



Internship Report

On

*Management Accounting Practice
At Beximco Pharmaceuticals Ltd:
A Review Of Costing Function*

**‘Management Accounting Practice At Beximco Pharmaceuticals
Ltd: A Review Of Costing Function’**

by

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**‘Management Accounting Practice At Beximco Pharmaceuticals
Ltd: A Review Of Costing Function’**

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Letter of Transmittal

August 10, 2011

Ms. Rahnuma Ahmed

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Subject: Submission of Internship Report

Dear Madam,

I am submitting an internship report titled for '**Management Accounting Practice At Beximco Pharmaceuticals Ltd: A Review of Costing Function**' as a part of the requirement of the course. Your guideline has been followed in every aspect of preparing this report. I have really enjoyed working on this project and I hope that my work would meet the level of your expectation.

Any query on this report is appreciated.

Thank You.

Sincerely,

Syeda Afrina Sarwar
ID:07304063

Acknowledgement

It's difficult for me to thank all of those marvelous people who have contributed something of them to this report. There are of course some very special people who cannot go without mention.

At first I express my gratitude and indebtedness to our respected faculty, **Ms. Rahnuma Ahmed** for her continuous guidance, important advice, encouragement and suggestion during the preparation of the report. I thank of him for sparing her valuable time to read the report.

Then, I express my sincere gratitude to **Mr. Jamal Ahmed Choudhury, Executive** Director, in BPL for his guidance, constants supervision and constructive suggestions. Without his help this report might not have been a comprehensive one. I also like to thank **Mr. Kamal Uddin Ahamed** Deputy Manager, Accounts and Finance. Without his help I cannot prepare my report so informative. I have bothered him so many times in connection with my works, both during and after normal working hours.

Finally I am grateful to all the cooperative staffs of the Accounts Department of BPL.

Executive summary

The report is based on Management Accounting Practice At Beximco Pharmaceuticals Ltd: A Review Of Costing Function'. The purpose of this report is to understand how the cost elements of materials are being determined and to identify the factors which affect the costing procedure. .

Beximco is part of the Beximco Group of Companies. The history of pharmaceutical business of the company dates back to the early 70s, when it started to import market and distribute medicines from world renowned companies like Upjohn Inc. of USA and Bayer AG of Germany. Since the very beginning, the company was highly successful in generating increased demand for its products which eventually justified local production. Accordingly a pharmaceutical manufacturing facility was designed and constructed in 1980 under the technical supervision of Upjohn Inc. of USA, to manufacture their products under license. Products made under license of Bayer AG of Germany followed. BPL has now grown to become one of Bangladesh's leading pharmaceutical companies, supplying more than 10% of country's total medicine need. Today Beximco Pharma manufactures and markets its own branded generics for several diseases including AIDS, cancer, asthma, hypertension, and diabetes for both national and international markets.

Management Accounting is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis in making informed business decisions that would allow them to be better equipped in their management and control functions. Listed below are the primary tasks performed by management accountants generated by different cost accounting tools that are as follows: Variance Analysis, Rate & Volume Analysis, Product Profitability, Cost Analysis & Cost Benefit Analysis, Cost-Volume-Profit Analysis, Life cycle cost analysis, Capital Budgeting, Strategic Planning Strategic Management Advise, Internal Financial Presentation and Communication, Sales and Financial Forecasting & Annual Budgeting, Cost Allocation and Resource Allocation and Utilization.

Basically, **Cost accounting information** -- and, more generally, accounting information -- has **three basic roles in organizations:**

1. Financial reporting,
2. Operational control and improvement, and
3. Decision making and planning.

Costing procedure of a Pharmaceuticals company is very important and vast thing. It needs to update in a regular basis. Moreover, all Pharmaceuticals firms try to keep this information secret in this competitive market. Like all other pharmaceuticals company Beximco follows standard costing method for medicine productions. The unit price of each medicine is calculated by batch wise. About 70-80 percent of all manufacturing materials are purchased from the foreign country. Only 20- 25 percent of the total are collected from the local markets. Beximco purchases more than 600 items of raw materials and more than 3,000 packaging materials for manufacturing of medicine.

Major reasons for which the price of the materials is affected are-LC opening charge, Demurrage charge, Inflation, Exchange rate changes and C & F commissions, etc. Yearly increment of salary is one of the major issues of labor rate increasing. Beximco Pharma provides salary increment every year. Therefore, the cost of direct labor is increased. The reasons for increasing the overhead cost are- Markets rates of utilities like gas, electricity and water, Repair and the maintenance costs, Insurance premiums etc. are increased due to reducing the life of the machines. Product development costs are increased due to highly competition in the medicine markets both home and abroad.

Pharmaceuticals sector of Bangladesh like all other industries is going to face new challenges. Rising price of materials in the international market and higher domestic inflation is going to be a big issue. Besides, competition in the local pharmaceuticals market is expected to intensity further. Beximco has to be aware of those issues to become a market leader in the industry. Though the sales revenue has decreased in the last year due to various reasons, it has the ability to regain its glorious pasts and advanced further •

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CHAPTER ONE: INTRODUCTION

1. Introduction Part

1.1 Origin of the report:

The report is originated to make a study on the costing procedure and the internal control system of Beximco Pharmaceuticals Limited as a part of the fulfillment of internship program required for the completion of BBA program of BRAC University. As the part of BBA curriculum this project is assigned to me by Jamal Ahmed Choudhury Executive Director, Accounts & Finance, Beximco Pharmaceuticals Ltd and approved by the academic Supervisor Ms. Rahnuma Ahmed, lecturer of BRAC University, Department BBA,

1.2 Objective of the report:

The objectives of the report are as follows:-

Major objective of this report is to show what are the major functions or the chain works of Costing and Budgeting section of Accounts and Finance Departments at Beximco Pharmaceuticals Ltd. After reading this report learners will know the following issues:

- To have an idea about the background of Beximco pharmaceuticals Ltd.
- To get an introduction about the organizational structure & how co-ordination among different set of activities is made..
- To set a general idea about operating procedures and functions of Accounts and Finance Department of BPL
- To explore the specific costing procedure followed by the Beximco Pharmaceuticals Limited
- To get idea about LC & Local purchase documentation & payment procedures;
- To identify the factors which affect the costing procedure
- To relate the theoretical learning with the real life situation.
- How the chain works are completing.

1.3 Scope of the report:

Costing procedure of a Pharmaceuticals company is very important and vast thing. It needs to update in a regular basis. Moreover, all Pharmaceuticals firms try to keep this information secret in this competitive market. So the study was basically tried to identify the costing procedure followed by BPL and what are the factors concerned with this procedure. The study was also tried to identify and analyze the various expenses incurred by the BPL in an accounting year. A comparative study was conducted with the same aspects of Square Pharmaceuticals Limited.

1.4 Methodology of the report:

The following methodology was followed throughout the study .The study is based on both primary as well as secondary data.

Data regarding the organization profile collected in the following ways:

Primary Source

- * Careful observation of various activities of related section of that particular department,
- * Discussions with the officials of Accounting and Finance department.

Secondary Source

- * Organizational Brochures/ Annual Reports.
- * Online information.
- * Different BPL publications.
- * Other relevant written materials.

Data Collection Techniques:

- * Some of the primary data were collected by observing others doing their jobs.
- * Much of the primary data were collected by the informal interviewing of the company officials.
- * Most of the secondary data were collected by the review and study of relevant reports and documents.

1.5 Organization of the study

The report is divided into **five** parts. The first part is the introductory chapter. The second part covers organizational part (a brief overview of Beximco Pharmaceutical Limited). The Third part deals with report part. The fourth part includes overall findings with concluding remarks. The last part provides Bibliography and annexure.

1.6 Limitations:

Although I received co-operation from the concerned officials, they were not always able to give me much time, as they were busy with their works. Time is an important issue in Report writing. As I have been given a specific deadline for submission, observation and learning all the functions of costing and budgeting within 3 months was really tough. Besides, all the comments made, conclusions reached and suggestions for possible improvement provided are purely based on my level of understanding, knowledge and my way of interpreting a particular statement. Because of the lack of information, I have to make some assumptions that may cause few errors or personal mistakes in the report. In spite of all these limitations, I have tried to put the best effort as far as was possible.

CHAPTER TWO: PART ONE- OVERVIEW OF THE COMPANY

2.1.1 Historical background:

Beximco Pharmaceutical Ltd. is a leading edge pharmaceutical company based in Dhaka, Bangladesh and is a member of the Beximco Group. The history of pharmaceutical business of the company dates back to the early 70s, when it started to import market and distribute medicines from world renowned companies like Upjohn Inc. of USA and Bayer AG of Germany. Since the very beginning, the company was highly successful in generating increased demand for its products which eventually justified local production. It completed its registration in 1976 and started its operation in 1980 by manufacturing and marketing licensee products of Bayer AG of Germany and Upjohn Inc. of USA. After its initial years of struggle it broke ground with the launching of its own products in 1983. In 1985 BPL was listed in Dhaka Stock Exchange (DSE) as a Public Limited Company. The journey continued and barrier after barrier were crossed, challenges were faced and overcome to transform BPL into what it is at present. Now it has grown to become nation's one of the leading pharmaceutical companies, supplying more than 10% of the country's total medicine need. In the process, it was enlisted in Chittagong and London Stock Exchange. Today Beximco manufactures and markets its own 'branded generics' for almost all diseases from AIDS to cancer, from infection to asthma, from hypertension to diabetes for both national and international markets.

It manufactures a range of dosage forms including tablets, capsules, dry syrup, powder, cream, ointment, suppositories, large volume intravenous fluids, metered dose inhalers etc. in several world-class manufacturing plants, ensuring high quality standards complying with the World Health Organization (WHO) approved current Good Manufacturing Practices (cGMP). Beximco also contract manufactures for major international brands of leading multinational companies.

Beximco has a strong market focus and is anticipating continued future growth by leveraging business capabilities and developing superior product brands and markets. In particular it is very interested in developing a strong export market in USA and Europe. To meet the future demand it has invested over US 50 million dollar to build a new state-of-the-art manufacturing plant, confirming to USFDA and UK MHRA standards. This new plant will also offer contract-manufacturing facility to leading pharmaceutical companies, especially from Europe and US.

