

### **Mustering of attendance of Industrial Employees -and Audit there of**

The opening and closing of gate of a factory is controlled by blowing hooter. The gate of factory is opened half an hour before the time fixed for commencement of work in the Factory and closed at the fixed time. This means if the factory is working from 7.30 A.M. the gate will open at the sound of the hooter at 7.00A.M and will be closed at the sound of the hooter at 7.30A.M.

Workers entering into the Factory by that period will remove metallic disc (ticket) from the board placed near the gate. These tickets they will deposit in the box at the shop.

After closing of the gate say at 7.30A.M the representative of the gate office (Labour Bureau) prepares a list of tickets not removed from the board.

The gate is then opened and late comers are allowed to enter the gate up to 1 hour i.e. up to 8.30A.M. No one is normally allowed to enter after that time without the special sanction of the General Manager. The late comers are required to deposit their tickets in the respective boxes at the gate specially provided for the purpose to record the particular hour at which a late comer is admitted. The representative of the gate office prepares a list of ticket. Numbers who have entered late indicating the time of late, this indication of late is 0-15 minutes, 15-30 minutes, 30-45 minutes, and 45-60 minutes.

Thus two sets of documents are generated at the gate. Casualty memo/ Presentee- memo, late memo.

After the individual reported in the shop and deposited his ticket; the shop also prepares another list of individual reported (without indication of any time). This document is also sent to Labour Bureau for cross checking with the two documents mentioned earlier.

Muster Roll in IAFO 1367 Outer 12367- A inner is prepared from the casualty memo. For marking in the attendance one hour is divided into 4 equal parts. If an IE is present for the whole day he is marked 'I'. Late for periods of 0-15 minutes is marked as 31/32, that for 15-30 minutes is

marked as 30/32 and so on. If an IE is absent for the whole day he is marked 'A'.

If the factory is working on overtime, the overtime noted indicating individuals detained in overtime and hours of overtime worked are prepared by the shop JWM and handed over to Labour Bureau. It is also marked as 1/32 for every 15 minutes worked on O.T vertically below the attendance of the day.

Men who take short leave are granted leave passes by the JWM of the shop. Those leave passes are deposited at the gate and handed over to the Labour Bureau. Part Leave is generally granted in terms of quarter of an hour.

This muster roll along with the leave passes, Over Time note of the previous day and into casualty report and late memo of the current day are to reach Accounts office every day in the morning and as such also called Morning mustering.

**Note:** - At present most of the Factories have installed EARS (Electronic Attendance Recording System) by which the IEs have to electronically record their attendance at the gate.

The late is recorded in actual minutes.

#### **Audit in Accounts Office (daily):**

On receipt of the muster roll from the Labour Bureau, the present day's attendance should be checked with reference to casualty memo/ presently memo, late memo. The previous day's attendance to be checked with reference to leave passes, overtime memos. Discrepancy if any to be reported through the discrepancy report. Alteration if any can be made by Labour Bureau with proper alteration. The auditor of Labour Section must initial in the muster roll in token of having audited the same.

The daily totals of the attendance will then be recovered by Accounts Officer in IAF (FAC) 74, 74(A) or 74(B).

At the end of week) Accounts Officer will verify correctness of the progressive total of the weekly attendance.

The weekly total of the attendance, overtime hours, bonus hours, night shift hours etc., will be also copied in the Accounts copy of attendance mentioned earlier.

**At the end of the month:** On receipt of the muster roll on the day following the close of the month in the Accounts Office, the total number of days attended by each worker, overtime worked by each worker, bonus hours admissible to each worker, total night shift hours worked by each worker as mentioned in the muster roll will be checked with reference to the record maintained by Accounts Office in IAD (FAC) 74. This will then become the input for preparation of Wage Roll.

### **Mustering on Saturday as distinct from other working days**

Under Factory Act 1948, no adult worker in a factory is required to work more than 48 hours in a week. The total normal working hours in a week in the Ordnance and Clothing Factories have however been fixed at  $44\frac{3}{4}$  hours excluding intervals for recess. The difference between 48 hours and  $44\frac{3}{4}$  hours i.e.  $3\frac{1}{4}$  hours has been viewed as Saturday Bonus.

If an I.E. is absent for the whole the Saturday, he is not entitled for this benefit of Saturday Bonus but if present for part of a day his attendance will be as under.

| Present on Saturday for hours. | Booking attendance. |
|--------------------------------|---------------------|
| 1                              | 17/32               |
| 2                              | 21/32               |
| 3                              | 25/32               |
| 4                              | 29/32               |
| $4\frac{3}{4}$                 | 1                   |

### **Different element of Wages entitled to Industrial Employees**

Wages payable to Industrial employees for any wage period will include:

1. Duty pay at basic monthly rate (for day workers) based on attendance or Duty pay at basic monthly rate and an element of profit (for piece workers) calculated on the basis of input hours.
2. Other element of pay e.g. Idle Time Pay, Over Time Pay, Leave Pay, Holiday Pay, Injury Pay, Segregation Pay etc.
3. Certain allowances like DA, HRA, CCA, Transport allowance at the prescribed paid down by the Govt. under different rules.
4. Overtime bonus, Night Shift Allowance, Night Shift Bonus, Incentive Bonus (for Maintenance works only) and other remuneration payable under rules.
5. Duty pay at basic monthly rate is also called time wage in respect of D. W. This is because the day workers are to be paid on time basis without regard to output.

As per wage act 1936, the per day wage of a day worker is basic pay rate/ total number of days the workers is supposed be present in a month i.e.  $N-(S+H)$  where N stands for No. of days in the month, S number of Sundays and H number of holidays.

Total Duty Pay =  $\frac{\text{Basic rate of Pay}}{N-(S+H)} \times \text{No of days actually present excluding Sundays and holidays}$

Piece workers in an Ordnance and Equipment Factory are entitled to payment for the holidays in a month. Thus daily rate of pay of Piece workers are calculated as –

$$\frac{\text{Basic Rate of Pay}}{N - S}$$

Piece workers are entitled to the monthly wage based on number of articles produced during the month. The same is evaluated as under. From the piece work cards received in Accounts office the actual hours of output produced by the individual or gang piece worker is determined.

In case of individual piece worker the input hour is calculated as:

$$\left\{ (N - S - ST) \times 8 + ST \times 4 \frac{3}{4} \right\} \text{ Hours}$$

where N stands for total number of days in a month ; S for Sundays in the month and ST the number of Saturdays in the month of the individual is put on overtime the hours spent in overtime is also added up to the input hours.

$$\text{Thus the input hours} = \left\{ (N - S - ST) \times 8 + ST \times 4 \frac{3}{4} \right\} + \text{OT Hours Worked}$$

$$\text{Profit \% is worked out as } \frac{\text{Output Hours on basis of PW Card}}{\text{Input Hours}} \times 100 \%$$

In case of gang piece worker the total input hours of the gang is arrived at by adding the input hour of each individual worker of gang and the output hour is calculated as the total hours on the basis of the PW Card. The profit % of the gang is calculated as under:

$$\left\{ \frac{\text{Output Hours of the gang}}{\text{Input Hours}} - 1 \right\} \times 100 \%$$

In case of PW the amount of profit is calculated on the basis of notional time wage determined on the basis of minimum of the scale of pay. Thus notional time wage of an individual is worked out as

$$\left\{ \frac{\text{Minimum of the scale of pay}}{(N - S)} \times \text{number of days present} \right\} +$$
$$\left\{ \frac{\text{Minimum of the scale of pay}}{(N - S)} \times \text{number of days present} \right\} +$$

$\frac{\text{Minimum of the scale of pay}}{200} \times \text{OT hours worked.}$

Amount of profit is calculated as

$$\left\{ \text{Notional time wage} \times \frac{\text{Profit \% (subject to a maximum of 75 \%)}}{100} \right\}$$

A separate element called incremental pay is allowed to PW which is calculated as Incremental Pay =

$$\frac{\text{Difference between Actual basic monthly rate of Pay} - \text{Minimum of the scale of pay}}{N - S} \times$$

Number of days present.

If a worker works partly as day worker and partly as piece worker during a wage period; he will be considered as piece worker for the entire wage period and will be entitled to holiday pay for the holiday (s) falling within the wage period; irrespective of whether the holidays is in the part when he is a day worker or piece worker.

### **Other elements of Pay**

**a) Overtime Pay** - If workers are deployed on work outside the normal working hours or on a Sunday or a paid holiday the same is termed as overtime work. However, Sunday for which a compensatory off is arranged within three days immediately before or three days immediately after will be treated as a normal working day and not as a overtime work. If the work done on Sunday is not treated as work done on normal working day; work done on Sunday should be treated as overtime and taken into account in computing the total hours for overtime irrespective of whether compensatory off is given or not. Payment of overtime under departmental rate will arise when a workman works beyond the normal working hours of the Factory i.e. 44<sup>3</sup>/<sub>4</sub> hours a week or 8 hours a day on all days except Saturday and 4<sup>3</sup>/<sub>4</sub> hours on Saturday.

Payment under section 59 of factory Act 1948 arises for work done beyond 9 hours a day and 48 hours a week.

The total overtime hours worked will be divided into overtime hours worked under departmental rule and under factory Act.

Overtime work under departmental rule is thus the difference between the actual times of OT worked less the hours of OT under Factory Act.

### Calculation of OT Wages

Day -workers under departmental rule :-

Upto 9 hours a day or 48 hours a week: -

Hourly rate of O.T. is calculated as –

$$(a) \frac{(P+TA + SFA) + (DA + CCA)}{200}$$

Beyond 9 hours a day and 48 hours a week-

$$(b) \frac{2 \times [(P +TA + SFA) + D]}{200}$$

where P stands for Basic rate of monthly pay and D stands for all allowances other Transport allowance and small Family norms allowance.

$\frac{(P + TA + CCA)}{200}$  is booked to the job concerned while

$$(a) \frac{DA + CCA}{200}$$

(b)  $\frac{(P + TA + SFA) + 2D}{200}$  are booked to different work order to avoid inflation of cost of articles manufactured in overtime hours.

### Piece Workers' Departmental Overtime

Upto 9 hours a day and 48hours a week →  $\frac{(P +TA+ SFA)}{200}$ . Out of it

$\frac{\text{Min Basic Pay}}{200}$  per hours is included in the Notional time wage as O.T. time wage and rest

$\frac{[(P -\text{Min of Pay Scale}) + TA + SFA]}{200}$  per hour is paid of difference of OT wage.

### **Piece Workers under Factory Act**

For each hour of overtime in excess of 9 hours a day 48 hours a week an amount equal to Min. of pay scale /200 multiplied by the Number of hours worked is added to nominal time wage as OT wages.

b) An amount equal to  $(P + TA + SFA - \text{Min. of Pay Scale}) / 200 \times \text{No. of hours worked}$  is paid as difference of OT wages.

c) An amount equal to  $\frac{1.25 (P + TA + SFA) + 2 \times D}{200} \times \text{No. of hours worked}$ , is paid as Overtime bonus booked to a different code to minimize the burden on production during OT hours.

Where P stands for Basic monthly rate of pay and D stands for all allowances except TA and SFA.

### **Night Shift and benefits given to IES for working in Night Shift**

A Night Shift represents the hours worked between the termination of day shift and the normal working hour of the next day. Industrial employees working on night shifts are eligible for night duty allowance on the basis of weightage of 10mts for every hour of night duty performed between 22-00 hrs and 06-00 hours excluding the hours of overtime worked within that period and also period of recess falling in that period. For example if the night shifts is from 20-00 hours to 6-00 hours with 1 hour recess between 23-00 hrs to 00-00hrs. Then Night duty allowance will be admissible for the period  $(8-1-1)=6$  hours where 8 hours is the duty between 22-00 hrs to 6-00 hrs, 1 hour is the rest time in that period and 1 hour is the OT falling within that period.

For calculations of weightage less than half an hour should be ignored whereas half an hour and more should be considered as one full hour. The rounding off of fraction of an hour shall be made with reference to actual hours of night duty performed in a month.

Piece workers who perform overtime work under departmental rules in the night shift will be paid an extra half hour termed as Night Shift bonus.



The formula for calculation of NDA (Night Duty Allowance and night shift bonus are as under)

**NDA:-**

### **Calculation of Leave Salary**

Leave salary is calculated on the basis of monthly rate of basic pay admissible to the worker before proceeding on leave. The daily rate of pay is calculated on the basis of formula laid down for calculation of basic time wages.

As the element basic pay of an IE during a month is divided into different elements as explained above; there is every likely hood that sum of all these elements when rounded off may exceed the actual monthly rate of pay or may be less than the actual of monthly rate of pays. Care should be taken to ensure that individual is paid neither less nor more.

### **Calculation of Dearness Allowance, HRA, CCA**

For calculation of dearness allowance of a month first the DA full days is calculated.

DA full days = Number of days present + Leave with full days, injury pay days + holidays (for piece workers).

If a worker is present for part of a day he should be considered to be present for the full day for this purpose.

DA half days = Number of days of half Pay Leave during the month.

DA amount =  $\frac{\text{DA (Percentage)}}{100} \times \frac{\text{basic Monthly rate of pay} \times (\text{DA full days} + .5 \times \text{DA half days})}{\text{N} - (\text{S} + \text{H}) \text{ for day worker and } (\text{N} - \text{S}) \text{ for Piece Worker}}$

### **HRA & CCA and Transport Allowance**

HRA amount and CCA amount are calculated as full DA.

### **Hospital Leave and Injury Pay**

Industrial Employees are entitled to injury pay for the period spent in hospital when authorized by the General Manager for any accident while on duty. This amount is calculated on the basis of basic rate of monthly wage, as calculated above depending on whether he is a DW or PW. This amount however will be deducted from the compensation, if any, paid under workmen compensation Act. All allowance like DA, HRA, CCA, TA is also admissible on the pay.

