CHAPTER XII

OBSERVATIONS AND SUGGESTIONS
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This chapter contains observations and suggestions for the selected sectors and units and suggestion in general.

12.1 OBSERVATIONS IN GENERAL:

From the study and implementation of the Computerised Cost Based Information System, it is observed that the Management of any organisation gets reliable and quick information about all sections and aspects which it can use for any decision making purpose. Especially cost reports are much useful in cost control and cost reduction, which help in improving the profitability. Computerised system ensures accuracy and further helps in speedy analysis of data, drawing of graphs, preparation of estimates/projections, storage of data for future use, transfer of data from one section to another section, one branch to another branch, factory to head office and vice versa, through electronic media, which helps in reduction of stationary cost and time. Similarly a password protection can be used to ensure confidentiality of important data.
Inter sector comparison of the information system and use of cost & management accounting techniques, it is observed that amongst the four sectors (i.e. Private, Government, Co-operative and Service-banking) the private sector is most efficient and is effectively applying the different techniques for the decision making purpose. The utilisation of available resources is being closely watched by the private sector management to ensure optimum utilisation. Computerisation has been successfully implemented in this sector. As such the performance of the private sector is found to be very high.

The Government sector is lacking in the improvement of the performance only because of the Government policies and bureaucratic management. Since the decision makers in this sector are paid employees, they take least interest in the efficiency and productivity aspects. Computerisation in this sector is progressing very slowly.

No doubt the co-operative sector is very much successful in Maharashtra state as compared to other states, but still there are some drawbacks with this sector also. Political involvement is the main reason which curtails the healthy development of this sector. Like Government sector, this sector is also lacking in the application of cost & management accounting techniques.
The Service sector (banking) is progressing rapidly with liberalisation and globalisation policies of the Government. Still it is required to keep a close watch on this sector to avoid the repetition of the bad events like the Securities Scam of 1992. The application of cost and management accounting techniques in the Government, Co-operative and banking sector will definitely help to improve the overall performance of these sectors. There is much scope for the computerisation of this sector.

In general it is observed during the course of study that the maintenance of cost accounting records and application of cost & management accounting techniques in the decision making process has not received adequate attention in some of the organisations. Management did not give much attention to the costing aspects because of the lack of cost awareness. As a result the sickness could not be avoided in some of units. In most of the units it is observed that the managers of different levels are following a practice of taking decisions based on intuition and situation management, rather than following a scientific approach. In general the management is not having the cost consciousness.
18.2 OBSERVATIONS IN THE SELECTED UNITS

a) Eurotex Industries & Exports Ltd. (Private sector)

It is observed that the unit has made a remarkable progress during last five years. It could generate its own funds and create sufficient reserves by way of profit. The improvement in the ratios like Debt-Equity, Current ratio, Debtors to Sales, Profit to Sales etc. show the efficiency in the financial and cost management of the unit. This only made possible the company to pay dividend every year in the range of 20-30%. However still there is a scope to improve the performance by applying the cost & management accounting techniques in the decision making process of the unit.

b) Shri Shahu Chhatrapati Mills (Government sector):

It is observed that the unit is suffering from the sickness, merely because of old machinery, low productivity, high cost and bureaucratic management. Similarly the excessive manpower and high labour cost is also curtailing the growth of the unit. Though the rationalisation of the labour has been taken up by the management it has not reached to the required level. Because of the shortage of funds from the State Government the unit is not able to take up the modernisation of the plant. Moreover as per the State Government policy, the unit has to purchase raw material
i.e. cotton from Maharashtra State Cotton Grower's marketing Federation (MSCCGMF) under the monopoly purchase scheme by paying rates higher than the open market. Inspite of the certain difficulties the unit has been able to show profit in the year 1993-94, whereas in the earlier two years there was loss. The unit has successfully implemented the voluntary retirement scheme for the employees which has benefited the unit by way of savings in labour cost. It has also shown good performance in the energy saving area by winning prizes on this account from Government of India. It has also won awards from Johnson & Johnson for best quality and timely supplies. It is observed that the Computerised Cost Based Information System, if implemented, will help the unit to come out of loss position.

c) Ichalkaranji Co-op.Cement Industries Ltd. (Co-op.sector)

It is observed that the unit is facing problem from the very beginning itself. The main reason for the loss in the unit is the small capacity of 20 TPD which proved to be non-viable. The unit could reach 70 % of its installed capacity only for one month since the beginning. The average utilisation is nearly 50 % or less than that. This low utilisation could not bear the fixed capacity cost of the unit which resulted into cash losses. The management is trying to revive the sick unit under nursing programme sanctioned by the State Government.
d) Ichalkaranji Janata Sah. Bank Ltd. Shalapur, Kolhapur
branch (Service - banking sector)

It is observed that this is one of the profit making and
well managed branches of the bank. The branch is about ten
years old which has achieved a deposit growth rate of 2.21
times during last five years. It is also observed that the
branch has very well controlled the staff establishment cost
inspite of the increase in the volume of business in the
branch. There is still scope for implementation of branch
costing system for evaluation and improvement of
performance.

