

# Genesis of Costing for Bulk Drug Industry

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- Introductory aspects
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- Cost Structure
- Issues involved
- Role of CMAs

# Introductory aspects

## Legislations

- Companies (Cost Records and Audit ) Rules 2014.
- The Drugs (Price Control) Order 2013
- National Pharma Pricing Authority
  - National List of Essential Medicines
  - [www.nppaindia.nic.in](http://www.nppaindia.nic.in)

## System or Process

- Charging - Reaction - Purification
- Pharma activities : Drying – Pulverizing - Packing
- Heating – Cooling – Solvent Extraction
- Power and Pollution Control

# Genesis of Costing

- Every Organisation ( particularly a beginner) need to talk of Costing System with a bit of authority
- For that Matter GENESIS is a “fancy word” that catches the attention of every one. By assembling with the Term COSTING to those segments having Turnover up to Rs.100 Crores – I want the YOUNG CMAs to take the credit of giving birth to the First version of Costing System.
- Most of the BD Units of small ticket are annexed to a Big Brother – Say Dr.Reddy’s , Aurobindo, Mylan and so on  
– The end user is looking for an organized approach.

# Genesis of Costing

- The flow process from Raw Materials source to final consumer
- Embraces basic functions of producing and marketing as an integrated system and involves the selection of the most effective combination of
  - Transporting – Processing – Handling – Distribution - Of Goods
- Broad systems approach of reviewing the
  - Need for a function in terms of the objectives of a system
  - Determining its cost and contribution.
- Value Management
  - Value = Benefits/Costs
  - The ratio can be maximized either by increasing the Revenues or by reducing the costs
- Cost - Cost Management – Cost Sheet

# Cost Structure

- **Objective of Costing System**

- Material Cost
- Contribution
- Cost of Production
- Cost of Sales
- Margin for each of the product.

- **Cost Objects are to be identified**

- **Cost Centre is to be established**

- A cluster or Unit under which relevant costs are accumulated for.
- Enables better control and helps in better Cost Management

# Cost Structure

- **Cost Centers:** Production Block, Power, Boiler, Chilled Water System , ETP, DM Water Plant, Pilot Plant, R&D, QC&QA, Solvent Recovery System, Maintenance, Factory Administration
- AOH-SOH- Trading and Corporate can be the other CCs.
- Production Block can be further segregated into
  - Reactors - Centrifuge - Dryers - Pulveriser / Millers – Blenders
- **Cost Centers that Cause some Concern**
  - Compressors / Air Handling Unit - Transportation activity - Cooling Tower – Safety & Welfare - Weigh Bridge
  - Multiple Evaporation System / ESP System - Vacuum Pumps - Nitrogen Plant – Fire Fighting System
  - Branches
  - Job Work Expenses

# Issues Involved

- **Expectations of the Management**

- Contribution analysis - Product profitability
- Concerned about Input output Ratios
- Not really bothered about apportionment of INTEREST and DEPRECIATION

- **Co-operation from the Management**

- Certainly Good
- THEY KNOW THEIR COSTS – at times THEY WANT YOU TO MATCH
- They have a PROFORMA constraint – They want the Information to be presented in the FORMAT they are used to.
- Sensitivity of the Data



# Issues Involved

## ● **Feedback from the operating segment**

- They do not open up – But they let you know the Science or Technology behind the functionality which they like once you **win their confidence**.
- Never ever question the accuracy of Operational Data - They come out with umpteen number of Practical Problems
- The slippages could be accidental – therefore one need to practice the aspect of maintaining the CONFIDENTIALITY
- E-Mails at times could be disastrous

## ● **Difficulty in Data Collection Mechanism**

- Management is CRAZY to collect the Machine wise Data
- Problems for compiling Cost Sheet related inputs
- Conflict between Line and Staff functions
- No Single Point of contact
- Inability to realize the fact that Costing System is not PLUG and PLAY
- Random Distribution of Equipment for varied Tasks

# Remedies

- **Chart of Accounts** need to be analyzed to suit the Line Items in the Cost Sheet. So that the friction between Accounts and Costing activities can be minimized
- Let there be Costing Department
- Implementation of Daily Data Card
- Converge the Cost Centers into Cost Groups
- Establish Checklist mechanism for Data entry
- Develop Purchase Price Index
- Develop Variable Data for Technical Estimates
  - Helps in reducing the discretion

# Role of Cmas

- CMA should stand Shoulder to Shoulder to the Entrepreneur
- Should LOVE Cost Management and Visit the plant Frequently
- Participate in Standing Meetings of Production Units
- Develop varied Decision Support Charts till the management is satisfied.
- **Activities**
  - Research on the Industry Practices
  - Data Entry and Data Collection Mechanism
  - Health Check of the Costing System

# Thank You

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