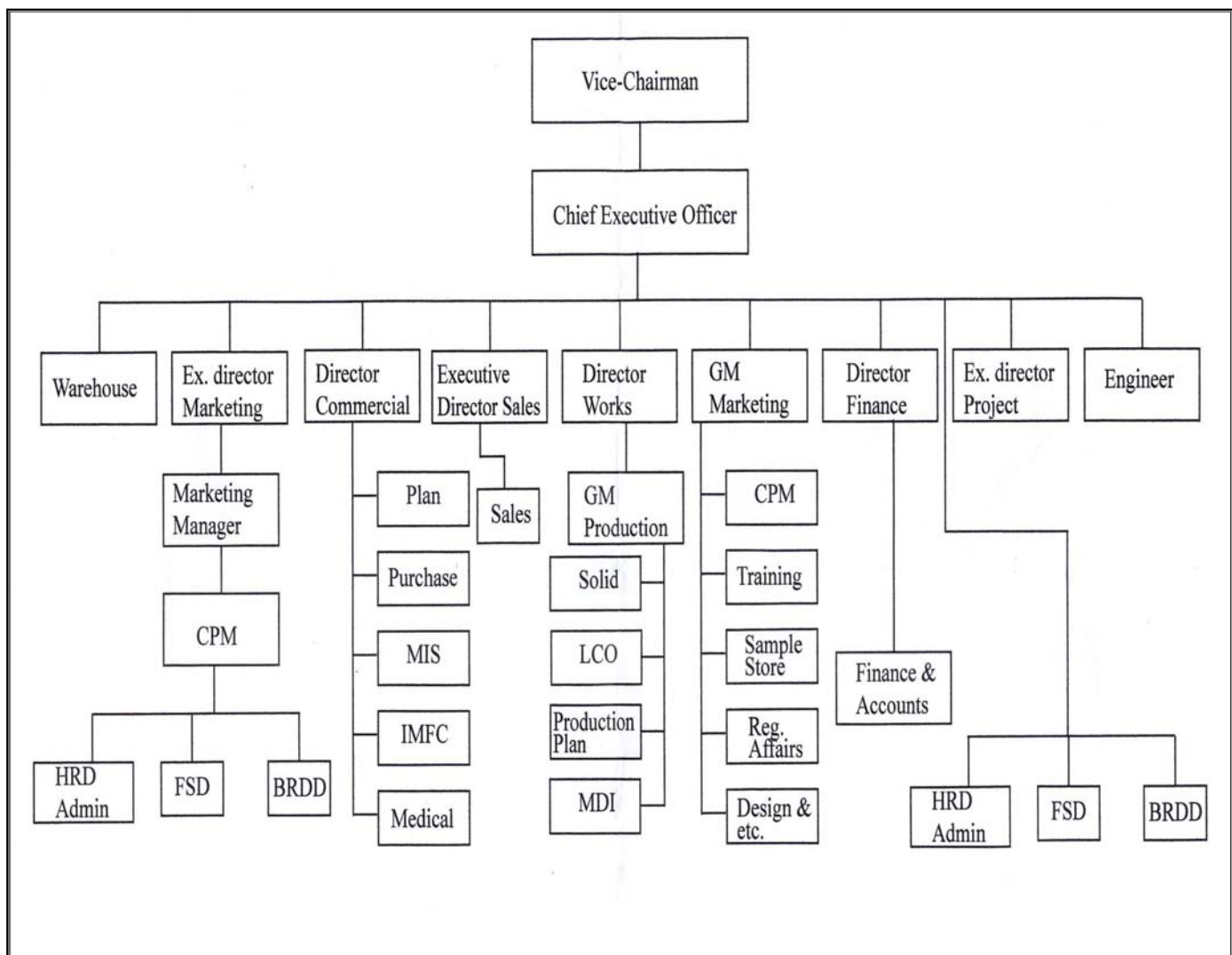
2.1.2 Vision:

“If there is one characteristic that has typified the BEXIMCO approach, it is the Vision to be the best of our nature and human resource; a vision to establish our group and country as a respected and valued regional presence.”

2.1.3 Mission:

“Each of our activities must benefit and add value to the common wealth of our society. We firmly believe that, in the final analysis we are accountable to each of the constituents with whom we interact, namely: our employees, our customers, our business associates, our fellow citizens and our shareholders.”

2.1.4 Organizational Structure of BPL



2.1.5 Board and Management

Beximco Pharmaceuticals Ltd. is managed by the Board of Directors, an Executive Committee and a Management Committee. **Board of Directors** is responsible for the corporate governance. It consists of eleven members including the Chairman, A S F Rahman and the Vice Chairman, Salman F Rahman. The five-member **Executive Committee** is headed by Mr. Osman Kaiser Chowdhury who is also a member of the Board of Directors. The Executive Committee is accountable for both operational and financial performance of the company. This committee is also responsible for budget approval, policy adoption or changes, new project review, compliance audit etc. The **Management Committee** comprises of ten eleven-notch professionals who are one of the bests in Bangladesh in their own fields. This committee is led by Mr. Nazmul Hasan, Chief Executive Officer (CEO) who is responsible for the overall management of the business. This committee reviews and manages day-to-day business operation and recommends strategy options to the Executive Committee.

The Board of Directors:-

Chairman	A S F Rahman
Vice Chairman	Salman F Rahman
Managing Director	Nazmul Hassan
Iqbal Ahmed	Director
Mohammad Abul Qasem	Director
Osman Kaiser Chowdhury	Director
Abu Bakar Siddiquir Rahman	Director
Dr. Farida Huq	Director
Advocate Ahsanul Karim	Director
Dr. Abdul Alim Khan	Independent Director
Company Secretary	Md. Asad Ullah, FCS

The Executive Committee:-

Osman Kaiser Chowdhury	Member of the Board of Directors
Nazmul Hassan	Managing Director
Ali Nawaz	Chief Financial Officer
Afsar Uddin Ahmed	Director, Commercial

The Management Committee:-

Osman Kaiser Chowdhury	Member of the Board of Directors
Nazmul Hassan MP	Managing Director
Ali Nawaz	Chief Financial Officer
Afsar Uddin Ahmed	Director, Commercial

Rabbur Reza	Director, Marketing
Lutfur Rahman	Director, Manufacturing
Shamim Momtaz	Director, Manufacturing
Zakaria Seraj Chowdhury	Director, International Marketing
Mohd. Tahir Siddique	Executive Director, Quality
A R M Zahidur Rahman	Executive Director, Production
Jamal Ahmed Choudhury	Executive Director, Accounts & Finance

2.1.6 Products:

The company's diverse product portfolio encompasses a wide variety of therapeutic categories, including antibiotics, analgesics, respiratory, cardiovascular, central nervous system, dermatology, gastrointestinal etc. BPL currently produces 235 generics in 426 strengths and dosage forms and many of the company's brands are consistently occupying leading positions in their respective therapeutic categories.

In 2010 Beximco Pharma introduced 27 new generics in a total of 34 presentations, which include seven ophthalmic drops, three HFA asthma inhalers and also drugs in categories such as, three cardiovascular, two multivitamins, two musculoskeletal, two anti-infective, and one anti-diabetic, among others.

The three HFA-based inhalers which were launched for the first time in Bangladesh in 2010. Also introduce for first time into the market was a formulation of Paracetamol 665 mg. Napa Extend.

Baximco Pharma's Growth prospects remain excellent with key blockbuster products such as Napa and Neoceptin-R in its portfolio.

In 2010 Napa and Neoceptin R ranked 2nd and 4th respectively on the national "Top Five" list. More over ten of BPL's brands have annual sales in excess of BDT 100 million each.

Block Buster product:

Napa	Highest selling drug in Bangladesh pharmaceutical market in terms of unit.
Neoeptin-R	Highest selling drug in Bangladesh pharmaceutical market in terms of value.
Bextrum/Bextrum Gold	Emerges as the most admired and highest selling nutritional supplement in Bangladesh Market in just one year.
Amdocal	Highest selling cardiovascular drug in BD in terms of value.
Tofen	Highest selling oral anti-asthma drug in BD in terms of value.
Azmasol	Highest selling mastered dose inhaler in Bangladesh in terms of value.

Source: Annual Report 2010 of BPL

2.1.7 International Market:

Beximco Pharma continues to explore export opportunities and to reinforce its footprint on a global scale, which currently covers five different continents. Alongside the continuous endeavour to strengthen the position in existing markets, BPL attempts to achieve dynamic growth worldwide.

Beximco Pharma commenced its international operations with the export of API to Hong Kong in 1992 and formulation products to Russia in 1993. The company has received the ‘National Export Trophy’ (Gold) for an impressive three times. Since then, BPL has taken greater strides over the years to increase its footprints in international markets.

In 2010, BPL successfully ventured into several new countries including South Africa (via contract manufacturing) and Netherlands Antilles, and registered 45 products in overseas markets. The company achieved export revenues of Tk 330.54 million, up 21.47% over 2009.

The current expansion of this overseas portfolio includes prioritizing and directing marketing operations to focus more on highly regulated markets such as the European Union (EU), USA, Australia and GCC member countries for value added generics.

As of 2010 Beximco Pharma has 322 products registered in Asia, 91 in Africa, five in Central and Latin America, and 22 in Middle East, while we are actively taking measures to register our products in attractive branded generic markets such as the CIS states and the EU countries.

BPL's products are highly trusted for their quality by physicians and consumers at home and abroad. With this acclamation BPL is supplying different formulations from its portfolio to renowned hospitals and institutions including Raffles Hospital, Healthway Medical Group & K. K. Women and Children Hospital in Singapore; Asthma Drug Facility (ADF) in France; CENABAST in Chile; and MEDS and Kenyatta National Hospital in Kenya. BPL is constantly investing in its state-of-the-art manufacturing facilities to significantly expand its capabilities to meet the regulatory requirements of developed countries. BPL has pursued approvals from different drug regulatory authorities, e.g. TGA (Australia), GCC (Gulf Council), ANVISA (Brazil) and INVIMA (Colombia), which highlights BPL's credentials as it explores new opportunities in the export arena.

In brief, BPL is now involved in the following national markets:

Iran	South Korea	Cambodia
Malaysia	Taiwan	Philippines
Hong Kong	Russia	Somalia
Ukraine	Georgia	Sri Lanka
Pakistan	Myanmar	Kenya
Singapore	Nepal	Mozambique
Yemen	Vietnam	

Table 3: Export Countries of BPL

2.1.8Corporate Strategies:

Quality:

The BPL believes that being in the business which deals with human health makes us more responsible. This sense of responsibility compels BPL to keep the highest standards of its products. Through these products we seek to deliver clear health benefits and higher values to the patients. With this in mind BPL has commissioned state-of-the-art manufacturing facilities with innovative new technologies. Beximco Pharma use the most modern equipment for quality control and stringent quality assurance procedure and the manufacturing process conforms strictly to the current Good Manufacturing Practices.

Research & Development:

From its inception till date, BPL's research & development (R&D) capabilities continue to be one of the essential core strengths for leading the industry in both formulation R&D and API R&D. BPL's formulation R&D capability is proven not only by the consistent quality of its products but also by its ability to introduce hi-tech, specialized niche products and dosage forms. The reverse engineering capability of BPL's R&D team has enabled us to introduce innovative new products to serve the ailing people at home and abroad. The reverse engineering capability of the R&D team and the drive towards new product development and innovation are central to building a proprietary research operation within Beximco Pharma. In formulation R&D, the company focuses principally on developing new formulations, predominantly through reverse engineering techniques and on simplifying manufacturing processes and improving cost efficiency. Over the years, the R&D team has successfully formulated different high-tech formulations like multi-layer tablets, long acting formulations, dispersible tablets etc. Beximco Pharma also the pioneer in introducing anti-retroviral drugs and anti-cancer drugs in Bangladesh. Recently, with long experience in MDI formulations, BOL's R&D team has successfully developed a range of CFC-free HFA MDIs. The R&D team consists of qualified scientists with background in pharmaceutical sciences and allied areas and has a strong network with global companies and scientific community with similar expertise.