### **Small Family Allowance**

Industrial employees who have undergone necessary medical treatment to maintain small family and have followed the conditions stipulated under rules are entitled to small family allowance when so ordered by the General Manager.

Small Family Allowance is an allowance admitted at the rate as stipulated in the Govt. Order. It being a type of allowance no other allowance is admissible on the amount.

Under Factory Act 59, Small Family allowance is treated as a part of basic wage and as such is considered for calculation of OT rate of IE up to 48 hours as well as beyond 48 hours.

### **Transport Allowance**

Industrial Employee like other Central Govt. employee is entitled to Transport Allowance at the rates paid down in Govt. Orders. These being an allowance no other allowance like DA, HRA, and CCA are calculated on this amount.

Industrial Employees who are physically handicapped and whose extent of disability exceeds 40 % are entitled to Transport Allowance at double the normal rate prescribed under rules.

This being a type of allowance no other allowance is admissible on it Under Factory Act 59 transport allowance has been clarified as the basic

wage and as such is taken into account for calculation of OT rate up to 48 hours and beyond 48 hours.

### **Incentive Bonus**

The following categories of day worker (other than un- skilled worker) who are deployed on maintenance work of machines in a shop, gas plants, stream generation, compressed act supply plants, Industrial under supply Plant, electrical power supply plants, (irrespective of whether these plants are situated inside the factory or not) are entitled to a separate element of wage called Incentive Bonus.

Incentive bonus is calculated on the basis of percentage, Incentive bonus percentage may be either 50% of the average profit of a section (when the service of an IE can specifically to the benefit a section) or 50% of the average PW profit of all PW of the Factory for that month.

Amount of Incentive bonus will be calculated as:

$$\frac{\text{Basic monthly rate of pay}}{N - (S + H)} \times \text{No. of days present} \times \text{Incentive bonus \% as stated earlier}$$

[Note while PW profit amount is calculated on the basis of Min. of Pay of the revised scale of Pay. Incentive bonus is calculated on actual basic pay of the revised scale]

### **Sand Blaster, Welder, Risk Allowances**

Industrial Employees who are working in hazardous sections and are working in a close proximity to furnaces are entitled to risk allowance at the rates laid down by Govt. orders. Similarly, Industrial Employees who are performing the hazardous job of sand blasting, Welding are also entitled to a special risk allowance. The rates of this allowance are also laid down in Govt. orders.

The amount of these allowances is also calculated on the basis of attendance in a month.

The amount of Risk Allowance

$$= \frac{\text{Risk allowance Rate}}{(N - S) \text{ or } N - (S + H)} \times \text{No. of days for which dearness allowance is admissible}$$

### **Scrutiny of wage roll before authorization**

When the Wage Roll was prepared manually each element of wages were calculated manually. The help of Facit / Calculator like machines were taken for speedy addition, multiplication, division. The accuracy of the preparation was ensured before release of the roll by the following steps:

- Review of primary document by Section Officer to the extent he deems fit and subsequently by Accounts Officer.
- Calculation of each element (basic rate & amount) to the extent of 3 % by Section Officer and subsequently to the extent of 1 % by Accounts officer.
- Pay entitlement of the industrial employees to the extent of 1/6<sup>th</sup> of the total number of Industrial Employees by the Section Officer.
- Each page to be cross totaled locates any totaling mistake.

The checks mentioned above were very important to ensure accuracy. At that time in the preparation of Wage Roll of a section only the dealing auditor of the section and the section officer were responsible in handling in data.

After computerization of the wage package a third entity is computer and their operators are also involved in the wage preparation. Moreover, the program logics are not visible to the user i.e. the Auditor of labour section. As such these audits have become more important. As present the audit of roll before payment are to be carried out in the below mentioned steps.

**a) To verify the entitlements :-** EDP Section will print out a report called “Change PIS” which indicates individual-wise, file- wise changes effected in the IE’s Master in computer between 8<sup>th</sup> of the previous month and 1<sup>st</sup> day of the current month. This report will be received in two copies. On receipt of the same the same should be checked with the different Factory Orders received from the factory Management, Periodical Increment Certificate etc. to verify the correctness of changes effected by EDP. As the number of changes in a month is very small, it should be 100% audited by Auditor as well as Section Officer/ AAO, changes if any, are to be noted on the reported and one copy returned back to EDP Section for further necessary action.

EDP Section will print out a report called “Change Pay” which indicates individual wise list of change in the entitlement by comparing the same work last month. This should be compared with “Changed PIS” as amended to verify that Pay has been changed for only those individual whose change in PIS have been authorized by Labour Section . If the two are not matching EDP section should be asked to reprocess wage roll.

**b) To verify accuracy in calculation:** - This consists of two parts –

- i) to verify the different inputs has been properly taken.
- ii) To verify that the rate of element of wages are properly calculated by computer.

**(i) To verify the inputs. :** - Data sheet like attendance supplementary attendance when field in are to be totaled page wise and column – wise. The same is to be prepared in two parts stationery. One part is to be handed over to the EDP Section for data entry whiles the other to be kept in the section for verification by section officer with reference to primary documents.

EDP section prints out check list of in the same page format of data sheet and also indicates the column where page total done manually does not agree with the total done by computer. The same may be due to wrong totaling or wrong data entry. That page to be 100% checked to rectify the error and one copy of check list with due authentication should be handed over to EDP Section for necessary action. When the wage roll is generated another statement called “Earning Summary” is also generated and handed over to Labour section. In this report the total in each element viz. duty days, OT days. OTB days etc are shown. This should be checked with the total of the attendance as shown in the check list of attendance as amended. If the two tallies it is established that the Wage Roll is prepared on the basis of authorized attendance only.

**(ii) To verify the rates:** - The print out of “Pay Register or Pay Slip” is also received in Labour Section. This two report indicates rate for each element of wage admitted to individual.

At least one case of each scale / grade / trade to be selected and the rate as well as amount of wages calculated to be verified by Auditor / section

Officer. This will establish that the system (Program) has been formulated correctly.

Once all these checks are exercised the Master Roll should be passed for payment for the gross amount by Accounts Officer. When the Account Officer is on leave / out of station the senior AAO / Section Officer is allowed to pass the roll provisionally subject to countersignature by GM of the Factory. The master rolls so passed by AAO / SO (A) are subject to post audit by Accounts Officer on his return. Under this arrangement no responsibility devolves on the General Manager as the correctness of the master rolls signed by him.

### **Audit of Supplementary Bill**

Previously supplementary bills were priced and passed for payment manually by Labour Section. Supplementary bills are generally due to.

- i) Change in entitlement from retrospective data.
- ii) Late regularization of leave.
- iii) Belated sanction of overtime.

#### **Change on entitlement from retrospective data**

The claim preferred by the Factory are data entered by EDP Section and a check list showing the months drawn pay, due pay, attendance as is in the record of EDP section is printed out. The same is printed in duplicate copy and handed over to Labour Section. Auditor /Section Officer / Accounts Officer must exercise check in amount O/o on that document with reference to hard copy of records maintained in Labour Section. The same to be authenticated for pricing by Labour Section indicating whether separate supplementary bill to be printed or the same to be included in the next months pay as miscellaneous earning. The bill in main priced and bill along with due drawn statement is handed over to labour section. The same to be compared with the authenticated copy before pass for payment of the bill.

#### **Late regularization of the leave and other OT**

Data in the standard format to be forwarded to EDP Section. The same has total verification as indicated in case of attendance is to be carried out. Computer verifies whether payment on this account has already made or not. It prices the leave pay and other elements of wages on the basis of basic rate of pay as in the record of EDP for the month to which the leave is related. Audit checks as indicated for regular Wage Roll are also to be carried out by Auditor/ section officer / accounts officer of Labour Section.

## **AGREEMENT FORM OF LABOUR**

Procedure followed in case of Industrial Employees payment (DW&PW).

**REQUISITION :** Advances are paid by Accounts Officers attached to Factories to the Head of Formations on requisition based on the estimate on probable amount required during the month for payment to Industrial Employees .For this purpose , cheques in payment of requisition for advance will be normally issued by Accounts Officer one or two days before the actual date of disbursement .The reasonableness of the advance claimed should be checked with reference to anticipated payments based on past actual and present trends .These advance will be recorded in a Demand Register and adjusted on receipt of Disbursement certificate from the officer concerned after due checks thereon as laid down in Disbursed Certificate.

### **Agreement Form of Labour**

The Accounts Officer will make out an Agreement Form of Labour (IAF-13) in duplicate in which the total amount passed for payment will be entered section wise. This will be forwarded to General Manager of the Factory, who will return one copy duly completed to show the amount actually paid, un-disbursed wages, license fees recovered, income tax, provident fund recoveries and other deductions. All supporting schedules and documents will be forwarded along with the Agreement form of Labour so as to reach the Accounts Office by the 10<sup>th</sup> of the 2nd month following that to which the transaction pertains.



## **DISBURSEMENT CERTIFICATE**

Monthly Disbursement certificate (IAFO 1929) is prepared by the Factory for Industrial Employees who are paid out of advances obtained from the local Accounts Officer. The payment side shows (1) the total amount passed for payment in Master Roll. (2) Deductions made there from; (3) the net payment payable and actual disbursed. Arrear wages paid and also the payment through supplementary bills on account of discharge are also noted therein. The receipt side of the certificate shows (1) Advance received from the Accounts Officer and sums, if any, drawn on Emergency Cash Requisition and also (2) Any receipt for un-disbursed wage remitted by money order. The difference between the receipt and payment represents un-disbursed amount which is required to be recorded on the payment side of the Disbursement Certificate and both sides balanced. The Treasury Receipt for the un-disbursed amount along with Disbursement Certificate duly supported by requisite schedules be sent to Accounts Office on or before 10<sup>th</sup> of the 2<sup>nd</sup> month following.

Financial Punching Media will be prepared in adjustment on Treasury Receipt and recoveries noted in the Disbursement Certificate viz. License fee, hospital stoppages, fund recoveries etc. the original copy of the Punching Media will be sent to EDP Section of Main Office of the PCA(Fys), Kolkata. The relevant demands outstanding in the Demand Register should closely watched and necessary action taken for prompt settlement where necessary.

### **Audit of Disbursement Certificate**

1. Deduction will be checked with relevant schedule.
2. License Fee recoveries shown in Disbursement Certificate checked with rent Rolls.
3. Total amount of deduction as noted in Disbursement Certificate will agree with the total deduction shown in the Agreement Form of Labour.
4. Amount payable as shown in the disbursement Certificate is checked with the total amount shown as payable in the Agreement Form of Labour should agree.

5. The arrear wages paid as shown in the Disbursement Certificate will be verified with the list as well as with the entries in the Absentee Payment Register.
6. The amount of un-disbursed wages which can be worked out from the details of the Disbursement Certificate will be checked with grand total of Absentee Payment Register to see that they agree (maintained by Cash Office)

### **Absentee Payment Register**

Absentee Payment Registers are maintained separately for each section for each month in the loose leaf form in the Factory Cash Office in which all the amounts remaining un-disbursed on the Regular Pay day are noted and so also the payment made there from.

### **Points are to be verified.**

1. Entries in the Register have correctly made from the Acquaintance Roll.
2. The total of column 'Amount Due' on each sheet are written both in words and figures.
3. The register should be initiated by the audit against each payment which has been attested by the Factory officer.
4. The grand total agrees with the amount shown as un-disbursed wages in the Agreement Form of Labour.

### **Cost and Financial Accounting**

#### **Cost Accounting**

Costing has been designed as classifying recording and appropriate allocation (code wise, expenditure wise i.e., for which expenditure is incurred) for determination of costs of production or services and for the presentation of suitable arranged data for purpose of control and guidance of the Management.

## **Financial Accounting**

Financial Accounting consists of recording classifying (i.e., code wise, expenditure wise such as wages, material purchase, contingency etc.) and analyzing every transaction. More important aspects of Financial Accounts is preparation of Budget, Planning Control and Decision Making)

### **Financial Accounting of Labour Charges**

The Pay Head of Industrial Employees is 54/ 805/ 003. To have detailed idea of expenditure, unit controls have been allotted for Overtime Pay, Educational assistance etc. The Pay Head will be charged with entire amount while paying any advance or adjusting any debit / credit accounted for in the Disbursement Certificate .Similarly, the Pay Head will be credited as minus charge with the entire amount while adjusting any Treasury Receipts for amounts deposited against the advance drawn. The amount of unclaimed wages is not charged to the Pay Head in the Financial Accounts although the same is fully charged in the Cost Accounts. The difference between Cost and Financial Accounts represented by the unclaimed wages which is treated as Outstanding Liabilities.

### **Cost Accounting Aspects**

The different Productive / Service Sections will issue Day / Piece Work Cards in the prescribed Forms to workmen showing the work to be done by any individual or gang in order to make payment to Industrial Employees in a particular month. In case of Day Workers who are continuously on the same type of Indirect Work Order, no Day Work Card is necessary but details of men so employed and the Work Order concerned (Type of Work) on which they are employed are to be furnished by the section concerned to the Accounts Office (for preparation of Allocation Sheet)

Day Work Card will be prepared periodically for each Day Worker and submitted to Accounts Office. Cards will show the Ticket Number,

Name of the Worker, Rate of Pay, Work Order and Warrant Number on which he was employed on each job.

### **Labour Punching Medium**

For booking of payments pertaining to Leave Pay, Holiday Pay, Overtime, Bonus DA etc. the Accounts Office prepares Labour Punching Medium showing the Section Code, Work Order Number and the total amount. All these Punching Media relates to Indirect Work Orders only.

