attendance. They go into departments, sign the cards and make entries in the muster roll.

**Labour Absenteeism & Labour Turnover :**

The percentage of labour absenteeism and labour turnover is normal in the mill. The turnover happens only in case of badli workers.

**Amenities :**

In addition to cash emoluments the mill has been providing many amenities to the employees like subsidized canteens, advance for housebuilding at low rate of interest library, credit society, entertainment programmes, running school etc.

**5.B.5 Cost Accounting system adopted in Kolhapur Zilla Shetkari****Vinkari Sahakari Soot Girni Ltd.,**

In the earlier chapter we have seen that in spinning industry the process production system has been followed for conversion of raw cotton into yarn. As such "The Process Costing" is the method suited to this industry.

We have also seen that the cost unit suitable to this industry is Kilogram of yarn. The cost centres are the various processes or departments like Blow Room, Carding, Combing. Draw-frame, Speed Frame, Ring Frame etc.

In the present Spinning Mill costs are considered in relation to one Kg. of yarn produced. Cost centre-wise break up or allocation, is not maintained there.

The costs are considered element wise. In the first instance the total cost is divided into two parts :

- 1) Clean Cotton Cost and
- 2) Conversion cost or cost of production.

Let us consider them in detail.

A) Clean Cotton Cost :

The mill consumes various qualities of cotton for producing yarn. With a view to achieve economy in consumption, mixing of one quality with another is ensured, in certain predetermined proportions. This mixing depends upon the required count of yarn, because specific mixings yield specific counts of yarn. Depending upon the qualities used for mixing, there are various mixing rates in existence.

This is the simple average rate.

After arriving at the mixing or average rate, the next stage is the consideration of waste multiplier; which in this mill is 14% for carded yarn and 34% for combed yarn. Due consideration being given to normal wastage, the mixing rates have to be revised and adjusted to revised quantities (Input-wastage). Again resale value



of the waste has to be credited to the cotton cost. The waste is valued at market price for this purpose. The resultant figure is the clean cotton cost.

Like Deccan, this mill also prepares monthly cost sheet, monthly cotton consumption being tallied with the yarn output and the waste collected during the month.

B) Conversion Cost :

The expenditure incurred to obtain the yarn from cotton is called conversion cost or the cost of production.

It comprises of all the expenditure. It comprises of all the expenditure incurred by the mill, like Wages, power, stores & spares, depreciation, insurance etc.

Being average costs, these are more per Kg. of yarn when output is low and are lower when the output is higher.

The computation of actual conversion costs requires collection of various types of information from production department like actual production, production per spindle worked, saleable cotton-waste and hard waste etc. Information from Accounts Deptt. has also to be collected in respect of expenses incurred in various forms. When the total expenditure of the month is divided by the total yarn output, it gives the conversion cost per Kg. of yarn. For this purpose, various elements of cost are considered as under :

1) Wages : The mill's pay-roll is prepared department-wise. It gives wage cost department wise. Wages of repairs and maintenance department workers

kept separate. They are not allocated to production department. For costing purposes, the wages include cash wages, bonus and other fringe benefits offered.

2) Electricity:

the mill has not placed separate meters for recording department-wise power consumption. Total power consumption is recorded only at the source. Lighting expenses of office & factory are not recorded separately. It needs to be done so, because at present both power and lighting are one expense item.

3) Stores & Spares :

Actual costs of stores & spares are known on the basis of requisitions of issued materials. Monthly summary of materials issued is not prepared by stores.

4) Depreciation :

Monthly depreciation charge of each item of machinery is known, when this is divided by the monthly output, it gives the rate of depreciation per Kg. of yarn.

5) Packing Materials :

This is a direct cost. The mill has fixed packing charges on the basis of past experience at Rs.0.90 for local sales & at Rs.2.90 for export sales.

6) Interest charges:

The mill has obtained working capital loan as well as term loans. Interest charges in respect of these loans are to be considered for costing. For this monthly

interest charge is divided by the monthly output of yarn in Kilograms.

7) Overheads :

In addition to above major elements of cost, there are other expenses also like salaries of office staff, watch & ward, guest-house, garden maintenance, laboratory, travelling, brokerage & commission and other general overheads. Monthly total of all such expenses is divided by the monthly output of the yarn to give cost of overheads per Kg. of yarn.

5.B.6 Concluding Remarks :

The mill has been registered in 1968. It is the mill where cotton growers and weavers both are members. The mill was commenced with an installed capacity of 25080 spindles & its present spindleage is 75240. Like Deccan, the mill's production is normally above 60 lakh Kg. of yarn. It sells yarn in local market, to member weavers & in export sales. Its exports are decreasing gradually & domestic sales are increasing. The normal production of the mill ranges from 20<sup>s</sup> to 60<sup>s</sup>. It has adopted control procedures in respect of cost elements. It is having of costing system to provide management with sufficient cost data. Monthly cost sheet is prepared & provided to management.

5.7 Statement Showing Computation of Clean Cotton Cost.

| Count                 | Mixing         | Mixing Rate | Yarn Realisation % | Cotton Cost Rs. * | Waste GainRs | Clean Cotton CostRs |
|-----------------------|----------------|-------------|--------------------|-------------------|--------------|---------------------|
| 20K<br>24K<br>2/24K   | A              | 35.56       | 86                 | 41.35             | 1.00         | 40.35               |
| 30K<br>2/30K          | A              | 36.07       | 86                 | 41.94             | 1.00         | 40.94               |
| 30C<br>34C            | C              | 38.58       | 66                 | 58.45             | 7.75         | 50.70               |
| 36K                   | A-50%<br>C-50% | 37.32       | 86                 | 43.40             | 1.00         | 42.40               |
| 40C                   | D              | 38.58       | 66                 | 58.45             | 7.75         | 50.70               |
| 55CHT<br>60C<br>2/60C | E              | 37.65       | 66                 | 57.05             | 7.75         | 49.30               |

$$* \text{ Cotton cost} = \frac{\text{Mixing rate} \times 100}{\text{Realisation \%}}$$

$$\text{e.g. mixing A} = \frac{35.56 \times 100}{86} = 41.35$$

$$= 41.35$$

**Note :** The letter K in the count column denotes carded yarn & the letter C denotes combed yarn.

5.8

MODELCost sheet for the month

| Particulars  | Amount Rs             |
|--|-----------------------|
| Wages  | 25,00,000.00          |
| Electricity & Water                                      | 28,00,000.00          |
| Stores & repairs   | 6,00,000.00           |
| Depreciation   | 8,00,000.00           |
| Interest   | 20,00,000.00          |
| Insurance  | 1,00,000.00           |
| Salaries of Office Staff                                 | 4,00,000.00           |
| Salaries of Technical Staff                              | 1,50,000.00           |
| Winding & packing wages                                  | 10,00,000.00          |
| Doubling wages   | 1,00,000.00           |
| Administrative Expenses                                  | 3,00,000.00           |
| Yarn sales Commission                                    | 3,60,000.00           |
| Packing Cost   | 6,00,000.00           |
|  | -----                 |
| Cost of Conversion/Production                            | <u>1,17,10,000.00</u> |
| <u>Add</u> : Clean Cotton cost                           | <u>2,40,00,000.00</u> |
| Total Cost   | <u>3,57,10,000.00</u> |
| Sale price of production                                 | 3,70,00,000.00        |
| Net Profit (After deducting depreciation)                | 12,90,000.00          |
| <u>Add</u> : back depreciation<br>(Non Cash expenditure) | 8,00,000.00           |
|  | -----                 |
| Cash Gain/Cash profit                                    | 20,90,000.00          |