2.1.9 Corporate Social responsibility:

Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of

legality. Essentially, CSR is the deliberate inclusion of public interest into corporate decision-making, and the honoring of a triple bottom line: People, Planet and Profit.

Corporate Social Responsibility (CSR) is an integral part of Beximco Pharmaceuticals business strategy. Some of the CSR activities undertaken by the company are showing as follows:-

- As a first Bangladeshi Pharma company BPL introducing anti-retroviral medicines for HIV/AIDS treatment, medicine to combat the virus of bird flu and an oral anti-smoking drug to help chronic smokers quit smoking.
- Food and Medicine donation during different natural disasters.
- Sponsoring, organizing & participating many cultural and sports events like Corporate Cricket League, SAAf Football Championship, Inter-School Handball tournament, Open air concert etc.
- Publishing posters-banners-festoons, arranging rallies-seminars-conference etc. on AIDS, Diabetes, Smoking, Cancer, Asthma, Birds Flu etc.
- Beximco Pharmaceuticals Ltd. manufactures CFC-free Metered Dose Inhalers among the few pharmaceuticals in the world.

CHAPTER TWO: PART TWO- DESCRIPTION OF JOBS

2.2 Departments of Beximco Pharma

BPL operates its business through extensive departmentalization as needed for specified effectiveness of the tasks. The business activities of BPL are directed, controlled and monitored from the head office of Beximco Pharmaceuticals Ltd. Being a leading Pharmaceutical company in the country it employs a good number of people in different departments to keep its business thriving. The following major departments coordinate the activities of BPL:

- Strategic Brand Management (SBM) department
- Planning department
- Procurement Department
- Sales department
- Training department
- Project management & Business Development Department
- International Marketing department
- MIS department
- Multimedia department
- Finance and Accounts department
- Human Resource Department (HRD)
- Market Research & Statistical Cell (MRC) department

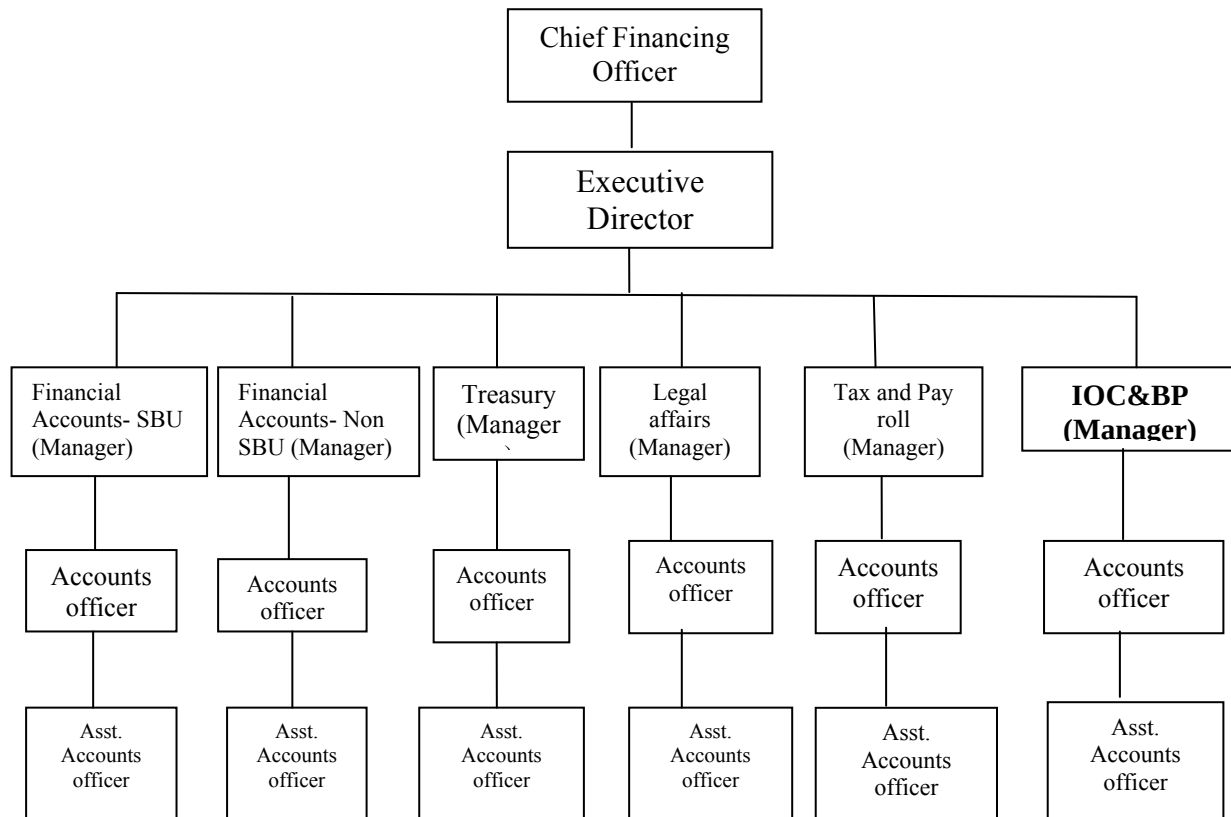
2.2.1 Brief Description of Accounts & Finance department and others.

Accounts & Finance Department

The activities of the Accounts and finance department are carried over by talented and adequate person. The functions of Accounts and Finance department are carried over five sections. Actually proper control purpose, they subdivide their functions to the several sections. The sections of Accounts and Finance department are as follows:

- IOC&BP
- Financial Accounts- Strategic Business Unit (SBU)
- Financial Accounts- Non- Strategic Business Unit
- Treasury
- Tax And Payroll
- Leasing And Legal Affairs

Hierarchy of Accounts and Finance Department:



IOC&BP:

The extended form of IOC& BP is Industrial operation control & business planning. This section does the *Costing and Budgeting* of BPL. Previously it was known as costing and budgeting section but recently it has changed its name because of horizon of their work. Their work is not bounded to the costing and budgeting functions only. They provide information to the planning, marketing, purchasing and others departments for proper decision making. This section of accounts and finance department does the reporting to the management. They prepare different types of cost reports.

Activities of this department are as follows:

- Prepare cost sheet.
- Determine Manufacturing cost of a product.
- Allocate Overhead to the product.
- Determine Tender Cost sheet.

- Prepare different types of budgets such as Production budget, sales budget, cash budget, master budget, purchase budget, Departmental budget etc.
- Prepare different types of report such as Scrap report, COGS report, Production report, Product profitability report, biggest loser report etc.
- Provide proper data to the planning department relating to costing.
- Help to control inventory.
- Identifies the cost centers.
- Does the inventory valuation. Etc.

Financial Accounts SBU:

The major function of this section is to prepare financial report. They prepare the financial report of Beximco Pharma. There is a manager to monitoring the activities of this section. The major activities of these sections are as follows:

- Preparation of Financial Report for External Reporting.
- Preparation of Monthly Financial Report.
- Preparation and publishing Quarterly Financial Report.
- Recording of Export Sales Earnings.

Financial Accounts Non SBU:

This section does the works of some supporting company of Beximco Pharma. These supporting companies are as follows:

- I. **Shuktara Printing Ltd.:** Shuktara Printing Ltd. supplies the printing materials to the BPL. For leaflet and other printing materials are needed for drug are supplied by Shuktara printing Ltd. though it is unable to supply all printing materials needed.
- II. **Bangladesh Antibiotic Industry Ltd.:** Bangladesh Antibiotic Industry Ltd. (BAIL) supplies antibiotic to the BPL. There is a manufacturing unit to Kaliakoir near to Gazipur to produce antibiotic. There is a responsible person who prepares financial reports and all recording related to BAIL. They also deal with the other pharmaceutical company to supply materials. This services also known as toll services.

- III. **I & I services Ltd.:** I&I services Ltd. provides distribution services to the BPL. Through 19 depots they deliver drugs to the chemist. There is a central depot to control all the depot and services.
- IV. **Pharmatek chemicals Ltd.:** They provide Chemicals to the BPL. Pharmatek supplies Napa raw materials to the BPL. There is a responsible person to control, reporting and recording all transactions relating the Pharmateck chemicals Ltd.

Tax and Payroll:

The Tax and Payroll section of Accounts and Finance department deals with the taxation and Payroll services to the company. The major activities are as follows:

- Salary disbursement to the employee.
- Salary loan to the employee.
- Provident fund related activities.
- Salary Tax.
- Income tax of the company.

Legal Affairs:

This section of Accounts and Finance deals with the legal issue of the BPL. The Major activities of this section are as follows:

- Trade license of the company including the International selling.
- Value added tax related activities.
- Drag license related activities.
- New product Copyright.
- Trademark related activities.
- Boiler permission Renewal.
- Chemical Certificate related issue.
- Land related activities.

Treasury:

Treasury section deals with (i) cash at banks and (ii) bills. It also looks after the cash planning and management. A review is made every week for this purpose. This department controls and monitors cash flow positions. There is a responsible person for monitoring and controlling activities of treasury sections.

2.2.2 Brief description of others departments:

Strategic Brand Management (SBM) Department

The activities of SBM are:

- ☐ Market research
- ☐ Selection of new product
- ☐ Design and testing of product (DTP)
- ☐ Sample store (logistics) management
- ☐ Making strategy

Procurement Department

Previously it was known as Purchase department. The procurement department deals with all the purchase of the organization such as:

- Pharmaceuticals raw materials.
- Packaging materials.
- Office equipments.
- Machinery's etc.

Planning & Inventory Control Department

The planning department is concerned with the production planning, raw material procurement planning etc. After getting the sales forecast from the sales department, the planning department goes through the current stock information of different raw materials. They decide when materials will be procured.

Sales Department

Sales department is a marketing execution department. It supplies sales forecast to the planning department. The activities and function of Sales department is very important. The profit of the company is dependent on the sales. Sales department assigns selling responsibility to the Medical Representative.

Human Resource Department

Major Activities of HR departments are as follows:

- Prepare Recruitment policy and procedure
- Placement of employees
- Human Resource Development planning
- Organizational structure review and modification
- Career planning
- Hiring and firing
- Job description preparation
- Conducting appraisal at the end of each year
- Maintaining and developing employees personal files
- Safety-security.

Project management & Business Development Department

Project management & Business Development Department began its operation from January 1, 2000. It is working on market development, both domestic and international. Major functions are as follows:

- New product study
- New technology study
- Project feasibility study

MIS Department

The MIS Department takes care of total automation of BPL. It supports the hardware and software network of the company and the factory.

Multimedia Department

Functions of the multimedia department are:

- Web page designing.
- Developing multimedia presentation for presentation programs.
- Making videos of conferences, meeting etc.
- Keeping the records of annual meeting and other meeting.

Medical Department

This department is a unique department in this industry as BPL established this first ever in order to create easy relationship through using the professional linkage with the doctors.

Training Department:

Training Department deals with the training activities of the company. BPL frequently arranges training program for employees for their development of skills.

International Marketing:

International Marketing deals with the international marketing policy and procedures. Now day by day export of BPL is growing. So this department is getting more emphasis.