### **Leave to Civilian Industrial Employees**

Leave to Civilian Employees are governed by (1) Departmental Rules and (2) Factories Act 1948)

Provisions regarding Industrial Employees leave under Departmental rules are available in 'The Civilians in Defence Services (Industrial Employees) Leave Rules 1954' which has been reproduced in Office Manual Part –VI. The salient features of the rules as it stands today after being amended from time to time are as follows:

1. Under Departmental Rules an IE is entitled to EL with wages at the rate of 30 days for each completed year of service irrespective of the number of years of service subject to the condition that during the a ailment of such leave the intervening holidays shall also count towards such leave (DOPT No. 12012/1/ 97 Estt. (Leave) dated 20.07.98.- reproduced in PCA (Fys), Kolkata Part–1 Office Order No .AT/ 29 dated 24. 9.1998).
2. Leave to Industrial Employees is credited only with reference to completed year of service. Therefore, advance credit of leave is not admissible.
3. An Industrial Employee can accumulate maximum 120 days of EL and he is also entitled to leave encashment up to 120 days. M of d No. 11 (3) /92 / D (Civ-II) dated 12.09. 2000
4. If a Govt. servant governed by the CCS Leave Rules 1972.ie. NIE is appointed / transferred to an Industrial Establishment, the authority competent to grant leave shall suo-moto issue order granting cash equivalent to leave salary.

5. An Industrial Employee on appointment /transfer / promotion if appointed to a NIE post may be allowed to carry forward the balance of leave both EL and HPL at his credit on the date of such appointment / transfer/ promotion etc. The leave so carried forward shall first be exhausted before the leave in Non Industrial is availed of.
6. Leave Salary for the period of leave so carried forward shall be as would have been admissible had he taken the leave on the Esstt. A separate account of leave so carried forward shall be maintained.
7. Under Factories Act. 1948 Section 79 provides that every worker who has worked for 240 days in a Factory during a calendar year shall have leave with wages at the following rate.
  - (a) For an adult one day for every 20 days of work and
  - (b) For a child (both Artisan. / messenger Boy) one day for every 15 days of work.The leave so admissible shall be exclusive of all holidays.
8. Maternity leave to female IE has been enhanced to 135 days from existing Period of 90 days with effect from 24.9.99 vide M of D No.11/97/D (Civ-II) dated 24.11.99.
9. An Industrial Employee must exercise option to choose whether to he wants to be governed by Departmental Rules or Factories Act. 1948.

## **AUDIT OF SERVICE BOOK**

Service Book is a document in Form ATC –4 where a Govt. servant's from the date of his appointment till the date of his retirement , all the service particulars including the Date of Birth, Date of Appointment, Grade/ Post, as well as Educational qualification and permanent Home Address , Identification Mark , Family details are noted .

Entries regarding promotion and reversion, rates of pay and allowances, leave etc. of individuals, as notified in Office Order/ Factory Order will be made in Service Book as events occur. All such entries (other than entries made in page 1 of the Service Book and entries relating to the leave account which form part of the Service Book) will be attested by the concerned officer.

### **Audit of Service Book**

Twenty five percent of the current Service Books of the Civilian Establishments serving with Units and formations will normally be selected for test check with each period of approximately twelve months; if periodical visits made , the percentage of check will consist of seeing that –

- a) the period allowed to count for increment of pay is correct particularly where broken periods are concerned e.g. in the case of annual increment, verify that the total of broken periods amounts to 12 months.
- b) In the case of individuals who are rendered service in other departments paid estimates other than those of the Defence Services an entry is made regarding the amount of leave earned by them under those departments and that a reference is quoted to the communication under which the information was furnished by the office of the CDA (IAO 595 of 1937)
- c) The leave credited to the leave account during the preceding four years or since the last verification of leave, if such verification has already been made previously be the internal cell according to the extent orders and leave taken was correctly granted.

- d) The entries in pay columns in Service Books will be verified with reference to the office copies of relevant pay bills.

**NOTE:** In the case of Civilian Establishment transferred from one Unit/Formation to another it will be ensured that the entries in their Service Books up to date of transfer are checked before the transmission of their Service Books to the new unit.

**Service Book of Individuals nearing Superannuation.**

The Service Book of all individuals who are due to retire within three years following the date of audit will be included in the selection for test check within the percentage stated.

**Record or Service Book Test Checked**

In order to ensure covering all the grounds systematically, a complete record will be kept of all Service Book 'test' checked each year. The Service Books checked should be endorsed to show the date up to which the entries made in the Service Book have been checked and initialed by the testing official concerned.

During any 'audit' in each year, the posting into all Service Books effected Part-II Factory Order issued during one month should be verified.

In addition to the above, the following points should also be checked.

- 1) Date of Birth.
- 2) Date of Appointment with the age prescribed for Govt. Service
- 3) Verification of Pay Column.
- 4) Annual Increment.
- 5) Entitlement of LTC, Family details of LTC.

## AUDIT OF MATERIAL PLANNING SHEET AND SHIS

### Material Planning Sheet

**i) Prior to Computerization of Factories** – This is a report generated by the DPS and OFB on the basis of input data received from Factories concerned regarding opening balance of Stock, Estimates for materials requirement, punched cards containing information relating to primary documents related to Stores- Receipt Voucher, issue Vouchers, Demand Notes, Return Notes, Adjustments Vouchers. Based on these inputs and 4 yearly production programme computerized Material Planning sheets were prepared by OFB and sent to each factories at the beginning of the 4 years for subsequent action of provisioning.

**Objective:** - Objective of this report is that it can become an essential tool for preparation of material budget at the Boards level as also it can be used as a control mechanism for verifying the necessity for procurement of any item.

**Essentials** – (i) Standardization of product code (10 digits). First two-digit vocabulary section, next three digit factory unit code and last five digits serial number of folios.  
(ii) Standardization of item code for all materials in the Factory level.  
(iii) Preparation of standard estimates for articles produced in the Factory.  
(iv) Work out output- consumption ratio of the raw materials to the ultimate furnished product.  
(v) Opening balance, drawal, purchase information.

### Methodology for establishing Output- consumption ratio –

Let us consider a Factory is producing an final product A by assembly of three components  $A_1$ ,  $A_2$ ,  $A_3$ . Each of this has two sub component represented by  $A_{11}$ ,  $A_{12}$ ,  $A_{21}$ ,  $A_{22}$ ,  $A_{31}$ ,  $A_{32}$ . Each of sub-component for its manufacture needs three raw material represented by  $A_{111}$ ,  $A_{112}$ ,  $A_{113}$ ,  $A_{121}$ ,  $A_{122}$ ,  $A_{123}$ ,  $A_{211}$ ,  $A_{212}$ ,  $A_{213}$ ,  $A_{221}$ ,  $A_{222}$ ,  $A_{223}$ ,  $A_{311}$ ,  $A_{312}$ ,  $A_{313}$ ,  $A_{321}$ ,  $A_{322}$ ,  $A_{323}$ .



Thus it is identified that for production of Store A18, different raw materials are necessary.

Let for production of item of A, the number of component needed for A<sub>1</sub>, A<sub>2</sub>, A<sub>3</sub>.i.e.2, 3, 2 respectively.

For production 1 article of A<sub>1</sub>, say number of A<sub>11</sub> & A<sub>12</sub> required after 3 & 4; same also for A<sub>2</sub> & A<sub>3</sub>. Then the number of articles of sub-components required for production of 1 number of A is A<sub>11</sub> → 6, A<sub>12</sub> → 8, A<sub>21</sub> → 9, A<sub>22</sub> → 12, A<sub>31</sub> → 6, A<sub>32</sub> → 8.

If the raw materials requirement for production of each sub-component if in the ratio of 1:2:3 then the raw material requirement for production of 1 number of A will be -

|                       |                       |                       |                       |                       |                       |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| A <sub>111</sub> → 6  | A <sub>121</sub> → 8  | A <sub>211</sub> → 9  | A <sub>221</sub> → 12 | A <sub>311</sub> → 6  | A <sub>321</sub> → 8  |
| A <sub>112</sub> → 12 | A <sub>122</sub> → 16 | A <sub>212</sub> → 18 | A <sub>222</sub> → 24 | A <sub>312</sub> → 12 | A <sub>322</sub> → 16 |
| A <sub>113</sub> → 18 | A <sub>123</sub> → 24 | A <sub>213</sub> → 27 | A <sub>223</sub> → 36 | A <sub>313</sub> → 18 | A <sub>323</sub> → 24 |

Actual requirement of raw material for the next year production is worked as -

$$(\text{Qty of Production Planned}) \times \left\{ \begin{array}{cccccc} A_{111} & A_{121} & A_{211} & A_{221} & A_{311} & A_{321} \\ A_{112} & A_{122} & A_{212} & A_{222} & A_{312} & A_{322} \\ A_{113} & A_{123} & A_{213} & A_{313} & A_{313} & A_{322} \end{array} \right\}$$

The same Principal is followed for each item of final product say B,C ... Now the total requirement of raw material A<sub>111</sub> is calculated as.

A<sub>111</sub> required for item A + A<sub>111</sub> required for item B + A<sub>111</sub> required for item C.

ii) *After computerization of Factories:* - The vocabulary number is allotted by OFB and 1 year in advance production plans are intimated to GMs.

GMs with the same principal workout material requirement on both direct & indirect material and arrive at the value of material requirement. This becomes the basis for projection of budget estimate to OFB.

After clearance of budget by OFB at the time of procurement of an article of raw material a MP Sheet for that article is enclosed for audit of requirement. These sheets contain the following information.

- (i) Item Code
- (ii) Item Description
- (iii) MP Sheet No. & Date
- (iv) Required For production of items (OFB Vocabulary code)
- (v) Production Plan for the item
- (vi) Estimate number
- (vii) Output –consumption ratio
- (viii) Total Qty required
- (ix) Qty required for next six months
- (x) Qty on stock
- (xi) Qty for which order has already been placed (dues)
- (xii) Net quantity required.

**Audit of MP Sheet** - At the time of taking action against any proposal for procurement the MP Sheet is to be audited to justify the need. While doing that it is to be ensured that there is a control mechanism for detecting the progress of MP Sheet once prepared through the system.

- M P Sheet should be numbered.
- There should not be any blank number without the knowledge of Audit.
- M P Sheet prepared on any article must be reflected with the status in
- Subsequent M P Sheet on the same article.
- There should be proper control mechanism to ensure that M P Sheet is not, Prepared for original raw material at the same item for the alternative item.
- Balance in hand is shown correctly.
- Dues bin are shown correctly.

### **Advantage of System**

It has more relation to the coming year's production plan than on the previous year's history.

Any change in the estimates affected by revision in estimate can be promptly reflected in the provisioning action.

### **Disadvantage of System**

Audit never feels comfortable as the Output- consumption ration worked out by computers is not visible.

If suitable checks are not in built into the system may lead to over-provisioning.

Ordnance Factories do not have specific production plan, it goes on changing.

**SHIS** – The full form is Store Holder Inability Sheet. The name itself specifies that in same is prepared by the store holder while proposing for any procurement. This can be merely termed as Store Holders proposed justification for procurement. It contains stock in hand, dues, average consumption, liabilities in sight and hence requirement to meet this liabilities. The requirement for next six month is calculated on the basis of the formula.

$$6 \times \frac{\text{Total consumption during the last 12 months}}{12}$$

### **Audit of SHIS**

SHIS when received in Accounts Office is to be verified by the section to establish.

- The SHIS is not duplicated.
- Qty of stock in hand is shown correctly in the inability sheet.
- Average monthly consumption noted on the SHIS is correct.
- Figures of dues shown in the SHIS are correct

### Comparison between MP Sheet & SHIS

| <b>M P Sheet</b>   | <b>S H I S</b>   |
|--|--|
| <p>1) Prepared on the basis of future plan</p> <p>2) Can take care of any change in the tune of production associated with revision of estimate.</p> <p>3) The figure Output–consumption rate shown cannot be audited.</p> <p>4) Pro-active action on provisioning can be taken</p> <p>5) Faster process but need more control on the system.</p> <p>6) No audit % has been fixed yet.</p> | <p>1) Prepared on the basis passed experience consumption.</p> <p>2) No scope for estimating such changes.</p> <p>3) All the figures appearing are auditable.</p> <p>4) Only action can be taken when the stock goes beyond ordinary level.</p> <p>5) Slow process but completely structured.</p> <p>6) % of audit is laid down in manual.</p> |

### **Post Audit of Supply Order with particular reference to TPCs**

After receipt of SHIS duly vetted by LAO, PV Section of Factory initiates procurement action. The system of tendering resorted to are (i) Open Tender, (ii) Limited Tender and (iii) Single Tender.

**Open Tender** – Open or Advertised Tender is resorted to where the value is large, sufficient time is available for finalization of tender and where and where competition is considered necessary.

**Limited Tender** – This method is used where the demand is very urgent, likely sources are known and advertisement is not expected to widen competition. Issue of TE is restricted to the registered, established and successful suppliers of past repute on the approval of the Chairman of the appropriate TPC and Finance Member.

**Single Tender** – Issued for items of propriety nature where it is definitely known that there is only source of supply.

Tenders received in response to TEs are opened on due dates of opening in the presence of the tenderers or their authorized representatives. Then the Comparative Statement of Tenders (CST) is prepared. Based on the price quoted, level of TPC is decided below.

|   |                |
|---|----------------|
| i) Value up to Rs. 50,000/-                     | No TPC         |
| ii) Value up to Rs. 4 lakh                      | TPC Level -IV  |
| iii) Value beyond Rs. 4 lakh<br>up to 10 lakh   | TPC Level -III |
| iv) Value beyond Rs. 10 lakh                    | TPC Level -II  |
| v) Value beyond Rs. 20 lakh<br>Up to Rs 50 lakh | TPC Level -I   |

These are the Factory level TPC. For purchases beyond Rs.50lakh, there are separate levels of TPC in Ordnance Factory Board level. TPC recommends the placement of order on the basis of deliberations made and duly considering the following factors:

- (i) Whether the Ordnance Factories have got the capacity to manufacture the item and if so, the justification for purchase from outside.
- (ii) The most economic price consistent with quality and conforming to specification.
- (iii) Last purchase price and the justification for higher rate, if any.
- (iv) Delivery schedule vis-à-vis rate of consumption.
- (v) Reliability of the Firm based on past performance.
- (vi) Whether the competition is adequate in case of LTE.
- (vii) Unusual Terms and Conditions, if any, made by the tenderer.