As such Computerised Cost Based Information System,
designed suitably and implemented properly, is an essential
tool for any business management of the present day.
It is suggested:

i. To set up a separate full fledged costing department to get all benefit of cost accounting. Each and every voucher should be routed through this department to maintain the costing records separately. Any variations should be promptly reported to the management. This will ensure proper control on costs.

ii. To implement the Computerised Cost Based Information System for the purpose of maintaining cost accounting records and getting data for decision making. The management should realise the importance of the cost accounting statements in view of the provision of the Companies Act, Income Tax Act and Central Excise Act.

iii. To reduce repetitive work of statements preparation which are required for different purposes such as statutory audit, internal audit, tax audit, cost audit, statistical returns. The common statements and data can be routed through the
iv. To revise the basis for budgets so as to get proper comparative results.

v. To prepare an operational manual, defining clearly the procedures, duties and responsibilities. This will help the new staff to get the idea about the organisational policies immediately on joining the duties. This will also ensure the staff accountability in the organisation.

b) Suggestions to Shri Shahu Chhatrapati Mills, Kolhapur, (Government sector):

i. To implement the Computerised Cost Based Information System for the purpose of decision making,

ii. To speed up the data collection, processing and reporting work by utilising the computers to the optimum level,

iii. To implement uniform cost accounting and Information system for all other mills under same management,

iv. To undertake computerisation of all mills on large scale basis for all sections such as Financial Accounting, Cost Accounting, budgeting, inventory accounting, head
office reporting etc. The mill can install Local Area Network for this purpose. A system properly designed for a single mill can be easily used for other mills without additional software development cost.

v. To use alternative fuels in place of coal in order to reduce cost,

vi. To maximise the capacity utilisation by getting orders on job work basis,

vii. To purchase cotton (which is a raw material) in bulk quantity from open market in season, rather than purchasing under monopoly scheme from MSCCGMF, to get cost benefits,

viii. To curtail the weaving activity to the extent possible to reduce losses. To utilise automatic looms instead of plain looms to reduce cost.

c) Ichalkaranji Co-op. Cement Industries Ltd. Ichalkaranji, (Co-operative sector):

i. To increase the utilisation of capacity so as to reduce burden of fixed cost,

ii. To undertake preventive maintenance so as to avoid
breakdowns and loss of production,

iii. To install a small in-house machine shop for regular repairs and machining work which will save time and cost in getting the parts repaired from outside repairing shop.

iv. To install Diesel Generator set which will ensure uninterrupted power supply for production,

v. To plan the inventory and purchase programme in such a way to avoid loss of production to the extent possible by ensuring timely supply of raw materials. Similarly some long term contracts may be executed with reputed transport contractors to avoid production losses due to non availability of vehicles for transportation of raw materials.

vi. To implement a budgetary control system with monthly budgets and comparison which will help to plan the activities for maximisation of profitability.

d) Ichalkaranji Janata Sah. Bank Ltd.,
   branch Shahupuri, Kolhapur, (Service sector):

i. To implement branch costing system for performance evaluation,
ii. To computerise the banking operations so as to improve customer services and reduces chances of frauds in manual operations,

iii. To determine the cost of services in order to charge the customers on a fair basis. The bank should avail the services of a Cost & Management Accountant who can study the entire matter and determine the costs of services by applying cost & management accounting techniques scientificaly. In this context it may be recalled that State Bank of India has already taken such steps by appointing The Institute of Cost & Works Accountants of India, Calcutta for such type of cost study.

iv. Cost accounting in commercial banking industry is now a days getting much importance. The co-operative banks should also keep the commercial view in the banking services. At the same time the member's interest should be safeguarded as it is the main objective of the co-operative movement.

v. It is noted that Bank of India, a leading nationalised bank, has decided to appoint private management consultancy firm to suggest the organisational restructuring of the bank. The specific areas, decided for referring to the consultant, include organisational restructuring, personnel policy, business strategy, turnaround of loss making branches etc. The present four tier bank structure i.e.
branch, regional office, zonal office, head office, is decided to be reduced to two tier system in order to narrow down the lead time involved in taking decisions. It is expected that such step will result into greater responsibility and accountability at the branch and regional office level. (refer The Economic Times dt.12/05/1995)

The State Bank of India had already completed such exercise of organisational restructuring.