CHAPTER THREE: PART ONE- INTRODUCTION OF MANAGEMENT ACCOUNTING

3.1.1 Definition of Management Accounting

Management Accounting is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis in making informed business decisions that would allow them to be better equipped in their management and control functions. Unlike financial accountancy information, management accounting information is used within an organization “typically for decision-making” and is usually confidential and its access available only to a select few.

According to the **Chartered Institute of Management Accountants (CIMA)**, Management Accounting is

" The process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources. Management accounting also comprises the preparation of financial reports for non-management groups such as shareholders, creditors, regulatory agencies and tax authorities" (CIMA Official Terminology).

The American Institute of Certified Public Accountants(AICPA) states that management accounting as practice extends to the following three areas:

- Strategic Management—Advancing the role of the management accountant as a strategic partner in the organization.
- Performance Management—Developing the practice of business decision-making and managing the performance of the organization.
- Risk Management—Contributing to frameworks and practices for identifying, measuring, managing and reporting risks to the achievement of the objectives of the organization.

The Institute of Certified Management Accountants(ICMA), states

"A management accountant applies his or her professional knowledge and skill in the preparation and presentation of financial and other decision oriented information in such a way

as to assist management in the formulation of policies and in the planning and control of the operation of the undertaking."

Management accounting practice helps an organization to survive in the competitive, ever-changing world, because it provides an important competitive advantage for an organization that guides managerial action, motivates behaviors, supports and creates the cultural values necessary to achieve an organization's strategic objectives.

3.1.2 Management Accounting Techniques

Management decisions are basically based on some measures/techniques traditionally designed based on quantitative data. However, in recent past to cope with global business environment, change in business, increase in competition and complexity of decision making some advanced quantitative techniques like Activity – based Costing and Target Costing and some improved programs like Just-in-Time (JIT), Total Quality Management (TQM), Process Reengineering and Theory of Constraints (TOC) have been introduced for application. Now, both traditional and advanced management accounting techniques are shown in the following chart.

Traditional Techniques	Advanced Techniques
Financial Statement Analysis	Activity-Based Costing
Fund Flow Analysis	Target Costing
Cash Flow Analysis	Just-in-Time (JIT)
Marginal Costing	Total Quality Management (TQM)
Absorption Costing	Process Reengineering
Differential Costing	The Theory of Constraints(TOC)
Standard Costing	
Opportunity Costing	
Budgetary Control	
Inter-firm Comparison	
Cost-Volume-Profit Analysis	
Management Reporting	

Source: This chart has been developed by the author after consulting different text books on Management Accounting.

The above chart identifies the generally used management accounting techniques by classifying them as to traditional and modern techniques.

3.1.3 Management Accounting Functions

Management accounting is a financial method that helps senior managers and department heads analyze business performance. Management accounting functions relate primarily to budgeting and cost analysis, internal financial reporting and monitoring of cost controls.

Actually, Management accounting may be said to include all activities connected with collecting, processing, interpreting and presenting information to management. The management accounting satisfies the various needs of management for arriving of appropriate business decisions. They may be described as modification of data, analysis and interpretation of data, facilitating management control, formulation of business budgets, use of qualitative information, and satisfaction of informational needs of management.

Listed below are the primary tasks performed by management accountants generated by different cost accounting tools. The degree of complexity relative to these activities is dependent on the experience level and abilities –

- ☐ Variance Analysis
- ☐ Rate & Volume Analysis
- ☐ Product Profitability
- ☐ Cost Analysis & Cost Benefit Analysis
- ☐ Cost-Volume-Profit Analysis
- ☐ Life cycle cost analysis
- ☐ Capital Budgeting
- ☐ Strategic Planning Strategic Management Advise
- ☐ Internal Financial Presentation and Communication
- ☐ Sales and Financial Forecasting & Annual Budgeting
- ☐ Cost Allocation
- ☐ Resource Allocation and Utilization

3.1.4 Relationship between Cost Accounting, Financial Accounting, Management Accounting and Financial Management

Cost Accounting is a branch of management accounting, which has been developed because of the limitations of Financial Accounting from the point of view of management control and internal reporting. Financial accounting performs admirably, the function of portraying a true and fair overall picture of the results or activities carried on by an enterprise during a period and its financial position at the end of the year. Also, on the basis of financial accounting, effective control can be exercised on the property and assets of the enterprise to ensure that they are not misused or misappropriated. To that extent financial accounting helps to assess the overall progress of a concern, its strength and weaknesses by providing the figures relating to several previous years. Data provided by Cost and Financial Accounting is further used for the management of all processes associated with the efficient acquisition and deployment of short, medium and long term financial resources. Such a process of management is known as Financial Management. The objective of Financial Management is to maximize the wealth of shareholders by taking effective Investment, Financing and Dividend decisions. Investment decisions relate to the effective deployment of scarce resources in terms of funds while the Financing decisions are concerned with acquiring optimum finance for attaining financial objectives. On the other hand, Management Accounting refers to managerial processes and technologies that are focused on adding value to organizations by attaining the effective use of resources, in dynamic and competitive contexts. Hence, Management Accounting is a distinctive form of resource management which facilitates management's 'decision making' by producing information for managers within an organization.

3.1.5 Differences between Financial Accounting, Management Accounting and Cost Accounting

	FINANCIAL ACCOUNTING	MANAGEMENT ACCOUNTING
Primary Users	External(Investors, government authorities, creditors)	Internal(Managers of business, employees)
Purpose Of Information	Help investors, creditors, and	Help managers plan and control

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	others make investment, credit, and other decisions	business operations
Timelines	Delayed or historical	Current and future oriented
Restrictions	GAAP FASB AND SEC	GAAP does not apply, but information should be restricted to strategic and operational needs
Nature Of Information	Objective, auditable, reliable, consistent and precise	More subjective and judgmental, valid, relevant and accurate
Scope	Highly aggregated information about the overall organisation	Disaggregated information to support local decisions
Behavioural Implications	Concern about adequacy of disclosure	Concern about how reports will affect employees behavior
Features	Must be accurate and timely Compulsory under company law Is an end in itself	Usually approximate but relevant and flexible Except for few companies, it is not mandatory Is a mean to the end
Segments Of Organisation	It is primarily concerned with reporting for the company as a whole.	Segment reporting is the primary emphasis.

	FINANCIAL ACCOUNTING	COST ACCOUNTING
Objective	It provides information about financial performance and financial position of the business.	It provides information of ascertainments of costs to control costs and for decision making about the costs.
Nature	It classifies records, presents and interprets transactions in terms of money.	It classifies records, presents and interprets in significant manner materials, labour and overhead costs.
Recording Of Data	It records historical data.	It records and presents estimated, budgeted data. It makes use of both historical costs and predetermined costs.
Users Of Information	External users like shareholders, creditors, financial analysts, government and its agencies, etc.	Used by Internal management at different levels.
Analysis Of Costs And Profits	It shows profit/loss of the organization.	It provides details of costs and profit of each product, process, job, etc.
Time Period	They are prepared for a definite period, usually a year.	They are prepared as and when required.
Presentation Of Information	A set format is used for presenting financial information.	There are no set formats for presenting cost information.

Cost accounting information -- and, more generally, accounting information -- has **three basic roles in organizations**:

1. Financial reporting,
2. Operational control and improvement, and
3. Decision making and planning.

3.1.6 Cost Accounting Information in Decision Making:

Decision making is central to the management of an enterprise. The manager of a profit making business has to decide on the manner of implementation of the objectives of the business, at least one of which may well relate to allocating resources so as to maximize profit. All organizations, whether in the private or the public sector, take decisions, which have financial implications. Decisions will be about resources, which may be people, products, services, or long term and short term investment. Decisions will also be about activities, including whether and how to undertake them. Where the owners are different persons from the manager (for example, shareholders of a company as separate persons from the directors), the managers may face a decision where there is a potential conflict between their own interests and those of the owners. In such a situation cost considerations may be evaluated in the wider context of the responsibility of the managers to act in the best interests of the owners.

For making decision by using cost accounting information cost accountant usually follow some specific models. They use different decision model for different courses of action. Management accountants work with manager by analyzing and presenting relevant data to guide decisions. For example, if any organization wants to reduce its existing manufacturing costs it must identify the alternatives then it will analyze the alternatives by using only relevant data i.e., which can influence the decisions.

3.1.7 Cost Accounting Information in Corporate Reporting:

The main purpose of cost accounting information is to help managers in decision making. Such information is provided for the internal purpose only. There are some guided rules and

regulations about the information in the reports. According to IAS 1 (Presentation of Financial Statements), paragraph 117,

“ An entity shall disclose in the summary of significant accounting policies:

- (a) the measurement basis (or bases) used in preparing the financial statements, and
- (b) the other accounting policies used that are relevant to an understanding of the financial statements.”

It is important for an entity to inform users of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realizable value, fair value or recoverable amount) because the basis on which an entity prepares the financial statements significantly affects users’ analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied. According to paragraph 125 of the same IAS,

“An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature, and
- (b) their carrying amount as at the end of the reporting period.

An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgments that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

- (a) the nature of the assumption or other estimation uncertainty;
- (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
- (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Other IFRSs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, IAS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IFRS 7 requires disclosure of significant assumptions the entity uses in estimating the fair values of financial assets and financial liabilities that are carried at fair value. IAS 16 requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment.

There are also some guidelines for reporting cost accounting information in IAS 2: Inventories. The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

CHAPTER THREE: PART TWO- MATERIALS- CONTROLLING AND COSTING

3.2 Materials Management

An effective **materials management** is essential in order to

- (1) provide the best service to customers,
- (2) produce at maximum efficiency, and
- (3) manage inventories at predetermined levels to stabilize investments in inventories.

Successful materials management requires the development of a highly integrated and coordinated system involves

- Sales Forecasting,
- Purchasing,
- Receiving,
- Storage,
- Production,
- Shipping,
- And Actual Sales.

The stages of material management may be enumerated as follows:

1. Procedures of materials acquisition
2. Cost of materials acquisition
3. Product costing and cost allocations

3.2.1 Materials Acquisition Procedure

Materials:

In Beximco Pharma Material is divided into two parts. These materials are the direct material for the product. The classification of materials is as follows:

- Raw material.
- Packing material.

Before going to the report part, let's have a look that what are the steps are involved in case of purchasing raw and packing materials from local and abroad.

Both types of materials are purchased in two forms such as:

- Local purchase.
- Import of materials.

Local Purchase of Raw & Packing Materials:

The domestic purchase of raw material and Packing Material include following business functions;

1. Processing purchase order
2. Receiving goods, material and services
3. Recognizing the liability
4. Processing and recording cash disbursement

Processing Purchase Order

The procedure begins with need recognition. The respective department identifies its need, gets approval of the departmental head and with the approval an authorized person sends **purchase requisition** to purchase department to initiate purchase. In case of raw or packing materials, the planning department determines the quantity and timing of raw materials. This department informs the purchase department when to buy materials.