In addition to above, the role of Finance Member is to bring in financial expertise in the decision making Finance Member brings out financial implications and repercussions of exercise of any financial power and availability of alternatives if any.

When the decision is arrived at, a minute of TPC is made and get signed by all the Members of TPC.

Based on the recommendation of the TPC, Provision (PV) Section places the Supply Order in the prescribed standard Forms on the Firm recommended by the TPC .Thereafter, the Supply Order along with Tenders, CST and all other concerned documents are received in the Accounts Office for post audit.

Following points are seen during audit of Supply Order: -

- (i) That the purchase is authorized.
- (ii) Quantity ordered and specification conforms to the requirement as shown in the SHIS and as recommended by the TPC.
- (iii) Utmost publicity is given.
- (iv) Adequacy or otherwise of competition, whether all the past successful suppliers have been included in TE.

- (v) Whether the lowest offer has been accepted and if not, whether the justification for accepting the offer other than lowest is noted on the CST.
- (vi) Rates accepted compare favourably with LPR.
- (vii) Rates, taxes and duties have been clearly and separately indicated.
- (viii) Terms and date of delivery have been clearly specified and are in conformity with rate of consumption.
- (ix) In case of Single Tender, PAC is enclosed.
- (x) Successful tenderer is in the approved list and has not been black listed.
- (xi) Preference as to price, if any, is covered under existing orders.
- (xii) Debitable Head of Account is clearly indicated.
- (xiii) Amount of Security Deposit is clearly indicated and if waived, the orders of CFA.
- (xiv) Whether the Firm has asked for advance payment.
- (xv) Standard Forms are used with adequate risk purchase and arbitration clauses.

GOVT OF INDIA  
MINISTRY OF DEFENCE  
10-A, S. K. BOSE ROAD  
KOLKATA –700001

Order No. 400/ BS

Dated: 06 September, 2000.

Subject: - Delegation of Financial powers to General Managers and other officers of the Ordnance Factories

In accordance with the “Note” in Annexure to GOI, Ministry of Defence, Dept.of Defence Production and Supplies, New Delhi letter No.PC-1 to 2(2)/96/D(Fy-1)/99/D (Prod) dated 30/11/99. issued with the concurrence of Integrated Finance ( MOD), the Chairman and DGOF, in consultation with Member(Finance) has been authorized to decide the extent of delegation of powers to General Managers and other functionaries based on functional requirement.

Pursuant to the above, Ordnance Factory Board has approved the delegation of enhanced financial powers to General Managers and others as indicated in Annexure –1 to this letter with immediate effect subject to the guidelines listed in Annexure –II. These orders will supersede all previous orders on the subject in respect of the items mentioned in the Annexure-1. The areas not covered in this letter would be regulated in accordance to Board Secretariat No.353/ BS dated 12-07-88. Whether the existing powers of the GMs are higher, the same higher powers will continue.

The extant orders on procurement as laid down in Material Management, Financial regulations and the CVC guidelines issued from time to time are to be strictly followed. Special care may be taken to ensure that the high value investments conform generally to the guidelines issued by the MOD (Enclosed at Annexure –III for ready reference).

All powers will be exercised by the Competent Authority in consultation with local Finance and Accounts and will be strictly subject to availability of funds.



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Factory Accounting - IDAS (P)

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This issue with the concurrence vides Financial Division UO. No 1133/FNM –II dated 25/08/2000

Enclo: 09

Sd/-

(AnilKumar)  
Secretary  
Ordnance Factory Board

All General Managers  
OrdnanceFactori

**ANNEXURE - I OF OFB ORDER NO 400/BS DATED 06.09.2000**

| Sl.No. | Nature of Power  | Authority   | Extent of Powers Delegated  |  |                              | Remarks  |
|--------|--|---|---|--|------------------------------|--|
|        |  |   | Existing Powers   | Enhanced Powers                                    | Whether Fin Concr. Necessary |  |
| 1.     | Procurement of all stores for production & Maintenance such as new material components, casting/forging, spares, tools, gauges, Fixtures etc and contracts for fabrication/processing/development of stores. | a) GMs of<br>1. OFCH<br>2. OFK<br>3. HVF<br>4. OFPM<br>5. OFAJ<br>6. OFA<br>7. OCFS<br>8. OEFC<br>9. VFJ<br>10. RFI | Rs, 50 Lakhs  | Rs 1 Cr in each case for 10 GMs as at (a) of Col 2 | Yes                          | Subject to following provisioning procedure laid down by Govt. of India/OFB/CVC from time to time.   |
|        |  | b) GMs of rest of the factories   | -do-  | Rs, 50 Lakhs in each case                          | Yes                          |  |
| 2.     | Procurement of stores for production & Maintenance on single tender basis. (ab-intio)  | a) GMs of<br>1. OFCH<br>2. OFK<br>3. HVF<br>4. OFPM<br>5. OFAJ<br>6. OFA<br>7. OCFS<br>8. OEFC<br>9. VFJ<br>10. RFI | Rs. 1000 each for purchase on single tender, where only single quotation is asked for | Rs. 50,000 in each case.                           | Yes                          | This power is meant for cases where ab-initio single tender is called for, source approval to be concurred in by the appropriate level of officer of Associate Finance |
|        |  | b) GMs of rest of the factories   | -do-  | Rs. 20,000 in each case                            |                              |  |

Factory Accounting - IDAS (P)

| Sl.No. | Nature of Power   | Authority       | Extent of Powers Delegated |                          |                              | Remarks  |
|--------|---|-----------------|----------------------------|--------------------------|------------------------------|--|
|        |   |                 | Existing Powers            | Enhanced Powers          | Whether Fin Concr. Necessary |  |
| 3.     | Cash purchase   | General Manager | 10,000                     | 20,000                   | No                           | GM may invoke this power in case he finds that production of particular item is held up for want of certain raw materials, semi-finished items or components or maintenance items and he can not make deliveries demanded by the indentors and he shall record reason for. |
|        |   | Addl. GM        | 5,000                      | 10,000                   |                              |  |
|        |   | Jt. GM          | NIL                        | 5,000                    |                              |  |
|        |   | Dy. GM          | 3000                       | 5,000                    |                              |  |
|        |   | W.M.            | 200                        | 500                      |                              |  |
| 4.     | Procurement of plants of machinery under New Capital to improve production for which firm orders have been placed by services.(excepts computers and IT related equipment and vehicles) | General Manager | Rs. 1 Lakhs                | Rs, 5 Lakhs in each case | Yes                          | Subject to following laid down procedure CVC guidelines and existing provisions of financial regulation and Annual Budget to be given by the Board after approval of member/PEDB.  |

Factory Accounting - IDAS (P)

| Sl.No. | Nature of Power  | Authority   | Extent of Powers Delegated |                           |                              | Remarks   |
|--------|--|---|----------------------------|---------------------------|------------------------------|---|
|        |  |   | Existing Powers            | Enhanced Powers           | Whether Fin Concr. Necessary |   |
| 5.     | Procurement of plants of machinery under New Capital for maintenance, training and Hospital. | General Manager   | NIL                        | Rs, 2 Lakhs in each case  | Yes                          | Subject to following laid down procedure CVC guidelines and existing provisions of financial regulation and Annual Budget to be given by the Board after approval of member/PEDB. |
| 6.     | Procurement of stores for production & Maintenance on single tender basis. (ab-intio)        | a) GMs of<br>1. OFK<br>2. AFK<br>3. OFAJ<br>4. MSF<br>5. OFM<br>6. OFA<br>7. GSF<br>8. VFJ<br>9. RFI<br>10. FGK<br>11. SAF<br>12. OFC | Rs, 3 Lakhs in each case   | Rs, 25 Lakhs in each case | Yes                          | To be exercised in respect of P&M specially listed in project sanctioned.   |
|        |  | b) Other GMs  | -do-                       | Rs, 10 Lakhs in each case | Yes                          | -do-  |

Factory Accounting - IDAS (P)

| Sl.No. | Nature of Power  | Authority   | Extent of Powers Delegated |                           |                              | Remarks  |
|--------|--|---|----------------------------|---------------------------|------------------------------|--|
|        |  |   | Existing Powers            | Enhanced Powers           | Whether Fin Concr. Necessary |  |
| 7.     | Procurement of plants of machinery under Renewal & Replacement | a) GMs of<br>1. OFK<br>2. AFK<br>3. OFAJ<br>4. MSF<br>5. OFM<br>6. OFA<br>7. GSF<br>8. VFJ<br>9. RFI<br>10. FGK<br>11. SAF<br>12. OFC | Rs, 1 Lakhs in each case   | Rs, 25 Lakhs in each case | Yes                          | Restricted to P&M against PR plan approved by PFC in OFB. It related equipment to be procured after prior sanction of OFB. |
|        |  | b) Other GMs  | -do-                       | Rs, 10 Lakhs in each case | Yes                          | -do-   |
| 8.     | Maintenance cover for Plant & Machinery Items.                 | General Managers  | NIL                        | Rs, 3 Lakhs in each case  | Yes                          | 1) No payment in foreign exchange will be involved.<br>2) This will be subject to Budgetment allotment from OFB.           |

**ANNEXURE II OF OFB ORDER NO. 400/BS DATED 06-09-2000**

- While all the standard orders of the Government as well as instructions issued by OFB from time to time are to be adhered to, some salient points enumerated below may have to be kept in mind at the time of exercising the delegated powers
- Prescribed procedures are to be followed. Documents like Comparative Statement of Tenders/Ranking statement/Data Sheet/SHIS duly authenticated by Factory Officers are vetted by Branch Accounts Office should be attached with the TPC/Briefs.
- Briefs for discussions in TPCs complete in all respects should be circulated well in advance of the scheduled date of the meeting for effective decisions.
- All TPCs held by the GM shall be attended by CFA/JCFA as Finance Member. Meetings should be so planned that he/she is able to attend TPCs without difficulty, especially if the Factories are located in remote places.
- The TECs/TPCs for procurement of Plant and Machinery should be headed by the level not below the General Manager.
- The existing TPC structure for stores procurement below the GM level will continue. However, all should be centralised in the Addl. GM (MM) and functionaries below in MM Section and not left to individual Cost Centres.
- All efforts should be made to utilise IFD capacities, If it becomes inevitable to go to trade in respect of materials produced by sister factories, it should be a conscious decision of the TPC recorded in the minutes and concerned General Manager and Operating Member of OFB should be kept informed.
- Development of sources with respect to the competition generated should be one of the points to be considered by TPC.

- In case of LTE/LTE etc. source of supply should invariably be by the Chairman and Finance Member of the appropriate level of PTC before issuing tenders to the firms(s) concerned.
- Total value of all items (including value of Option quantity, if any) should be considered as the value of TE for reckoning Competent Financial Authority vis-à-vis level of TPC.

## **DIFFERENT TYPES OF RECEIPTS & ISSUES: HOW ACCOUNTED FOR**

This write up is meant to apprise the trainees the system/ procedure followed and documents used in Stores Accounting in the Ordnance Factories. The accounting of Stores must be given considerable importance as more than two-third of the cost of production in Ordnance Factories is accounted for by the cost of material.

Materials in Ordnance Factories are classified under two Major Heads:-

- (i) Materials on Store Charge.
- (ii) Materials on Production Charge.

### **TYPE OF RECEIPTS**

Raw materials are obtained by the Factories by one of the following means:-

- (i) Foreign Purchase.
- (ii) Central Purchase through a Central Authority.
- (iii) Local Purchase by the General Manager of Factories.
- (iv) Supplies from other factories.
- (v) Supplies from other branches of Defence Department
- (vi) Supplies from departments other than Defence.

Apart from the above the following internal transactions of the Factories are also accounted for as receipt.

- (i) Receipt from the production of own Factory.
- (ii) Receipts from the returns to the Store Section of surplus materials, waste etc
- (iii) Receipts from surpluses found at Stock taking in the Factories.
- (iv) Receipt on account of transfers from Capital assets
- (v) Miscellaneous receipts from sources other than above as estate produce etc.

### **TYPE OF ISSUES**

Material is issued by the Store Section of the Factory for the following purposes:



- (i) Issues to manufacturing Shops.
- (ii) Issues to other Factories.
- (iii) Issues on payment to other Govt. Departments etc.
- (iv) Issues to other branches of Defence Department.
- (v) Issues on account of Sale by auction.

Beside the above the following transactions of the factory are also accounted for as issues.

- (i) Loss of Stores-in-Transit.
- (ii) Loss of Stores on Charge.
- (iii) Loss of Stores due to causes other than above.
- (iv) Transfers to Capital.
- (v) Miscellaneous.

### **ACCOUNTING OF RECEIPTS & ISSUES OF STORES**

M.I.S. is prepared for almost all receipts in the Factory. The MIS is converted in to a receipt voucher by allotting a No. of the respective Series to which the Store pertains. Issues from the factory godown or Stores to Shops/ Sections are done through Demand Notes. Any returns of such stores to godown are done through return notes. Issues to any other concern are done through Issue Vouchers.

All the primary documents i.e. Receipts Vouchers Issue Vouchers, Demand Note, Return Note etc. are sent to Accounts Office through EDP duly allotted Sl. Nos. On receipt of these primary documents in the Accounts Office these are entered in to Schedules for different classes of documents (viz. Schedule of Receipt Voucher, Schedule of Issue Voucher etc.)

These documents are then priced in the Accounts Office as follows:-

- (i) MIS/ CRV (Local Purchase) → Price quoted on Supply order
- (ii) Department other than Defence → Price quoted on the Issue Receipt from other Ord. Fys. Vr. of the supplying deptt.
- (iii) Other branches of Defence → Stock Book or priced vocabulary rates
- (iv) Own Fy. Manufacture → At actual cost of production.