This shows that even the large profit making banks are keen in reviewing the profitability aspect and are trying to further improve the performance. It is a well known fact that a good thing can be improved to better and a better can be improved to best. As such the cost accounting is important for all industries, whether profit making or loss making. The co-operative banks should consider this aspect and try to improve their status.

12.4 SUGGESTIONS IN GENERAL:

From the above study of different units in different sectors the following suggestions are made in general:

a) Avoidance of Industrial Sickness:

The industrial sickness can be avoided by adopting proper remedial measures at proper time i.e. immediately when any
of the following symptoms of industrial sickness are seen:

Symptoms of Industrial Sickness:

i. Continuous irregularity in cash credit accounts.

ii. Low capacity utilisation.

iii. Profit fluctuations, downward trends in sales and stagnation or fall in profits followed by contraction in the share of the market.

iv. Higher rate of rejection of goods manufactured.

v. Reduction in credit summations whenever the companies are in financial difficulty, they open a separate account with another bank and deposit all collection therein.

vi. Failure to pay statutory liabilities.

vii. Larger and longer outstanding in the receivable accounts i.e. more amount blocked as receivables for more time.

viii. Longer period of credit allowed on sale documents negotiated through the bank and frequent returns by customers of the same.
ix. Constant utilisation of cash credit facilities to the higher limit and failure to pay timely installment of principal and interest on term loans.

x. Non-submission of periodical financial data/stock statement, etc. in time.

xi. Financing capital expenditure out of funds provided for working capital purposes i.e. utilising short term funds for long term purposes.

xii. Decrease in working capital.

xiii. Increase in creditors.

xiv. Increase in inventories due to large number of slow or non-moving items.

xv. Rapid turnover of key personnel.

xvi. Existence of a large number of law suits against the company.

xvii. Rapid expansion and too much diversification within a short time.

xviii. Sudden/frequent changes in management - whether
professional or otherwise and/or dominated by one man or few individuals.

xix. Diversion of funds for purposes other than running the unit.

xx. Any major change in the shareholdings.

The costing department can collect the information relating to the above points periodically and observe the situation so as to detect the symptoms of sickness. Timely reporting of such symptoms to the management will help to prevent the sickness. Though the cost accounting is important for all types of industrial units, it is very essential for the loss making units because it helps in reducing the losses by controlling costs.

b) All industrial units, either in manufacturing line or service line, should implement cost based information system in order to improve the performance. The organisation should arrange training programs or workshops on the subject of application and benefits of different costing techniques. This will help to create cost awareness amongst the employees.

c) There should be a system to get suggestions for cost control from the workers because they are the cost creators.
It is suggested to the Government that the maintenance of cost accounting records should be made mandatory for all small, medium and large scale units irrespective of the product and constitution. Presently it is compulsory only for the limited companies in the specified 40 industries. E.g. a sugar factory in corporate sector is covered by the cost accounting and cost audit provisions but a sugar factory in co-operative sector is not covered. Similarly a limited company engaged in a specified type of industry is covered even if the turnover is Rs.10 crores, but a co-operative or partnership concern is not covered even if the turnover is Rs.100 crores. In this context it may be noted that in some of the foreign countries like U.K., Japan the industries follow the cost accounting systems on their own without any compulsion from the Government. Perhaps India is the first country to introduce the cost accounting and cost audit as a statutory provision in the Companies Act. It may also be noted that the Government of Maharashtra has amended included the provision for Cost and Performance Audit of co-operative units in the Maharashtra Co-Operative Societies Act in the year 1985. However till date the said provision has not been implemented. If the same had been done, the co-operative sector might have performed much better than what it is today. Moreover the costing is very essential in the co-operative manufacturing units, because the State Government contributes share capital to such units to a large extent. As such in order to get reasonable
return on the public money invested by the state Government, the co-operative units should run efficiently with low cost.

e) It is suggested to apply uniform cost accounting record rules and practices on the same lines of financial accounting. Presently the rules and formats are differing from industry to industry.

It is expected that the above suggestions can result in a profitable business activity in the near future and the management will get full benefits of the cost & management accounting techniques through Computerised Cost Based Information System.