When the purchase department got the requisition, it calls for quotation or tender. After receiving the quotation or tender, supplier has been selected. The supplier may be local or international. If the terms and conditions are in favor of both BPL and the selected supplier, the purchase order is issued by the factory.

Receiving Material, Goods and Services

Generally the goods and services are received by the user department who has issued the purchase requisition or in some cases by the authorized department. In case of Materials, Materials are received by Quality Assurance Department (QAD) in the factory. After receiving materials, **MRR** (Material Receiving Report) is issued for material and other than material (goods) a **GRR** (Goods Receiving Report) is issued by receiving department to purchase department.

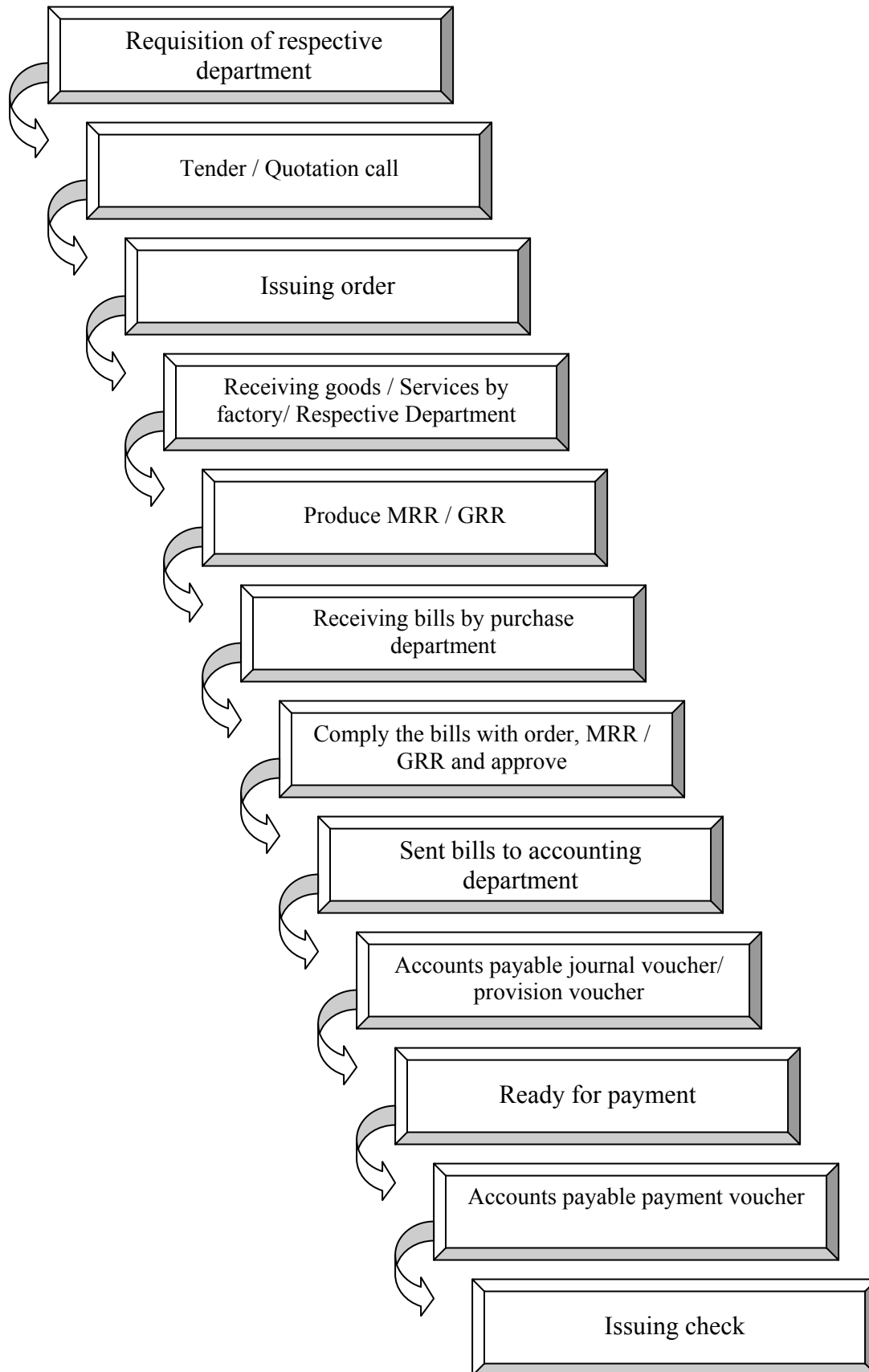
Recognizing the liability

The purchase department compares the invoice/bill and MRR/ GRR/ QC with the purchase order. If everything has been complied, the amount payable to supplier is approved by the purchase department. There is a seal on the invoice named '**Approved By**' with the signature of purchase manager. It means the purchase department is satisfied with the information mentioned in the bill.

Processing and Recording Check/ Cash Disbursement

After a certain period of time when the date becomes matured for the liability the payment is made by BPL. The matured date has been calculated in the **aged payable report** for each vendor. The mode of payment is usually per numbered check. In most cases the payment is made by A/C payee only check. In some cases the payment may be made by cash or by bearer check or paid in advance fully or partly.

The total process of Local Purchase has been presented briefly in below:



Import of Raw & Packing Materials:

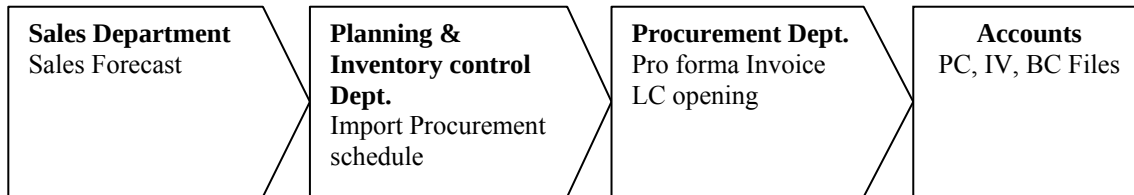
Another source of raw and packing material is importing from overseas market. For this purpose, purchase department must open a letter of credit at bank. It ensures the liquidity of foreign supplier. After opening a letter of credit, Purchase department maintains a file where all the related documents are kept separately for each LC and sends a copy of each document to the Finance and Accounts department for further processing of information and to prepare the cost sheet for the materials received against each LC. This file is called PC (pharmaceutical consignment) file.

Three departments are involved in the entire materials procurement process.

They carry their own responsibilities in this regard. The departments are:

- Sales Department
- Planning & Inventory Control Department
- Procurement Department

The entire process looks like:



PC File (For Raw and Packing Materials and Also spare parts for pharmaceuticals machinery)

IV File (For Infusion Raw and Packing materials and also spare parts for Infusion machinery)

BC File (For Basic Chemical)

3.2.2 Materials Acquisition Cost

The cost of inventories comprises of expenditure incurred in the normal course of business in bringing the inventories to their present location and condition. As a result, the costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services.

Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Actually, the focal point of this report is to put light on the cost of acquiring of raw and packing material from local and foreign sources and related accounting conduct.

In case of imported materials,

L/C Costing:

The costing procedures of the imported material's (Raw/Packing) Landed cost. To calculate the unit cost of the imported material's (Raw/ Packing) the term L/C costing is used.

L/C opening process:

The purchase dept. first collects a form of application for the opening of letter of credit from a bank. An LCA form (in quintuplicate) is also collected. After filling up these forms, they are submitted to the bank along with the pro forma invoice approved by the Block list of Drug Administration and IMP form of Bangladesh Bank. The L/C margin (a certain percentage of L/C amount), bank charges and commissions for opening the L/C, insurance payment (if made at that time) etc. are also made. The insurance covers all risks from the beginning of transit.

The Cost Sheet:

This is the most important report prepared on the import procurement process of raw materials. Cost sheets are prepared for individual raw and packing material items, as well as spares and capital machinery. Cost sheet is generated by the MAPICS software. It is the summary of entries

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debited through the journal voucher of L/C. It is used for costing and pricing decisions. The cost sheets include the following:

Through this cost sheet Beximco Pharma determines per unit landed cost of imported Raw material and Packing material.

COST SHEET

Company Name: BEXIMCO PHARMA		Shipment No:	
Supplier Name:		Date:	
L/C No:	Date:	Exchange rate:	
Invoice No:	Date:	CEP:	Date:
PARTICULARS	1	2	Total
Material Name			
MRR No			
MRR Date:			
Invoice Quantity			
FC Cost/ Unit			
Total FC Cost			
L/C Margin			
Opening Charge			
Document Retirement			
Duty, LCA, IDSC & others			
C & F Commission			
Insurance Premium			
Miscellaneous Expenses			
TOTAL COST			
COST PER UNIT			

Material Costing:

In case of imported materials some important formulas are as follows:

1. Assessable Value= Invoice Value X Exchange Rate X 1.01(Insurance) X 1.01 (Landed Charge)
2. Customs Duty= Assessable Value X Customs Duty Rate (from Bill Of Entry)
3. Supplementary Duty= (Assessable Value + Customs Duty) X SD Rate (from Bill Of Entry)
4. Pre-Shipment Inspection(PSI)= (Invoice Value X Exchange Rate) X PSI rate (from Bill Of Entry)
5. Regulatory Duty= If CD% is greater than or equal to 25% then Assessable Value X 5%

Landed Cost = C&F Amount + CD amount +SD amount + PSI amount + RD amount + Others expenses (*C&F Commission, Insurance premium, Opening Charge, Misc. Exp.*)

In case of Locally Procured Materials:

In case of locally procured materials the landed cost is Purchase order rate or Invoice rate.

Sample Material cost sheet:

BEXIMCO PHARMACEUTICALS LTD.

COSTING OF (PRODUCT NAME)

Pack size:

PRODUCT CODE:

Date:

Composition	Material code	Landed cost	Per Tablet		Per Pack	
			Quantity	Cost	Quantity	Cost
<u>Raw Materials:</u>						
Active:						
Raw material 1						
Raw material 2						
Excipients:						
Raw material 1						
Raw material 2						
RAW MATERIAL COST						
<u>Packing Materials:</u>						
Primary Packing:						
Packing material 1						
Packing material 2						
Secondary Packing:						
Packing material 1						
Packing material 2						
PACKING MATERIAL COST						
Total RM + PM cost						

3.2.3 Product costing and cost allocations

Product Costs:

Product costs include all costs involved in acquiring or making a product. In the case of manufactured goods, these costs consist of direct materials, direct labor, and manufacturing overhead. Product costs attach to units of product as the goods are purchased or manufactured, and they remain attached as the goods go into inventory awaiting sale. Product costs are initially assigned to an inventory account on the balance sheet. When the goods are sold, the costs are released from inventory as expenses (typically called cost of goods sold) and matched against sales revenue. Product cost is also called Manufacturing costs.

Components of Product cost:

- Direct Materials.
- Direct Labor.
- Manufacturing Overhead.