## PRICING OF ISSUE DOCUMENTS

- (i) D/ Notes and R/ Notes → Monthly Average Ledger Rate.
- (ii) Sale Voucher → At Sale rate.
- (iii) Loss Statement  
(Other than transit) → Average Ledger Rate
- (iv) Loss of Sores- in – transit → Rate at Which connected receipt  
Voucher is priced
- (v) Payment Issue → (i) Average Ledger Rate (ii) Plus 5%  
Addl. Charges plus 5% addl. Charges  
On (i) + (ii)

The receipt and issue vouchers after pricing are entered in to the monthly Priced Store Account (PSA) under different Codes for different sources of receipts and issues. Similarly, the value of Demand and Return Notes is entered in the PSA to arrive at the net receipt and net issue. Thereafter, these are added with the closing balance of the previous month to arrive at the total raw – material inventory at the end of the month.

Receipt and Issue Vouchers are thereafter sent to Material Ledger Section for posting in the Priced Store Ledger (PSL) maintained and operated jointly by the Provision Section of the Factory and Material Ledger Section of the Accounts Office Demand and Return Notes are received by Material Ledger Section directly from Factory and after pricing on the basis of Average Ledger Rate are posted in the PSL. The Receipt Vouchers are required to be posted in the PSL first and then the Demand and Return Notes.

Every month control total of the PSL (Volume wise) is required to be reconciled with the closing balance of the PSA. At the end of the financial year, the extracted balance of each item of the PSL must agree with the closing balance of the consolidated PSA for the year.

## **HOW THE PAYMENT MADE IS LINKED WITH MATERIAL RECEIVED.**

In the case of all Stores for which payments are made/ book debits are received / priced copies of issue vouchers are furnished, hundred percent linking has to be done. Linking consists of two parts. :

- (i) Linking payments with receipt vouchers. Unlinked items represent payments made for which receipt vouchers are awaited. These are called 'Outstanding Assets.
- (ii) Linking of Receipt Vouchers with "Payment made" Where the unlinked vouchers represent" Stores received "for which payments are to be made. These are called "Outstanding Liabilities."

Through the medium of linking registers maintained in the Material Section of Accounts Office for each category of receipt—FP,CP,LP, IFD etc. it is ensured that all stores invoiced to the factory and all Stores for which payment has been made have been received and accounted for. This is done by posting the details of bills/ invoices and receipt / issue vouchers in the linking registers.

## **WHAT IS PSA-PSL**

A priced Store Account detailing the receipt and Issue transactions from stock in each month under the various heads specified in Forms IAF (FAC) –15 for Receipt and IAF (FAC)- 16 for issues is prepared by Material Section every month after generation of Computerised PSA report for the concerned month and submitted to the Costing Section by 15<sup>th</sup> of the month following for the purpose of posting in Principal Ledger.

PSL generated every month from Computer details item code wise(concerned for the material dealt with ) transactions of all receipts and issues showing UOQ (Unit of Quantity) ,Opening Balance, details of Receipt Voucher, Return Note or Adjustment Receipt Vouchers for receipt transactions and Demand Notes, Issue Voucher or Adjustment issue Voucher for issue transactions, m.a.rate, closing balance etc. Work order No., Warrant Nos. is given for the materials drawn on DN or returned on RN are shown against the concerned transaction.

At the end of the year a Consolidated PSA and PSL are also generated through Computer containing all transactions pertaining to the year.

### **HOW PSA –PSL IS PREPARED**

For preparation and maintenance of PSA/ PSL one itemmast.dbf file be is maintained in Computer showing stock position of every material indexed item codewise, value of stock etc. The file has 50 fields like Record Code, Factory Code, UOQ, Bin Qty., PSL Qty., Moving Average (MA) Rate, Value of Stock, Description, PSA Code etc. For the purpose of pricing of receipt vouchers other than I.F.D.a Supply order Master or SOMASTER. dbf file is also maintained having 51 fields like Record Code, Fy Code, SONO, SODT, item code, UOQ, Ord Qty., Due date, Bas rate , SOVAal, TPCC dt (TPC Clearing date), PR Rate (Pricing Rate), EDPer, CDPer, Disper (Discount Per), LD etc. For pricing of Receipt Vouchers pertaining to IFD a file called IFDRATE. Dbf is maintained keeping rates of different items of material from OFB list or Issue Vrs. Received from Consignor factory, a file called IFDLINK.dbf is also maintained having details of Issue Vouchers received from Consignor .Besides these files IFDMaster, Vendor master, Security Deposit Master (SDMASTER) are also maintained in Inventory Package.

### **RECEIPT VOUCHER & ISSUE VOUCHER**

Receipt Vouchers (IAFZ- 2096) is prepared by Factory for stores to be brought in charge of Factory Stock. For Stores received from outside Factory, a material inward slip is prepared to show full particulars of stores and the result of their examination by the Inspection section. Accordingly no separate receipt voucher is prepared for the same where MIS is prepared. Receipt Voucher No. is given on the MIS. Receipt Voucher or MIS is received in M Sec. Of AO and watched through Priced Store Schedule for continuity. At the end of the month after checking all Receipt Vouchers are received in AO as per skeleton list same are handed over to EDP Section for Data entry. Similarly IFD receipt vouchers are also sent to EDP section for same purpose.

Likewise, Issue Vouchers received from the factory are also entered in the schedule of vouchers to watch continuity and sent to EDP section at the end of the month. Receipt Adjustment Vrs, (If any) is also forwarded to EDP Section.

## **DEMAND NOTES & RETURN NOTES**

Demand and Return Notes received from Factory are entered in serial nos. in the register of schedule of demand and return notes ( IAF ( Fac-37) ) to watch the receipt of all Demand and Return Notes issued by the factory. All DN/RN received by M section thus scheduled are dispatched to EDP section by 5<sup>th</sup> of the following month.

## **DATA ENTRY**

All the data pertaining to Receipt Voucher, Issue Voucher DN/RN are entered in the respective file and a checklist is generated to examine that there is no error in the entry or duplication or Missing of voucher is there. Special attention is paid to see that the UDQ, PSACD entered is correct. In some factories data are captured from factory source.

## **PRICING OF RECEIPT VOUCHERS**

For pricing of Rt. Vrs. Other than IFD Rt. Pricing (SO) bar of Update menu is selected. In case of any error, re-pricing may also be done in the system after revising the necessary entry.

Similarly for IFD Rt.Vrs. We select interactive receipt voucher Pricing (IFD) option of Update menu pad of main menu.

Before pricing of Rt. Vrs. New folios for new items of materials are to be appended in item master file.

Pricing of Demand & Return Note and Issue Vouchers are made through system w.r.t. Average Ledger Rate (ALR i.e.  $V1+V2/Q1+Q2$ )

For any Rt.Vr.Adjustment data entry is made in a file called RTAJ file giving previous value, Original Value, Difference of Value, previous voucher No. etc. After running a programme PSL check the system automatically creates a file for Issue Adjustment of concerned DN/RN.

## **VALIDATION OF DOCUMENT CHECK**

PSL ENTRY AND validation checks option in 'Transaction Menu' pad of Main Menu is selected for Validation Check. On selection of the same 'File

Type' option is chosen and appropriate file type out of Receipt Issue, Adjustment & Skeleton is checked for validation. Output report ERRREP, TXT is generated for taking corrective action.

### **PSL - CHECK**

PSL entry and Validation Checks option in Transaction menu pad of Main menu is selected. On selection of this option File Type, PSL Check & exit option is activated. PSL check is selected and Invsys asks for concerned Receipt Transaction, DN/RN/Issue Transaction file and Adjustment file name (ISSADJFL) and year month of PSL. Entering the same PSL is checked. Rejected Transactions are found out through a report ERRFLTXT. The reasons for rejection of such documents are scrutinized and corrective action is taken.

### **BPLN CHECK**

The system verifies the sequence of documents with reference to the Bin Page Line Number. The BPLN maintained in the Master is taken as the 1<sup>st</sup> number after which transaction sequence is checked. A message comes while checking PSL "Document Missing" is indicative of a sequence no. that is not available in the transaction file. The document that is missing can be traced out from Bin Card w.r.t. the BPLN.

### **PSL- UPDATE**

PSD Update menu of Update Menu pad of main menu is selected for the same, Invsys then asks for year & month of PSL and whether Binder wise Ledger Report necessary. On entering the same Opening Balance of PSL for the month is shown on the screen. This OB should be checked with CB of earlier month. Then an option comes in the screen whether to allow Unorthodox Balance. If 'NO' is selected rejected issue transactions in PSL check is separately kept in a temporary file. If 'YES' are selected system prices all transaction with ALR. Unorthodox Balance is looked into later by user.

A report called Moving Average Rate Variation Report of PSL module of Report menu is generated to see whether MA Rate in respect of any item varies more than +/- 10%. This is indicative of possible errors in pricing of Rt. Vr. And merit checking before further processing.

All PSL Update is completed the output report PSLREP.TXT is generated.

## **PSA GENERATION**

For generation of PSA M-Section of AO examines a report on Priced Issue Voucher generated by Computer and prepares “Adjustment for PSA only which will have no effect on the closing balances computed in the PSL process but require a change while exhibiting the figures code -wise in the PSA. Such adjustment may arise because PSA code used earlier for transaction was erroneous and needs correction or where Profit/ Loss on sale requires shown separately

### **IN CASE OF LOSS ON SALE**

Difference between book value and sale value → Plus to Loss Code (Issue)  
Loss occurring in transaction → Minus to Sale Code (Issue)

### **IN CASE OF PROFIT ON SALE**

Difference between Sale value and Book value → Plus to Sale Code (Issue)  
Profit occurring in transaction → Plus to Profit Code (Rt)

Necessary data entry for adjustment for PSA only is made in PSAADJ file then PSA option of PSL submenu of Report menu is selected for PSA generation. Invsys asks certain information like month and year of last PSL month and year of PSL, Receipts upto the end of last month and whether we wish to add adjustment for PSA only etc. on entering this information last CB of PSA comes in the screen. After verification of the same with last months report ‘Entry’ key is pressed for PSA creation. Output report PSAREP, TXT is generated.

### **IFD Transaction in Ordnance Factories**

The full form of IFD is Inter Factory Demand. There are various sources of receipt of material in the Factory which are: (i) Trade sources. (ii) Receipt from other Factories, (iii) Receipt from non military Department or from other Defence establishments etc. So IFD transaction is one of the sources of procurement of material in Ordnance Factories.

#### **Procedure**

On planning of yearly Production of a Factory, the Factory will prepare requirement of material for the planned production activities. Then they will try to ascertain the source from where the material to be procured. As per the existing rule they should first try to get the material from sister Factories and then from trade source to maintain the quality of Production .So on ascertainment of material which can be procured from sister Factory. They will float demand to other Factories. The document prepared for placing demand is IFD –Inter Factory Demand. Two copies of the IFD will be received in Accounts Office of the Intending Factory. Who after post audit will pass on one copy to, Indentee Factory Accounts Office for record & watch the supply. So, IFD is a type of extract or may be called as authority for undertaking production in the supplying factory.

#### **Types of IFD transactions**

There are two types of IFD supply: (1) supply from Production, (2) Supply from stock. So Issue Voucher serial will accordingly vary with series of “P” or “S” as the case may be.

#### **Placing of IFD Receipt Vouchers**

Receipt vouchers related to trade supply are priced with reference to supply orders. But in case of IFD transactions the only source of evaluated document are Issue Vouchers received from Accounts Office of supplying factory. So receipt vouchers are priced with reference to price Issue vouchers of the supplying Factory. Factory management of recipient is quoting issue voucher no, date & supplying factory concerned to link the issue value and price the Receipt vouchers correctly.



### Linking of IFD transaction

On receipt of Issue vouchers from supplying factory are noted in a Register Factory wise with Issue Voucher no., Date, Quantities, & Value. So according the quoting of factory & issue Vouchers No. on Receipt Vouchers the receipt transaction can be linked easily and clear the out-standings at Receipt sources. The issuing factory is also sending an ID list monthly & then yearly from which the correctness of posting can easily be ascertained & corrected. The unlinked items will be considered as SIT- (Stores in Transit).

### Stores in transit (SIT)

A yearly statement of IFD transaction is prepared by the Accounts office of recipient Factory in the following Format:

| ADD                            |      |   |      | LESS                                       |      |                                 |      |
|--------------------------------|------|---|------|--|------|---------------------------------|------|
| Stores in transit on 1st April |      | Stores received from other Fys during the year as per ID list |      | Stores for which Receipt Vouchers Prepared |      | Stores in transit on 31st March |      |
| Stock                          | Prod | Stock   | Prod | Stock                                      | Prod | Stock                           | Prod |
| (i)                            |      | (ii)  |      | (iii)                                      |      | (iv)                            |      |

### Various type of errors and increase of SIT

As per instruction or rule Receipt Vouchers on IFD transactions are required to be prepared but following types of problems are normally seen.

- i) Non receipt of Issue voucher at management end.
- ii) Back loaded material returned on regular voucher.
- iii) Discrepancies in quantities and delay in settlement.
- iv) Delayed action for keeping stock holding at lower side.
- v) Wrong documentation by supplying factory & delay in settlement.

**Asset / Liabilities on IFD transaction**

As per system outlined in linking inter factory transactions there much not be unlinked items but in actual the picture is quite different. The major reasons for arising of such situation are stated in previous Para. So the unlinked items are supposed to be asset at the end of a year, i.e. material issued but not yet Accounted for and no liabilities should arise. In exceptional cases liabilities also arises when Issue vouchers are not received at Accounts Offices but on the basis of copy of issue voucher with the Railway Receipt the factory management prepares Receipt vouchers In SIT however only net asset is being shown.