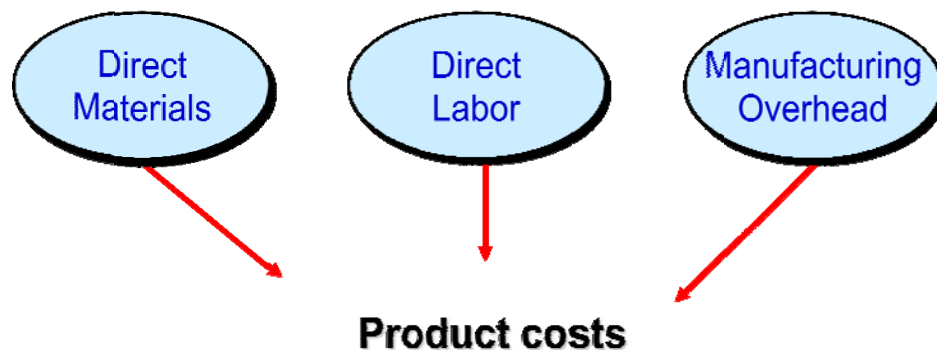


Figure 4: Product costs Classifications in BPL

Direct Materials:

Direct Materials are those materials that become an integral part of the finished product and whose costs can be conveniently traced to the finished product.

In BPL direct material classification is as follows:

1. Raw Material:
 - Active
 - Excipients
2. Packing Material:
 - Primary Packing
 - Secondary Packing

Direct Labor:

Direct labor consists of labor costs that can be easily traced to individual units of product. Direct labor is sometimes called touch labor, since direct labor workers typically touch the product while it is being made. In BPL direct labor includes labor cost of worker which is directly traceable.

Manufacturing Overhead:

Manufacturing costs that cannot be traced directly to specific units produced is manufacturing overhead. Manufacturing overhead includes indirect materials, indirect labor and costs related to the manufacturing facility.

Graphical presentation of manufacturing overhead which is used in BPL is as follows:

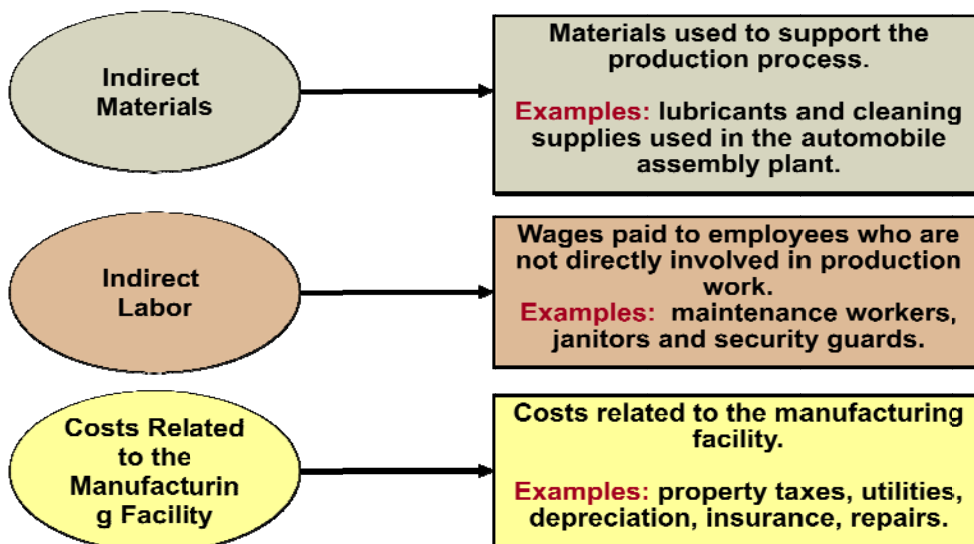


Figure 5: Manufacturing overhead classification in BPL

Classification of Manufacturing costs in other way:

Prime cost:

Prime cost is the sum of direct materials cost and direct labor cost.

Conversion Cost:

Conversion cost is the sum of direct labor cost and manufacturing overhead cost. The term conversion is used to describe direct labor and manufacturing overhead because these costs are incurred to convert materials into the finished product.

In Beximco Pharmaceuticals Limited they use this conversion cost concept to report the Cost of Goods Sold and to prepare cost sheet.

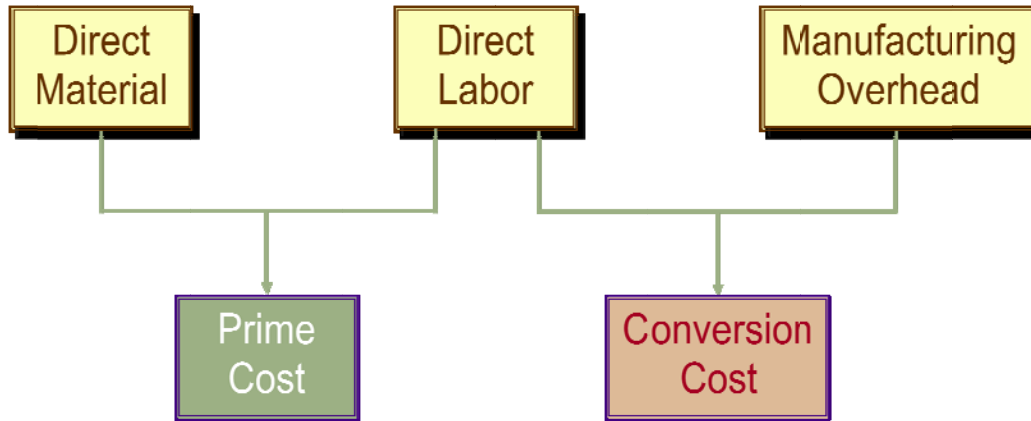


Figure 6: Classification of manufacturing cost in other ways.

Non manufacturing Costs:

Non manufacturing costs are often divided in BPL into two categories:

- Selling expenses.
- Administrative expenses.

Selling Expenses:

Selling costs include all costs that are incurred to secure customer orders and get the finished product to the customer.

Examples: Advertising, salary and allowances, rent expenses, printing and stationery, telephone & postage, market research & new product, sample expense, sales travel, depreciation, delivery commission, export freight, insurance, C&F expense etc.

Administrative Expenses:

Administrative costs include all executive, organizational and clerical costs associated with the general management of the organization rather than with manufacturing or selling.

Examples: Executives compensation, donation & subscription, auditor's remuneration, entertainment, telephone and postage, AGM expenses, company secretarial expenses, legal & consultancy fee etc.

Product cost flow:

Product cost flow is the flow of costs in a manufacturing company. Beximco Pharma follows this product cost flow. The graphical presentation of product cost flow is as follows:

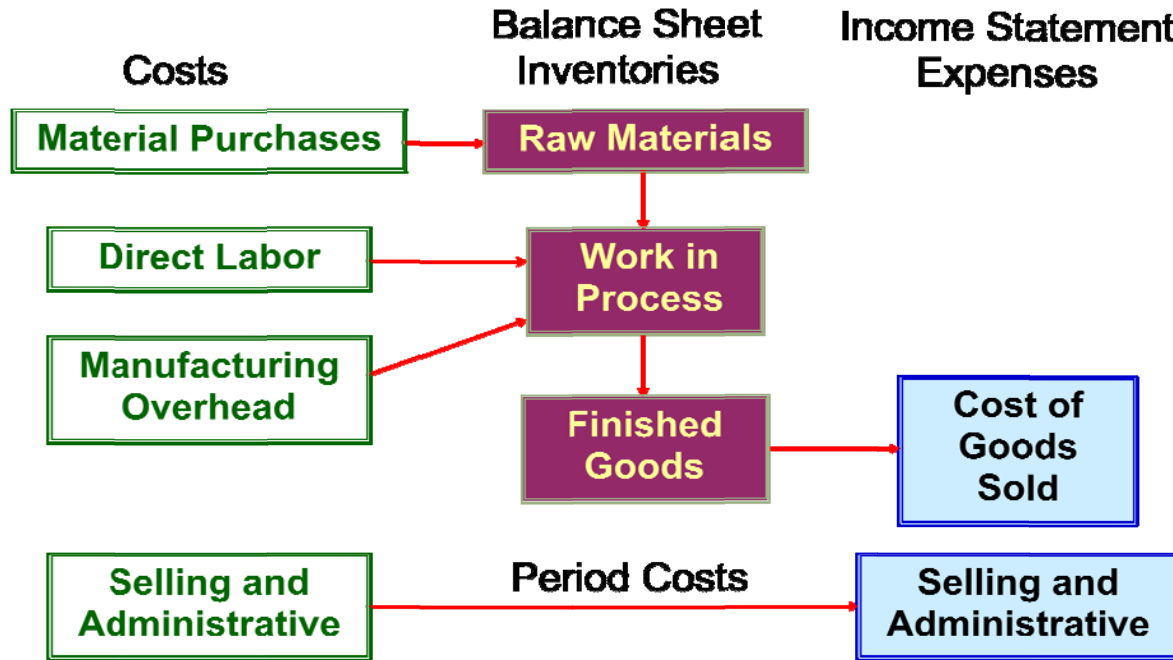


Figure 7: Product cost flow of BPL.

Factory Overhead:

Factory Overhead is generally defined as indirect labor, indirect material and all other factory expenses that cannot conveniently be identified with nor charged directly to specific job or products or final cost objectives. Other terms used for factory overhead are factory burden, manufacturing expense, manufacturing overhead, factory expense, and indirect manufacturing cost.

To determine cost of production these expenses are to be apportioned to various department and then to the cost center or cost units. The procedures are as follows:

- Classification of Overhead.
- Collection of Overhead.
- Apportionment of Overhead.

- Absorption of overhead by production units.

Classification:

Overhead can be classified into three ways. These are as follows:

1. **Function wise:** Production overhead, Administrative overhead and Selling and Distribution overhead.
2. **Element wise:** Indirect material, indirect labor and indirect expenses.
3. **Behavior wise:** Variable, fixed and semi- variable.

In Beximco Pharma they use function wise classifications.

Codification:

In order to make effective analysis and control of the expenses each of overhead is classified into groups. Two major benefits of these methods are:

- Clearly defined.
- Cover every circumstance.

Three methods for these are as follows:

1. Mnemonic Method.
2. Numerical Method.
3. Decimal Method.

Mnemonic Method: Under this method letter symbols are used to denote expenses heading as aids to memory. For example we can explain it in following ways:

- AD for Administration.
- RE for Repair.
- MA for Maintenance. Etc.

Numerical Method: Where numerical codes are employed each departments or cost center is also given a code number. This number is put on all documents used for collection of overheads. For example we can explain it in following ways:

- 120080-0-200 Stores.

- 120080-0-100 Entertainment.
- 120080-0-300 Boiler house.
- 120080-0-301 Stoker's wages
- 120080-0-302 Coke
- 120080-0-303 Water. etc.

Decimal Method: This is also numerical coding method. Under this method the items falling under each groups, however, represented by decimals. For example:

- 1200.101 Indirect materials.
- 1200.102 Indirect labor.
- 1200.103 Entertainment.
- 1200.104 Repairs & Maintenance. Etc.

Beximco Pharma's practices:

In Beximo Pharma they use the Numerical method for recoding items. They have different types of code for every item. Through the numerical method they try to ensure proper control.