**Store Accounts**

| SNo | Dr. side  | Amt |    | Cr. Side   |
|-----|---|-----|----|--|
| 1   | To store in hand as on 1st April                                  |     | 1  | (a) By stores issued to shop less return<br>(b) By issue to NMD for Prod. Of army  |
| 2   | To cost of stores taken on Charge during the year.                |     | 2  | By sale of stores.   |
| 3   | To stores received from Def. Department                           |     | 3  | By stores issued to<br>1. Army<br>2. Navy<br>3. AF<br>4. Other Def. Department   |
| 4   | (a) To transfer for capital A/C<br>(b) To transfer for stock pile |     | 4  | a) By stores transferred to capital A/C.<br>b) By stores transferred to stock pile   |
| 5   | To stores received from own Fy manufacture                        |     | 5  | By stores issued to other Fys  |
| 6   | To IFD stores   |     | 6  | By issue on payment  |
| 7   | To profit on scale of stores<br>(a) Normal (b) Abnormal           |     | 7  | By misc. issues  |
| 8   | To surplus at stock taking  |     | 8  | By actual Losses<br>a) Loss of scale of stores<br>(i) Normal, (ii) Abnormal<br>b) loss of stores on charge<br>i) Theft/Fraud or neglect<br>ii) Deficiency in actual balance not due to theft/fraud etc.<br>iii) Other causes |
| 9   | To other adjustments  |     | 9  | By other adjustment  |
| 10  | To Misc Receipt   |     | 10 | By closing Balances as on 31st March.  |

The store A/C is actually the exhibition of position of stock holding of a Fy. On beginning & closing of a year with exhibition of various receipts sources & issues to various parties including sales. The best way of compiling of stores A/C is compilations of PSA (Rt & Issue) first and from therefore compile the store A/c.

### **AUDIT OF SALE AND ACCOUNTING OF SALE PROCEEDS**

In the Ordnance Factories surplus stores and waste stores are sold through auction. The entire mechanism of sales is controlled by the Factory management as well as Accounts authorities jointly.

Such stores which are sold to external agencies are categorized under following broad head

- 1) Waste product
- 2) Scrap
- 3) Surplus Stores
- 4) Obsolete Stores

**WASTE PRODUCT :** The stores which are beyond economical repair and which can not be utilized in any alternate way are categorized as waste product viz. Coal dust, ashes, metal residues etc.

**SCRAP:** The item scrap means stores beyond economical repair unserviceable waste stores which have been utilized and have served their purpose and have been condemned under proper authority to be of no use except as scrap.

**SURPLUS STORES:** This are stores which can not be utilized against present for anticipated requirement over a period to be determine on the merit of each case or which are liable to deteriorate by the time they could be used in the normal course of events.

**OBSOLETE STORES:** These are the stores which have been declared surplus due to obsolescence. Such store usually arises due to sudden cancellation of orders by the indentor for specific job order which is unique and can not be utilized otherwise.

## **STEPS OF DISPOSAL**

Having determined the surpluses they will be disposed of by transfer to other factories, defence services, priority indentors and/or by sell to private parties. A reserve/guiding price for such stores will be fixed which are usually at book value plus the packing and incidental charges incurred plus 5% of the sale value. In case of transfer of surplus stores and waste products to any priority indentors free of charge 2% of the book value of the stores should be levied for the incidental charges to cover packing, loading, cartage charges etc. Such incidental charges will not be recovered if arrangements are made by the priority indentors.

Reserve prices are fix by the factory management with the concurrence of LAO. If there is any disagreement meeting factory management and LAO the case should be referred to DGOF for decision. Reserve price should be fixed not more than 2 days before the auction. The above price should made known to the auction supervisor of the date of auction itself, half an hour before the auction. All concerned officers including Accounting Officers connected with the fixation of reserve price and the auction supervisor must treat such price as strictly confidential.

The Accounts representative deputed to attain the auction should note description of store, quantity, rates of highest bidder in accounts copy of the auction list and should sign the factory copy for surplus with supporting document. He should intimate the details to the concerned CDA. Similar action will be taken on receipt of auctioneer's commission bill.

A sale register and a sale account is operated and is audited with supporting details. The sell account receipt the CDA concern for stores sold in auction by DGS&D and sale release order receipt from factory management will be checked in respect of quantity, value, purchases etc. The -correctness of amount booked in the CCO-2 will be verified for sale value, sales tax, excise duty with reference to the register and adjustment should be carried out immediately.

On receipt of approval full details are noted in the Sales Register, MRO received for Security Deposit is adjusted and noted in the Security Deposit Register, MRO received for sale value is adjusted for sale value, sales tax etc. after verification of monthly statement. The MROs are forwarded to Accounts Section of the Office of the PCA (Fys) in the normal manner. Action to pay dues on account of sales tax/excise duty to the relevant

authorities should be taken on receipt of contingent bill from the factory. All the sale proceeds will be reflected in the Cash Compilation Statement viz. Deduct head under "Revenue Expenditure" for realization on account of "Sale of Scrap" and revenue head for receipts for realization on account of sale of surplus stores.

In the case of stores disposed by DGS&D, credit for sale proceeds are passed on by the PAO concerned to the CDA concerned depending on the location of auction. The credits are compiled to the final factory head of account and the sale accounts are forwarded to Store Section, who allocated the amount to the respective factories and forward the sales account to the concerned Accounts Officer for linking. On receipt, the sale accounts are linked by the A.O.

### **RESERVE STOCK PILE ITEM**

Strategic items of stores while are very difficult to procure in case of failure of normal supplies are classified as Stock Pile Items. A reserve of such stores is built up separately from working stock in order to meet the demands of future production in case of failure of normal supplies.

### **ACCOUNTING OF STOCK PILE ITEMS**

All expenditure for stock pile items will be meet from major head 130A - Defence Capital Outlay. This is a capital head and though stock pile items are purchased from capital head, they differ from capital assets as they are stores items intended for future production.

The following accounting procedure is followed:

The factory will maintain a separate Bin Card for each of these items. A separate Store Ledger known as Capital Store Ledger should be maintained by the ledger group of Accounts Office. This ledger like the Priced Store Ledger will also be located in the Provision Section in order to afford facilities of quick reference to the management.

A separate series of vouchers under R series will be operated upon in each and every transaction.

The value of Stock Pile Items should be reconciled with the figures of CCO-2 through a linking register.

Separate Schedule for R series Receipt and Issue vouchers will be maintained.

No depreciation will be charged, no Priced Store Account need be prepared monthly a subsidiary Account to Capital Asset Account viz. Capital Asset Account - Stock Pile should be maintained in the Principal Ledger.

### **UTILISATION OF STOCK PILE ITEM**

No stock pile item should be used by the factory with prior approval of the OFB. As and when reserve material are required to be used in production, they are to be first transferred from and to the reserve stock and working stock should be meet only on transfer voucher. The turn over of reserve items, if and when ordered from time to time by the OFB/DGOF should likewise be made on transfer voucher.

### **EXTRACTS**

An Extract is the authority for the manufacture of an article in a Factory. It is issued by OFB to enable the Factory to undertake manufacture in respect of all out turn Work Orders and certain Indirect Service Work Orders. One Extract is placed for one Work Order. Copies of all Extracts as well as amendments relating thereto will be received in the Accounts Office direct from OFB or through the Finance Division, OFB, if they relate to Army, Navy, Air Force, MES or Stock Orders.

### **CLASSES OF EXTRACTS**

Extracts are divided into the following classes:

|           |  |
|-----------|--|
| Class I   | For Army Orders and miscellaneous services like repairs for Navy and Air Force |
| Class II  | For Payment Services   |
| Class III | For Inter Factory Demands  |
| Class IV  | For Stock  |
| Class V   | For Capital Services   |

## **Open Extracts**

Before the commencement of each financial year, open extracts for various services pertaining to all classes of extracts are issued to the Factories by the OFB.

An open Extract is a general authority for Factories to carry out miscellaneous and petty services falling under Classes I, IV and V for which specific sanction of the OFB is not required in each individual case.

An Open Extracts allotted for Class II, the General Manager can carry out work of Payment Services in each case up to the limit of his financial power without asking separate Extracts to the OFB. Similarly, a

Class III Open Extract is sufficient authority for a Factory to undertake manufacture, repair or other work for sister Ordnance Factories on receipt of an Inter Factory Demand (IFD) received from other Ordnance Factories without further reference to the OFB.

## **WARRANT**

It is an authority for undertaking manufacture of an article by the Productive Shop/Section. It is issued by the General Manager of the Factory. Work Office of the Factory issued Warrant to the respective Manufacturing Sections to undertake the job. It contains Material to be used and operation wise Trade/Grade of labour to be employed to complete the article to be manufactured. A Warrant Number is of Five digits, e.g. 0000/0, where the fifth digit denotes as under:

- 0 for Main Warrant Number
- 1 for Extra Labour demployed as per NRR
- 2 for Extra Material drawn as per NRM
- 3 for Replacement Warrant for excess rejection
- 4 for Additional number of the existing Warrant

## **Duration of Warrants**

Normal duration of Warrants for work other than Capital Works (New or Repair) is Six months only. Approval for further extension may be obtained from DGOF



### **Action Taken by Accounts Office on receipt of Warrant**

A warrant is received by Costing Section of Accounts Office & issued by Works Office of the Ordnance Factory. A warrant contains two parts:

- Manufacturing Warrant
- Material Warrant

Manufacturing Warrant contains the following:

- Original Authority for doing the work i.e. Extract Number
- A Relevant Estimate Number
- Description of the Work
- SWO Number
- Quantity of work to be done
- Operation to be performed
- Trade & Grade of Labourer to be employed
- Time required for operation
- Hourly Rate of the operator
- Total amount of Basic labour required

### **Material Warrant contains the following:**

- Nomenclature of the materials required for the product to be manufactured
- Ledger Folio Number of the material
- Unit of the material e.g. Kg, Litre, Meter etc. in codified number
- Quantity of material required
- Remarks

Costing Section, on receipt the Warrant, will enter in the Warrant Register and open Cost Card as well as Production Ledger Card of the item to be manufactured. The manufacturing part of the warrant will be then forwarded to Labour Section for checking and payment of Piece Work / Day Work Cards & posting of primary documents on it. Similarly, Material Warrant will be sent to Material Section [Ledger Group) for checking the admissibility of the material drawn/return as per given in the Warrant & finally posting of Primary documents i.e. Demand Notes & Return Notes etc. on it. Costing Section will also watch the completion of the Warrant through Warrant Register.

No Cost Card as well as Production Ledger Card will be open for Indirect Series of Work Orders.

On completion of a Warrant, Costing Section will call back Accounts Copy of the Warrant from Material and Labour Section respectively and pair with the completed Shop copy. These will be attached with the relevant Cost Card for scrutiny of variances and arrive out the Cost of Production as well as actual Unit Cost of the Product.

### **Work Orders**

A Work Order is a codified list consisting of nine digits and represents for which service is to be rendered by its first two digits, nomenclature of the subject store to be manufactured by next five digits and last two digits will indicate the code number, of the shop/section who will undertake the manufacture. Where a operations is passed through various shop/section for completion of the manufacture the last two digits in the case will be 00.

### **Work Order Serial**

- 01 For Fixed Charges
- 02 For Variable Charges
- 03 For Process Material
- 04 For Capital Services
- 05 For Repairs & Conversion
- 06 For Cost of Packing
- 08 For Conversion of Timber
- 10 For Manufacture for Stock of article other than Standard Packages and Component of Out turn Orders
- 11 For Manufacture of articles for Stock for eventual utilization in issue to Trade
- 12 For Manufacture for Stock of Standard Packages
- 13 For Manufacture for Stock of Components of another Orders including Ammunition
- 40 For Manufacture of Components for Except Orders
- 41 For Manufacture of PPL Items
- 50 For Educational Orders
- 51 For Expenditure for NCC Organization
- 60 For Development Orders
- 70 For Issues/Services to Inter Factory Demand
- 80 For Payment Services to private Civil Inventors
- 81 For Payment Services to members of permanent Establishment
- 82 For Payment Services to all Central Govt. departments except MHA
- 83 For Payment Services to State Govt. and Union Territories (other than State Police)
- 84 For Services to Foreign Governments
- 85 For Services to Air Force
- 86 For Services to Navy
- 87 For Services to R&D Organisation
- 88 For Services to Inspection Organization

- 89 For Services to MES
- 90 For Services to Army
- 91 For Services for presentation purposes to MOD
- 92 For Services to other Defence Departments
- 93 For Services to MHA
- 94 For Services to PSU & Autonomous Bodies
- 96 For Services to State Police/ State Police of Union Territory

In the above Series of Work Orders, the "01" and "02" Series are known as Indirect Series of Work Orders. Rest of the Work Orders represents Direct Series of Work Orders.

## **PRICING OF ESTIMATES.COST ABSTRACT AND SEMI-PRICING**

### *Pricing of Estimates*

In Branch Accounts Offices it is the primary duty of the Accounts Office to ascertain the cost of the materials/items produced in the Factory. This job is being dealt with in the costing system of the Branch Accounts Offices.

To ascertain the expected requirement of labour and material operation for a particular item of production is called Estimation. Therefore from the central point of view in utilization of material and labour, Estimates are playing a vital role. In Ordnance Factories for each item of product an estimate of the item is prepared by the Management wherein how much material is to be processed for production of 1 or 100 items is shown with scraps to be recovered and how much will be loss in process. In labour side they will exhibit labour operation details in each section through which the material will pass to convert it to a finished good. It will show the item required for each operation and total rate for the operation and total rate for the operation (total time X hourly rate)

On receipts of the Estimates in Accounts Office, the pricing of the same is done twice in a year. The rates of the material provided in the Estimates is supplied by the Material/Labour Section which is maintaining item-wise material accounts (folios) and labour rates are checked by the Labour Section with reference to Schedule of Rates. In this connection it may be noted that for each operation a time study of operation is done by Factory by employment of the worker on the job and after providing 25% profit element and fatigue allowances of time for grinding and of machine etc. an hourly rate is arrived at which after vetted by Accounts Office finds place in the Schedule of Rates. On completion of above formalities the Accounts Office will levy incremental benefit percentage and then D.A percentage on

each Section and also levy the Overhead Charges both VOH and FOH on it at predetermined percentage. On the top sheet of the Estimate the summary have to be prepared showing the Material Cost, Labour Cost of each Section & VOH & FOH Cost of each Section. In each Section a NR percentage is shown, to provide allowances to Shop that up to that limit rejection may occur in process of operation. In the Summary Sheet of Estimate therefore NR allowances also been added to arrive at the total Estimated Cost of the item.

When a new item is proposed to be produced in a Factory Provisional Estimate is prepared. On standardization of the item the Estimate also standardized after minor modification as per actual requirement.

On standardization of Estimate, the Estimate plays an important role in controlling the expenditure as on the basis of these Estimates provision of labour and material operation is made in Warrants (Material Warrant & Manufacturing Warrants respectively) which is the limitation of the labour employment or drawal of material for the Batch Production.

### **COST CARDS**

Each Warrant against a certain Work Order is a authority for undertaking production of a batch. Against each Warrant a Cost Card is opened in Accounts Office to watch production of a batch.

#### *Information available in the Cost Cards*

- (1) Authority for Production i.e. Extract No. or IFD No.
- (2) Work Order No and Warrant No.
- (3) Quantity Ordered.
- (4) Estimate No(s).

#### *Source of Postings*

- (1) Labour Abstract: This is prepared / printed on the basis of PW/DW Cards after levying DA on pre-determined percentage. This forms the actual labour charge. On these labour charge variable & fixed overhead charges for the Warrant is also levied at pre-determined percentage.
- (2) Material Abstract is prepared / printed from the primary documents called Demand Notes and Return Notes.

When a Cost Card is opened the monthly expenditure against the warrant from Labour and Material Abstract is posted Section-wise. On taking the

labour payment for full quantity ordered against a Warrant. On such declaration the Accounts Office will undertake closing of the said Cost Card. They will prepare Estimated Cost of the Warrant with reference to the Estimate and review the drawal of material and labour operation taken to identify the variation, if any, with reasons. They should also scrutinize whether any extra material is drawn or any extra operation is taken. This scrutiny is to be exercised with reference to provision of Warrant.

The staffs concerned then record the reasons for variation in the Cost Card and sent it to Factory Management for their information if variation is above 100%.

### Semi Concept

In the process of Production it is not expected that all the items placed on pipeline will be completed within the running financial year i.e., within 31st March of a year. So the question of ascertainment of cost of the item in pipeline i.e. incomplete articles and No. since completed against the Warrants not declared closed by the Management within the financial year arises. On 31st March the Management will take the stock taking at each Shop floor to identify the items still on pipeline and will record in a Statement called Semi Statement and forwarded the same to the Accounts Office for evaluation. Accounts Office will verify the correctness of the record and will get it modified by them if any wrong is detected. Then the Accounts Office will evaluate the Semis well before the closing of the accounts of the year, with reference to drawal position and labour payment taken and will segregate. thus arrived at cost of the incomplete items to be shown as Unfinished semi. An example is shown below:

| W.O<br>Wt No.001/0/0                       |            | Quantity ordered |            | Quantity accepted |              |
|--|------------|------------------|------------|-------------------|--------------|
| Section                                    | Labour     | Material         | VOH        | FOH               | Total        |
| 01   | 100        | 5000             | 300        | 200               | 5600         |
| 02   | 100        |                  | 200        | 100               | 400          |
| Total<br>Value of<br>Completed<br>Articles | 200<br>150 | 5000<br>3000     | 500<br>300 | 300<br>150        | 6000<br>3600 |
| Value of<br>Unfinished<br>semi             | 50         | 2000             | 200        | 150               | 2400         |

**Cost Abstract:**

Cost Abstract is the codified printout of primary documents. It is printed monthly showing the Work Order, Warrant No. nature of document etc.

**Nature of Cost Tabulation:**

It is printed from PW Cards, DW Cards, Allocation Sheet, Labour Punching Medium I, II, III. It also shows Sections in which cost occurs.

**Material Abstracts:**

It is printed from Demand Notes and Return Notes, Adjustment vouchers. Against each entry document no. nature of document are also shown. Return Notes are exhibited as minus.

**T V Abstracts:**

When the cost is transferred from one Work Order to another Work Order, the same is exhibited in this abstract

**Subsidiary Abstract:**

SVC-Sectional Variable Charges, It is printed from collection of figures from Labour, Material Abstracts and also from Overhead Allocation against 02 Series of Work Orders.

SFC-Sectional Fixed Charges, It is equally printed in respect of 01 Series of Work Orders.

**Master Cost Cards (MCC)**

It is a Work Order summary of tabulation printed quarterly from above three main Abstracts.

## **PRINCIPLES OF COST ACCOUNTING - OVERHEADS ACCOUNTING**

**Definition:** Overhead Charges constitute a Class of Cost which cannot be directly charged to the Product. To arrive at a true Cost of the Product it is essential that a proper system of accounting of charges incurred by the Service Sections or by the Production Section itself in the shape of supervision, security, welfare, power, steam water are collected and distributed to the Products) of the Shop. Service Charges of the above nature which are common to all the Production Sections but cannot be charged directly to the output of that Section/Shop are called Indirect Charges or Overheads.

**Classification of Overhead Expenses:** Under the existing system, Overhead Charges arising in Ordnance and Ordnance Equipment Factories are classified into Variable and Fixed categories, the former being recovered in full against Production and the latter at predetermined percentages after deduction of the War Insurance Charges and certain expenditure which are kept out of Production Cost.

In Cost Accounting, Overhead expenses which are in sympathy with the load of the Factory are classified as 'Variable' and these expenses, the magnitude of which would depend upon policy decision and generally remain constant irrespective of the load/volume of Production are classified as 'Fixed' Charges.

Item of expenditure classified as Fixed and Variable are detailed in '01' & '02' Series of the Syllabus of Work Orders respectively. At present there are 55 Work Orders under '01' Series and 26 Work Orders under '02' Series.

**Collection of Overhead Expenses:** The first step in the accounting and allocation of Overheads is their Departmentalization. The Overhead expenses (whether Variable or Fixed) pertaining to each Manufacturing Centre (Cost Centre) are collected together so that the Overhead Charges for each Shop may be charged to the output of that particular Shop or Cost Centre. The Overhead expenses incurred for a Shop may be incurred either by that Shop or by other Shops on its behalf as service rendered with a view to collecting together both these types of expenditure, last two digits of '01' & '02' Series of Work Order numbers are used to indicate the Manufacturing Centre/Shop for which expenditure is incurred.

The Shop or Section in a Factory may be Productive or Non Productive (Service) or both. The total Variable Expenditure for the Factory plus such



portion of Fixed Overhead Expenditure as is chargeable to the output has to be charged to the out turn of the Factory. With a view to obtaining correct allocation of Costs, the Overhead Expenditure pertaining to any Production Shop in any cost period is to be charged to the Production of that Shop during that period. The overhead expenses of Service Shops are allocated to the Production Shops in proportion to the service rendered by the former to the latter or any other predetermined basis.

**Estimation and Fixation of Overhead Percentages:** Before the commencement of each financial year, estimation of Direct Labour, Fixed and Variable Expenses for Production, Non-Production (Service) Section is made keeping in view the Production Programme for the ensuing year by the CBS (Central Budget Committee) with General Manager as Chairman and DGM/WM and Accounts Officer as Member. This Committee decides percentage for levy of Fixed and Variable Overheads for the financial year for different Production and Service Sections. Review of actual expenditure with reference to the Estimates is also done by the Shop Budget Committee on receipt of the monthly Mechanized Tabulation known as SVC (Sectional Variable Charges) and SFC (Sectional Fixed Charges) Statements. In the case of Fixed Charges, charges not required for current Production are to be assessed and deducted from the Estimated Fixed Overhead Charges. The charges so deducted represented War Insurance' Charges.

**Levy of Overhead Charges:** The expenditure under '01' and '02' Series of Work Order are allocated to the various jobs by changing predetermined percentages on 'Direct Labour. These percentages vary from Shop to Shop. The difference between the actual expenditure and those levied at predetermined percentages is called Unabsorbed Fixed and Variable Charges. If the actual are more than the amount levied, then there is under absorption. If the levied amount is more than the actual, then there is over absorption. These under/over absorption should not exceed (+) or (-) 5%. If so, the difference should be charged to the production by relying it overall the work orders in proportion to the value of Direct Labour.

**Variable Charges - Distribution of:** The Variable Charges are to be estimated for each quarter of the year separately Shop wise and Work Order wise and thereafter aggregated for the year as a whole. As a result, budget figure for each quarter will be available against which actual should be compared and analyzed after estimating the Variable Charges of each Section, the percentage as decided by the Management and Accounts Officer are distributed/charged from one Service Section to another Service/Production Section.

**Accounting of Variable Overhead Expenses:** Accounting of Variable Overhead Expenses involves two phases viz. (I) collection of actual variable expenditure for each Shop or Cost Centre monthly for each Costing Period and (ii) charging to each job executed during the Costing Period. After the collection of Variable Charges the amount thereof chargeable to Production i.e. the leviable amount is to be determined. (For this purpose, the items of expenditure, such as abnormal losses/profits on sale of surplus stores, losses relating to surplus stock, etc. are deducted from the actual Variable Charges).

**Budgetary Control of Variable Overhead:** With a view to exercising a control over the Variable Overhead Expenses with reference to the Budget/Standard set in advance, the actual are compared to have the efficiency of budgeting. For this purpose monthly Statements of Variable Overhead Expenses should be critically examined against particular quarter's budgetary provisions and suitable action taken on controllable items by the Shop Manager. Quarterly analysis of variations and action taken thereon should be placed before the SBC for review by the General Manager. Normal variations against each item should range between (+) or (-) 5% of the budgeted provision.

**War Insurance Charges :** The maximum installed capacity of a Factory to meet the requirement of the Services in times of War is assessed on the basis of working 2 Shifts of 10 hours each per day for 25 days per month in the case of Batch Operation Plants and 3 Shifts of 8 hours per day for 22 days per month in case of Continuous Chemical Process Plants. Before the commencement of year, the capacity which will not be required for the year's Production Programme, should be identified in terms of man and other facilities and the cost of such capacity determined. These costs should be treated as 'War Insurance Charge' and deducted from the intimated Fixed Overhead Charges of the Factory for the year. After segregating the cost of surplus capacity not actually required for the current Production Programme and also the charges required to be kept out of production under the extant orders, the balance of Fixed Overhead Charges should be chargeable to the year's Production based on the Estimated Direct Labour Charges. This will ordinarily be operation for the whole year.

**Accounting and levy of Fixed Overhead Expenses:** Accounting of Fixed Overhead Expenses also involves two phases viz. (I) collection of Fixed Charges and (ii) Charging them to jobs. The total Fixed Charges Work Order wise for a year in respect of each Shop/Section will first be estimated based on actual Fixed Charges for the previous year only taking into

account known/ foreseeable charges on account of increase/ decrease in the incidence of Fixed Charges. From this, deduction is made for 'War Insurance Charges' and certain other items to be kept out of production to arrive at the estimated for each Production Shop and share of Service and Non-Production Sections will form the basis for the leviabale charges. The percentage of leviabale Fixed Charges is determined with reference to the Direct Labour Charges Section wise (Production/ Semi Production) for the year as a whole.

At the end of the year, the difference between the chargeable Fixed Charges and actual levied amount should be shown as Under/Over absorbed Fixed Charges provided the same does not exceed (+) or (-) 5% of the Chargeable amount. If it exceeds, the difference will be charged to Production by re-levying the difference overall the Work Orders in proportion to the value of Direct Labour.

| PRODUCTIVE SECTIONS               |      |     |      |      | PRODCUTIVE SECTION |       |      |       |
|-----------------------------------|------|-----|------|------|--------------------|-------|------|-------|
| STORE                             | A    | B   | C    | TR   | TR                 | X     | Y    | Z     |
| 5000                              | 1500 | 250 | 750  | 500  | 200                | 9000  | 3000 | 7000  |
| 5000                              | 100  | 150 | 200  | 150  | 100                | 1000  | 1300 | 2000  |
| NIL                               | 1600 | 400 | 950  | 650  | 300                | 10000 | 4300 | 9000  |
|                                   | 1600 | -   | 200  | 200  | 100                | 400   | 300  | 400   |
|                                   | NIL  | 400 | 1150 | 850  | 400                | 10400 | 4600 | 9400  |
|                                   |      | 400 | 50   | 50   | -                  | 100   | 100  | 100   |
|                                   |      | NIL | 1200 | 900  | 400                | 10500 | 4700 | 9500  |
|                                   |      |     | 1200 | 100  | -                  | 500   | 300  | 300   |
|                                   |      |     | NIL  | 1000 | 400                | 11000 | 5000 | 9800  |
|                                   |      |     |      | 1000 | -                  | 400   | 400  | 200   |
| BUDGET VOH CHARGES TO BE INCURRED |      |     |      | NIL  | 400                | 11400 | 5400 | 10000 |
| ESTIMATED DIRECT LABOUR CHARGE    |      |     |      |      | 400                | 5700  | 3600 | 4000  |
| VOH% TO BE LEVIED                 |      |     |      |      | 100                | 200   | 150  | 250   |

### **SEMI STATEMENT – PRICING**

At the end of each financial year, the actual Stock will be taken by the Factory of the unused materials and part finished works of all running warrants. Full list is made showing the stage of manufacture against each item, quantity of materials drawn against warrant but found either in part finished conditions or unused. The Statement will also show the Extract Number, Work Order Number & Warrant Number.