Collection of Overhead:

The collection of overhead information in **Beximco Pharma** is as follows:

- Store requisitions.
- Time cards/ Job cards.
- Invoice or purchase voucher.
- Cash book (Petty cash expenses)
- Subsidiary records (Depreciation, interest etc.)

Apportionment:

Items of overhead cost which require apportionment have to be spread over two or more departments or cost centers. Apportionment is to be done on an equitable basis. There is no single basis for apportioning all the common items of overhead. Suitable basis have to be selected by correlating the basis selected and the item of overhead.

Some items and bases which are used in BPL are as follows:

Items of Overhead	Basis of Distribution
Rent, Insurance of Building, Depreciation of Building.	Floor Space Occupied
Electricity	Meter reading
Power	Machine Hour
Fire Insurance	Asset Value
Insurance and Depreciation of Machinery	Capital Value
Supervision	Number of Workers
Medical Expenses	Number of Workers
Canteen Expenses	Number of meals
Store-keeping Expenses	Number of Requisitions
Fringe benefits	Number of workers
Purchase Department expenses	Number of Purchase order
Internal Transport	Number of Requisitions
Other items	Machine hours, Wages.

Absorption of Overhead:

Actual rates: Actual rate is computed by dividing the actual overhead for a particular period by the selected base. If a month is taken as the period for which the rate is to be computed, and the basis is the quantity produced during the month, the actual rate is arrived at by dividing the actual overhead incurred by the units actually produced.

Disadvantages:

- Delay in costing products.
- Involves more clerical work. Actual rates are necessary to be calculated for each accounting period.
- When production is reduced owing to fall in demand, the actual rate gets inflated.

Predetermine rates: Pre- determined rate of absorption is computed at the commencement of each year. The rate is determined by dividing the estimated or budgeted manufacturing overhead by the estimated or budgeted output during the year.

Advantages:

- Facilitates costing of products much before production.
- Involves less clerical labor.
- Rates are computed for different departments only once at the beginning of the year.

Disadvantages:

- It gives the problem of under or over absorption.

Example: Suppose; Budgeted annual overhead 48000 and budgeted direct labor for annual 24000.

In that case the predetermined overhead rate is 2 taka per hour. I have calculated this rate by using the following formula.

Formula= [Budgeted overhead cost for the year / Budgeted direct labor for the year]

Beximco Pharma's Practice:

In Beximco Pharma they use the pre determined factory overhead. Cost and budget section of BPL commonly known in BPL as IOC&BP section of Accounts and Finance department determines the Predetermine overhead rate.

Methods of Overhead Absorption:

The various methods of Overhead absorption are as follows:

- Production unit method.
- Percentage method.
- Hourly rate method.

Beximco Pharma's Practices:

In BPL they determine their factory overhead rate on the basis of number of batch because Beximco Pharma uses the Batch costing system. On the basis of the total production of the

batches BPL determines the factory overhead per unit and per batches. So we can say that they use production unit method. At the same time for some costing BPL uses the Percentage method. They use direct material percentage for many cases. For example in case of new material pricing they use percentage method. In case of preparing tender cost sheet BPL uses the percentage method. They also calculate direct labor hour and machine hour and their cost respectively. But this information is authorized to disclose. In cost of goods sold reporting they don't disclose direct labor hour cost because of confidentiality purpose.

Basic Costing systems and Beximco Pharma's Practices:

The basis of a cost accounting system begins with the type of costs that flow into and through the inventory accounts. There are three alternatives including: pure historical costing, normal historical costing and standard costing.

<i>Pure historical costing</i>	In a pure historical cost system, only historical costs flow through the inventory accounts. Historical costs refer to the costs that have been recorded.
<i>Normal historical costing</i>	Normal historical costing uses historical costs for direct material and direct labor, but overhead is charged, or applied to the inventory using a predetermined overhead rate per activity measure.
<i>Standard costing</i>	In a standard cost system, all manufacturing costs are applied, or charged to the inventory using standard or predetermined prices, and quantities. The differences between the applied costs and the actual costs are charged to variance accounts.

Cost of Production

In Beximco Pharma, they use normal historical costing for determining cost of production. Also in some cases they use the standard costing method. They have standard cost sheet for every components of the manufacturing cost. They also use standard cost sheet for proper control and measure their performance. They also calculate variance from standard and actual. For doing the costing early they use predetermined factory overhead. For using normal historical costing

systems they determine the over applied or under applied factory overhead and dispose this over applied or under applied factory overhead through cost of goods sold statement. They also do the variance analysis. They generally does the Spending variance and Idle capacity variance. They compare their budgeted and actual amount for calculation of spending variance.

Inventory valuation methods and Beximco Pharma's Practices:

The major inventory valuation methods are discussed as follows:

The Direct or Variable Method	In the direct (or variable) method, only the variable manufacturing costs are capitalized, or charged to the inventory.
The Full Absorption Method	Full absorption costing (also referred to as full costing and absorption costing) is a traditional method where all manufacturing costs are capitalized in the inventory, i.e., charged to the inventory and become assets.
The Activity Based Method	Activity based costing is a relatively new type of procedure that can be used as an inventory valuation method. The technique was developed to provide more accurate product costs. This improved accuracy is accomplished by tracing costs to products through activities. In other words, costs are traced to activities (activity costing) and then these costs are traced, in a second stage, to the products that use the activities.
The Throughput Method	The throughput method was developed to complement a concept referred to as the theory of constraints. In this method only direct material costs are charged to the inventory. All other costs are expensed during the period.

Beximco Pharma's Practices:

In BPL they use Absorption costing concept for determining product cost. They charge their selling and administrative overhead to the income statement. They don't fully use ABC costing by they try to apply concept of Activity based costing for determining product cost. Implementation of ABC is very complex country like Bangladesh. In case of allocating factory overhead they use concept of ABC as far as possible. BPL don't use through put costing and direct costing.

Determination of Manufacturing Cost per unit:

In BPL, they determine manufacturing cost per unit through the following cost sheet:

Beximco Pharmaceuticals Ltd.

Product Name:

Pack size

Product Code:

Date:

Composition	Material Code	Per Tablet		Per Pack	
		Quantity	Cost	Quantity	Cost
<u>Raw Materials:</u> Raw material 1 Raw material 2					
<i>Total Raw material cost</i>					
<u>Packing Material:</u> Packing material 1 Packing material 2					
<i>Total Packing material cost</i>					
Total (RM+PM) cost					
Total Raw material cost per pack					
Total Packing material cost per pack					
Total (RM + PM) cost per pack					
Factory Overhead					
Depreciation					
Total Factory Cost					
Total Manufacturing Cost Per Pack					

Cost of Goods Sold:

Cost of goods sold reporting in BPL is as follows:

Particulars	2010	2009
Work-in-process(Opening)	189396879	171647779
Materials Consumed	2537648743	2259811565
Factory Overhead	894097750	591289797
Work-in-Process (Closing)	(195111787)	(189396879)
COST OF PRODUCTION	3426031585	2833352262
Finished Goods (Opening)	554393259	358010498
FINISHED GOODS AVAILABLE	3980424844	3191362760
Finished Goods (Closing)	(565049644)	(554393259)
	3415375200	2636969501
Cost of Physician Sample transferred to sample stock	(97734946)	(70762875)
	3317640254	2566206626

List of Factory Overhead:

Particulars	2010	2009
Salary & Allowance	270910357	200123833
Repairs	66680578	57717740
Insurance Premium	10762989	3714356
Municipal tax & land revenue	1237290	1000652
Advertisement & subscription	96769	82295
Registration & Renewal	715777	645612
Travelling	2250371	1302204
Entertainment	721850	481780
Research and development	6815379	4489878
Printing & stationary	5765044	467856
Telephone & Postage	2228125	1943146
Toll Charge	76281942	38534380
Electricity, Gas & Water	40587162	19495457
Training	609919	506787
Plant certification and regulatory approval	12753618	
Depreciation	392890096	254668568
Other Expenses	2790484	1904548
	894097750	591289797

Inventory:

Inventory Reporting in Beximco Pharma is as follows:

Finished Goods	565049644
Work-in-process	195111787
Raw Materials	769883557
Packing Materials	327253736
Laboratory Chemicals	4076834
Physician Samples	41239901
Raw & Packing Material in Transit	81193985
	1983809444

In Beximco Pharma factory overhead is charged in Cost of goods sold and administrative and selling, marketing and distribution expenses are charged to the income statement as operating expenses. Beximco Pharma follows the concept of conversion cost and does the reporting of cost of goods sold on the basis of this. In case of conversion cost direct labor and factory overhead are merged. In case of reporting inventory they fully apply International Accounting Standard (IAS) 2. BPL makes compliance with IAS/BAS 2 in case of inventory.

Batch costing:

Batch costing is a modification of job costing. A batch of similar products is treated as a job. Each batch receives an order number and the costs are accumulated on that basis. When production is of repetitive nature, and consists of a definite number of articles, batch costing is used. In batch costing all costs are collected according to batch order number and total costs are divided by total numbers in a batch to arrive at the unit cost of production.

Determination of EBQ:

In batch costing, determination of economic size of the batch is an important step. Economic size of a batch is determined by applying the following formula:

$$EBQ = \sqrt{\frac{2 \cdot A \cdot S}{C}}$$

Where,

A= Annual demand for the product.

S= Setting up cost per batch.

C= Carrying cost per unit of production.

Beximco Pharma's Practices:

In BPL they use batch costing system. They collect all costs by batch order number. They divide total costs by total numbers in a batch to arrive at the unit cost of production. IOC&BP section of Accounts and finance department does the batch costing. This section does not determine the batch size. Batch size is determined by the Planning department of the BPL. By determining EBQ they determine economic batch sizes.

Batch Cost Sheet:

Accounts and finance department of BPL determine the batch cost sheet. To determine batch cost sheet planning department helps costing department giving adequate data. The main factor of the batch cost sheet is commercial yield. Through this they determine per unit cost.

A sample batch cost sheet is in the following page

Batch Cost Sheet

Product Name:

Pack Size:

Product Code:

Batch Size:

Batch No:

SRR (Store Received Report) Number:

<i>Material Name</i>	<i>M. Code</i>	<i>Unit (gm/kg)</i>	<i>Quantity</i>	<i>Rate</i>	<i>Value</i>
Raw material 1					
Raw material 2					
<i>Raw material Cost</i>					
Packing Material 1					
Packing Material 2					
<i>Packing Material Cost</i>					
Total Cost (RM + PM)					
Per unit RM [Total RM / Commercial yield]					
Per unit PM [Total PM / Commercial yield]					
Per unit Total Cost (RM+PM) [(RM+PM)/ Commercial yield]					

Standard Yield:

Commercial Yield:

Actual Yield:

QC Sample:

3.2.4 Contemporary cost accounting methods and techniques used by Beximco Pharma:

Total quality management:

Total Quality Management refers (TQM) to the process of continuous improvement to achieve the full customer satisfaction. Rather than waiting to inspect items at the end of the production line or striving to stay within acceptable tolerance limit, TQM's goal is eliminating all waste. In Beximco Pharma, quality is maintained with great care. As it is a pharmaceutical company, it is mandatory to keep up with the quality level with the other companies. As a result, they have received GMP Clearance from Therapeutic Goods Administration (TGA) of Australia and from Gulf Central Committee for Drug Registration, Executive Board of the Health Ministers' Council for Gulf Cooperation Council (GCC) states (representing Saudi Arabia, Kuwait, Bahrain, United Arab Emirates, Qatar and Oman). The company is also in the process of obtaining approvals from several other regulatory authorities including National Health Surveillance Agency (ANVISA) of Brazil, Medicine and Healthcare Regulatory Agency of United Kingdom (UK MHRA), US FDA etc.

Life Cycle Costing:

Life cycle costing tracks and determines the cost attributed to each product and service from its initial research and development to development to final marketing to customer. In Beximco Pharma , as I discussed that this type activities is done in mainly in the Strategic Brand Management (SBM) Department. The activities of SBM are:

- ☐Market research
- ☐Selection of new product
- ☐Design and testing of product (DTP)
- ☐Sample store (logistics) management
- ☐Making strategy

With the SBM departments, Beximco Pharma determines the Life Cycle of the products.

Target Costing:

Target costing is an approach which determines what a product or service should cost based on its sales price less a target profit. Basically, it is a tool for decision making. Unlike traditional costing for making up cost, it is a market driven way of examining the relationship of price and cost. In Beximco Pharma, the use of Target Costing is very common to make the target for the cost of the product.

Activity-Based Costing

Activity-based costing (ABC) developed to provide more accurate ways of assigning the costs of indirect and support resources to activities, business processes, products, services, and customers(Kaplan and Atkinson, 2001:97). Activity-based costing is a method of assigning costs that calculates a more accurate product cost by identifying all of an organization's major operating activities. The goal of ABC is not to allocate common costs to products but to measure and then price out all the resources used for activities that support the production and delivery of products and services to customers. For this why, ABC is important to activity-based management. In Beximco pharma, although the ABC system is not fully implemented, still it tries to follow the methods of this innovative costing process along with the Standard costing. Just because, the y found many major cost drivers in case of manufacturing the goods, which needs a careful attention to determine manufacturing overhead. Some of the examples of such cost drivers are as follows;

- **Research And Development Cost**
- **Direct Labour**
- **Labour Hour**
- **Types Of Product**
- **Number Of Batch**
- **Batch Size**
- **Process Of Production**

3.2.5 Factors That Affects The Costing Procedure At Beximco Pharma

The Major reasons for which the price of the materials affected are identified below:

LC opening charge: The LC opening charge increases with the amount of LC opened. It will affect the actual price of the materials.

Insurance premium: For the safety of the materials it is necessary to give insurance premium for that material. Numbers of insurance companies are interest to open insurance for the firm. But this also affects the material price.

Demurrage charge: It has to be given to the port authority by the BPL in case of delaying in material receive.

Inflation: Due to inflation rate material price can also be increased which has impact on purchasing of materials. The company would have nothing to do if there is occurred high inflation in the imported country.

Exchange rate changes: material price can also be affected by the exchange rates changes. In spite of, the unchanged material price the cost of it can be increased by the change in foreign exchange rates.

C & F commissions: Clearing and forward commissions are charged by the agents which are works for the Beximco. There are number of agents who receive the goods, pay all types of duty charges to the government and bring the materials to the factory storehouse. The C & F commissions include:

- Documentation
- Customs duty and taxes
- Super urgent delivery expenses
- Wharf rent and removal
- Pay order commissions
- Cooly wages for loading and unloading
- Transport
- Agency commission

All the above items of C & F commissions are added with the cost of the material.

Therefore the actual price of the material is increased.

Miscellaneous expenses: Besides the above factors some other costs are incurred in case of material import. These costs are also included with the material price.

Exchange Rate: Basically, 70-80 percent materials are purchased from outside of the country. So payments for the imported goods are made in dollars maximum time. So the increase in the exchange rate would increase the prices of the materials. According to the survey data the, it was found that 66 percent employee that that the exchange rates affects moderately and 33 percent employee thought that the exchange rates has less effects. The reason behind such opinions was that for the last numbers of months dollar is stable against taka. Furthermore, the payment was made in dollar maximum time. Another thing was the exchange exercised by the customs was almost fixed for number of months. So, when the exchange rates changes abruptly only then there would be a high impact over price of the materials.

Yearly increment of salary: This is one of the major issues of labor rate increasing. Beximco Pharma provides salary increment every year. Therefore, the cost of direct labor is increased.

Increase in market labor rate: This is due to inflation rate of a country. The market rate of labor payment has been increasing for last two or three years. So, this has also a great impact on direct labor cost.

Other benefits of the labor: Besides the monthly payments, the labors are provided some other benefits which also affect the costing. At Beximco factory, there are labor unions which deal with the management about their needs and benefits.

The reasons for increasing the overhead cost are-

- Markets rates of utilities like gas,
- electricity and water,
- Repair and the maintenance costs,
- Insurance premiums etc. are increased due to reducing the life of the machines.

CHAPTER FOUR: FINDINGS

Working on the costing procedure of Beximco Pharmaceuticals Limited was an interesting issue. The following findings are made on the basis of research work:

- The employees of departments of Beximco Pharma are very much co-operative and interdependent to each other.
- The cycle or chain of performing all functions is very well-organized.
- Beximco Pharma uses conversion cost concept for reporting cost of goods sold and preparing cost sheet.
- Beximco Pharma follows the batch costing method and collocate their factory overhead on the basis of the total production of the batches.
- Beximco Pharma uses pre determined factory overhead for determining factory overhead early for costing purpose.
- Beximco Pharma does the variance analysis comparing actual and budgeted amount.
- Beximco Pharma tries to control overhead through the budgetary control.
- Beximco Pharma also prepares cost report for managerial purpose.
- They use standard cost sheet for measuring their performance properly.
- Beximco Pharma doesn't fully apply Activity based costing but they try to use the concept of ABC in allocating overhead.
- Beximco Pharma follows the absorption costing method to prepare cost sheet.
- Major reasons for which the price of the materials is affected are-LC opening charge, Demurrage charge, Inflation, Exchange rate changes and C&F commissions, etc.
- Yearly increment of salary is one of the major issues of labor rate increasing. Beximco Pharma provides salary increment every year. Therefore, the cost of direct labor is increased.
- The reasons for increasing the overhead cost are- Markets rates of utilities like gas, electricity and water, Repair and the maintenance costs, Insurance premiums etc. are increased due to reducing the life of the machines.

CHAPTER FIVE: RECOMMENDATION

Beximco Pharma tries to ensure better quality and better management. The staffs demonstrate their knowledge and experience with sheer professionalism. Despite these efforts some shortcomings may remain and there is always an opportunity to overcome those. Trough out my study I have found that they have some opportunity that they can take being taking proper steps. On the basis of my understanding and observation I am proposing the following recommendation to the Beximco Pharma:

Cost of Goods Sold:

Beximco Pharma may improve their Cost of Goods sold reporting for better understanding. Though it is not contradictory with the IAS/BAS. To make user friendly BPL may change this format.

Beximco Practices	Proposed Format
Work in process (opening)	Raw material consumed
(+) Material consumed	(+) Packing material consumed
(+) Factory overhead	MATERIAL CONSUMED
(-) Work in process (closing)	(+) Work in process (opening)
COST OF PRODUCTION	(-) Work in process (closing)
(+) Finished goods (opening)	TOTAL CONSUMPTION
FINISHED GOODS AVAILABLE	(+) Factory Overhead
(-) Finished goods (closing)	COST OF PRODUCTION
(-) Cost of physician sample	(+)Purchase of Finished goods
COST OF GOOD SOLD	(+)Finished goods (opening)
	(-)Finished goods (closing)
	(-)Cost of physician sample
	COST OF GOOD SOLD

Factory Overhead, Selling and Administrative overhead:

Factory overhead, selling and administrative overhead is increasing year to year. The increasing trend is totally straight. Company should control the overhead properly. We know that company has no direct control over raw material prices. In the increasing raw material every company will be sufferer but company can properly control the overhead. The control of overhead is totally under the decision of the management. Management should proper analysis of the overhead cost on the basis of this analysis they should

prepare budget. Company should not prepare the budget on the basis of the requirement of the department demand. Cost manager should have proper knowledge about the all departments' functions and activities properly.

Petty Cash Expenses:

Beximco distributes their goods through I & I services. I & I services gets commission for their activities. I&I service takes their expenses from daily cash collection for expenses of distribution.

With the working with the petty cash section I have shown that depot of the I&I services overstate their expenses. For these activities the overhead cost is increasing day by day.

Proposed Policy: Beximco Pharma should make budget for the daily expenses. Through proper budgetary control and research on that will minimize the expenses. BPL should set out daily allowance of the depot of I&I services on the basis of the proper study and observation.

Negotiation with the Insurance Company:

In Beximco Pharma there are many insurance companies. BPL always does insurance of their material. The management should negotiate with them to reduce their insurance premium charges. One or two company will be allowed to do all kinds of insurance. Through this negotiation BPL will be able to reduce the expenses.

Expansion of the Shuktara Printers, BAIL, Prarmateck and I&I services:

Shuktara Printers is the supplier of the printing and packaging materials of the BPL. Shuktara printer is the related party of the BPL but they are not able to supply all the printing and packing materials. BPL has to purchase printing materials from other sources. If BPL is able to manage all packing and printing materials from Shuktara then will be cost effective. If possible Shuktara will be able to sell other company for surplus. For BAIL, Pharmateck and I&I services, I also recommend expansion policy in the same way. May these company will be leading company in the respective field like BPL, If management takes the appropriate decision.

CONCLUSION

Beximco Pharmaceuticals Ltd. is a leading edge pharmaceutical company and is a member of the BEXIMCO Group, the largest private sector industrial conglomerate in Bangladesh. Beximco Pharma is also the largest exporter of pharmaceuticals from Bangladesh, spreading its presence in many developing and developed countries across the globe. Recently, BPL has successfully made its footmark in the global market when it made its debut on the London Stock Exchange as the first Bangladeshi company to be listed in the world's most prestigious bourse. This milestone event has widened the responsibility, accountability and transparency of the company beyond geographical border. This was an added challenge to all the accounting staffs as the listing the accountability of the organization has gained a global reach. The ever expanding export trade also indicates greater responsibility to the world. The Finance and Accounts department took the challenge and prove their mettle by the timely publication of 2005 Annual Financial Reports globally. Each and every section in the department deserves to be complemented for their endeavor. From raw material import to the bringing of smile for the society, on every level, professionalism and dedication is the key to this success.

In this report, we have tried my level best to identify management accounting techniques and procedures used by Beximco Pharma. What and how Beximco Pharma use cost accounting information for decision making and external financial reporting along with describing the procedure and systems of using cost accounting information. In this report, we imply our acquired knowledge from cost accounting course and try to comply with the techniques procedure and systems followed by the company.

In today's complex yet highly competitive business environment management needs quality information for decision making purpose. Beximco believes that quality and control should be ensured and these can be ensured by using proper cost accounting information. Relevant and reliable cost information can be ensured by implementing by using effective cost accounting methods. And they do the best one fit in the context of Bangladesh.

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