The Semi Statement will be verified with reference to Manufacture and Material Warrants, Warrant Registers, Cost Cards and Production Ledger Cards as to establish the correctness of the quantity shown therein and the discrepancies found in the Semi Statements would be sorted out jointly by the Accounts representative with the Factory Management within 15th April.

The evaluation of Work in Progress should be completed by the end of April.

When no article have been found completed in a particular Warrant, the whole expenditure appeared in the relevant Cost Card will represent the amount of Work in Progress of the Warrant. The Semi Statement will show the amount incurred against such Warrant and need not to be valued separately.

The total value of the Semi manufacture under each Work Order and Warrant will be posted in an Abstract and will be credited in the relevant Cost Card under each element of Cost. A Master Summary will also be prepared showing the value of the Work in Progress under each element of cost Work Order wise.

Total value of the Semi Statement for all the Warrants against each Work Order will represent the value of Work in Progress of that particular series of Work Order. Thus the total value of Semi as on 31st March will be credited to the Work in Progress Account by debiting The Balance Account and thereby exhibiting the balance as "Assets" in the "Statement of Assets & Liabilities" of the Factory.

In the following year, this asset will represent Work in Progress as on 1st April of the year.

### **Check exercised by the Accounts Office**

1. **Costing Section**

Scrutiny with reference to Warrant Register to ensure that all incomplete Warrants have been included

2. **Material Section**

Verify with reference to the posting in the relevant Material Warrants that the quantities of Material shown are correct and the Materials were priced at the same rate in which corresponding Demand/Return Notes on bulk drawal were priced.

3. **Labour Section**

Verify with reference to the posting in the relevant Manufacturing Warrants that the operation shown as performed are correct and pricing of these operations are at correct rates.

4. **Costing Section**

Final scrutiny with reference to the Cost Cards and Production Ledger Cards and will levy DA and Overheads percentages for preparation of Abstract of Semi in respect of each Work Order and Warrant for working out the Cost of Production.

## **COST CARD - OPENING AND CLOSING**

Cost Card by Warrants will be maintained manually in the local Accounts Office in prescribed Proforma. For this purpose Cost Card will be opened immediately a Warrant is issued. Particulars regarding Extract No., Quantity ordered, Work Order/Warrant No., Nomenclature of the item to be manufactured and element wise Estimated Cost will be filled in. Opening of the Cost Card will be authorised by the Section Officer. In the case of Warrants which are carried forward from the previous year, opening value of the semi under the different element of cost as well as the estimated cost of items will be filled in.

### **Posting in the Cost Card**

Posting in the Cost Card will be done by the Auditor concerned of Costing Section from the following monthly Abstracts received from EDP Centre:

- Material Abstract
- Labour Abstract
- Overheads Abstract
- Transfer Voucher Abstract
- Component Abstract

### **Closing of Cost Card**

When Warrants will be declared

Costing Section from the following monthly Abstracts received from - EDP Centre:

- Material Abstract
- Labour Abstract
- Overheads Abstract
- Transfer Voucher Abstract
- Component Abstract

### **Closing of Cost Card**

When Warrants will be declared completed, a list showing the names of Warrants along with completed Shop copies will be received in Accounts Office. Costing Section will called for the Accounts copies both Manufacturing as well as Material Warrants duly filled in from Labour and Material Sections respectively and paired with the completed Shop copies and tagged up with the relevant Cost Card for taking necessary action to close them.

To ascertain the actual Cost of Product as well as unit element of Cost and Unit cost of product it is very much essential to close a Cost Card. Moreover, any variation in element of cost should be critically analysed while closing a Cost Card so that the same could be taken into the notice of Factory Management to take remedial action for future production of the article.

In the case of Warrants running from the previous year it should be ensured that the Cost Card has been debited with opening semi, if any. Replacement warrant and Warrants for Tools & Gauges manufacture on the parent Work Order with sub numbers will similarly be annexed with respective Cost Card and all enclosed to the Cost Card for the parent Work Order. It should be ensured that the details of all expenditure recorded against a Warrant should be available when a Warrant is finally closed, no matter how long a Warrant has been running. The original Cost Card of the past year/years in regard to a warrant closed in the current year should be available.

The class of cost wise expenditure debited to the Work Order during a year by section and month separately and the class of cost wise value of the opening semi, if any, will be cross totaled and reconciled. The total figures under each element of cost appearing in the Cost Cards for replacement and tool and gauge warrant will be brought forward and debited separately to the cost card for the parent work order. All the debits viz. The opening semi expenditure during the year, cost of replacement, tool and gauges charges by class of cost will be cross totaled and reconciled.

It is also to be determined whether any avoidable rejection has occurred in the warrant. The amount of avoidable rejection will be calculated and deducted from the expenditure recorded in the Cost Card. This amount will be excluded from Production Account of the Factory.

### **Comparison of Actual Cost and Estimated Cost**

The element wise actual cost of a product may vary from its estimated cost. If the variation is more than (+/-) 10%, the reasons for variation should be done critically.

Generally variation may occur due to following reasons:

#### **Variation in Labour Cost**

Due to

- change in DA%
- Rejections

- Replacement
- Performance of more or less operations
- Wrong preparation of Piece Work Cards
- Wrong pricing of Piece Work Cards
- Deployment of other Trade/Grade of Labour as well as Day Worker instead of Piece worker
- Changes in method of manufacture
- Wrong posting in Cost Card
- Wrong assessment of Semi
- Use of NRRs

### **Variation in Material Cost**

Due to

- Rejection and Replacement
- Change in Average Ledger Rates
- Wrong preparation of Demand/Return Notes
- Wrong pricing of Demand/Return Notes
- Wrong pricing/posting of Transfer Vouchers
- Wrong assessment of Semi
- Costly materials drawn
- In lieu material drawn
- Material drawn through NRMs

### **Variation in Overheads Cost**

Due to

- Variation in labour cost as explained above
- Variation of percentages of overheads
- Wrong posting in Cost Card
- Wrong assessment of Semi

### **Analysis of Expenditure and Elements of Cost**

The expenditure incurred in manufacture is classified under three main categories viz.

- (a) Wages paid to Industrial Workers
- (b) Materials
- And
- (c) Other Expenses

In relation to Product Costs, the expenditure falling under the above three categories are further classified as DIRECT and INDIRECT expenditure.



For the purpose of Costing, Wages are analyzed into DIRECT LABOUR Cost and INDIRECT LABOUR Cost

Similarly, Materials are analyzed into DIRECT MATERIAL Cost and INDIRECT MATERIAL Cost.

Other Expenses, the bulk of which represents Salaries paid to Supervisory Staff and Administrative Personnel fall under the category of INDIRECT Expenditure

Indirect Labour, Indirect Material and other Indirect Expenses together constitute the Overhead Expenditure of the Factory.

While the Direct Labour Expenditure and Direct Material Expenditure incurred in the manufacture of each product can be measured accurately and charged direct to each, job, the Overhead Expenditure representing the cost of various production and administrative services incidental to Production can not be charged directly to each job such expenditure being common to all production activity is apportioned to the cost of each job as equitable as possible following certain well recognized cost accounting principles

By means of the above type of analysis, the cost of each article manufactured in the Factory is compiled under three elements of Cost viz. (i) Direct Labour, (ii) Direct Material and (iii) Overheads.

### **Abnormal Rejection in Manufacture**

For the purpose of ensuring effective cost control and cost comparison, the cost of any abnormal rejection in manufacture is treated as an item not chargeable to the normal cost of production of an article and is, therefore, shown as a separate item in the Production Account.

The normal rejection inherent in the manufacture of an article will be Included in the relevant estimate for the manufacture and all rejections beyond the percentage provided for in the estimate will be regarded as avoidable rejection and the amount of avoidable rejection cost will be written off on Loss Statement after necessary investigation. The loss statement will be regularized under the power of General Manager or OFB as the case may be. The cost of rejection up to the maximum percentages as authorized in the Standard Estimate will be included in the Cost of Production and that beyond the maximum percentage provided in the estimate shall be excluded from Production Account of the Factory and regularized as loss. There may be a number of Warrants at the end of each

financial year where only a part of the quantity ordered has been completed. For the purpose of Production Account, the cost of completed quantity of each such warrant will be worked out by including the cost of actual rejections up to the quantity at the maximum prescribed percentage of unavoidable rejections, if any and will ultimately be merged with the Work in Progress and carried over to the next year. All avoidable rejection losses requiring regularization will be categorized as Store Losses. The consolidated figure of such losses formally written off will be reflected in the Appropriation Account for the year. Each case of loss due to rejection beyond unavoidable rejection percentage will be examined on its merit and categorized either as due to theft, fraud or neglect OR not due to theft, fraud or neglect in accordance with Rule 162 of FR Part I. Rejection losses may be written off by the competent financial authority as under:

**Rejection losses not due to theft fraud or neglect**

- |                     |  |
|---------------------|--|
| 1) General Manager  | up to Rs.10, 000 irrespective of the percentage of rejection<br>Or<br>Up to 50% of the unavoidable percentage irrespective of the amount involved                                      |
| 2) Ordnance Factory | up to Rs.50, 000 irrespective of the Board percentage of rejection<br>Or<br>Up to an additional 100% of the Unavoidable percentage of rejection<br>Irrespective of the amount involved |

All other cases, the sanction of Government of India will be required.

**Rejection losses due to theft, fraud or neglect**

- |                     |            |
|---------------------|------------|
| 1) General Manager  | Rs.5, 000  |
| 2) Ordnance Factory | Rs.30, 000 |

All other cases, the sanction of Government of India will be required.

## **CLASSIFICATION OF CAPITAL**

Capital Assets in a factory are classified under three main heads:

- i) Building
- ii) Machinery
- iii) Other items

The items falling under Building are;

- (a) Industrial Building i.e. Building within the four walls of the FY whether used for Production or Non-production purposes any factory sections (except offices) outside factory walls.
- (b) Non-industrial Building i.e. office outside the Fy. Perimeter wall, Hospitals/ M. I. Room, Staff Club etc., and
- (c) Residential Buildings

### **Machinery**

Machinery (including air-cooling plants), Steam lunch barges , Locomotives, Railway Wagon, Station Wagon , Motor lorries, Weighing machine, Sewing machines, Furnaces

### **Other items**

Other items are water or gas lines, openly visible lines filter units (filter plant for water supplies) incinerators, railway lines and railway sidings (if installed and or maintained by Fys), Tube wells, Remington Accounting Machines etc., Lands, Roads. Drains, Telephones Chimneys, Electrical installation, Leveling site, Jetties, Steel furniture & fitting, Computer etc.

## **BLOCK REGISTER**

The Accounts of Capital Assets in the Fys are maintained in two Block Registers on IAF (FAC) 77 by Accounts offices, One for Building items and other for Machinery items.

Block Register shows:

- 1) The original purchase value.
- 2) 1st. Year Depreciation
- 3) Opening balance of the Book Value of the Capital Assets.
- 4) Addition during the year.
- 5) Reduction during the year, including Annual Depreciation
- 6) The closing depreciated book value at the end of the year.

## **ACCOUNTING OF CAPITAL ASSETS**

- (A) Preparation of original documents is `M' Series Receipt Vr For Machine 'B' Series Receipt Vr. For Building
- (B) Pricing of Receipt Vrs. 'M' Series Rt. Vr. will price with reference to Supply order rate or invoice rate. The price of the machine will also includes the following (a) Custom duty in case of foreign purchase (b) transportation charges.(c ) Sea freight charges in respect of imported stores 'B' Series Receipt Vouchers will be priced with reference to actual expenditure statement ( ABC Statement ) or Administrative approval cost.
- (C) Separate schedule will be maintained for Capital item ` M ` Series Rt.Vr. will be posted in the schedule for machinery items while 'B' Series Rt. Vr. will be posted in the schedule for Building items.
- (D) Vouchers both 'B' and 'M' Series will be posted in the Block register Section wise, Machine for which no shop or section has been mentioned to be posted in the suspense section of the Block Register. Machine for which shop or section if allotted will be directly posted to particular section / page of the Block Register.
- (E) Reconciliation is necessary between the Block Register and schedule.
- (F) Building depreciation will be worked out taking the life of 60 years and charged in straight line method.
- (G) Machine items when installed are to be depreciated at the rates provided in the Govt. Order charging of the depreciation will be in the straight line method. Depreciation charges so worked out will be charged to the cost of production and for this purpose allocation sheet is prepared by the A.O. Showing the work order no to which the depreciation charges will be accounted for while preparing Annual Accounts, depreciation is shown as credit item of Capital Assets Account.
- (H) Value of Capital series Receipt Voucher will represent as liability while the amount appeared.

## FINANCIAL COMPILATION, CCO-2 AND COST COMPILATION

The compilation of Accounts of receipts and expenditure of the Army, Navy and Air Force including Ordnance Fys is done mechanically on the computer. For this purpose the necessary data available in the original vouchers etc. are codified in a document known as the "Punching Medium". The Punching Medium which is the primary document for generation of financial compilation contains the following particulars –

|                     |   |
|---------------------|---|
| Month               | -Identified by two digit code                                 |
| CDA                 | -Code No. of the Controller 07 for P C of A (Fys)             |
| Section             | -Code number of Section/Accounts Office compiling the amount. |
| Class of Voucher    | -I to VIII  |
| Voucher No.         | -5-digit Number starting from 1.                              |
| Classification Code | -To indicates the detailed code head.                         |

### **Receipt, Minus Receipt, Charge, Minus Charge -**

To denote the amount compiled. The codification system adopted in the Fy organization is a detailed one. The system provides for 6 figures on the top and seven figures at the bottom as indicated below

| Charges                    |        |        |
|----------------------------|--------|--------|
| <u>001101</u><br>01/805/01 | C (3)  | MC (4) |
|                            | 1000/- |        |

The first three digits on the top are meant for unit of control, the next three digits indicate Fy codes and the seven digit code denotes the detailed classification code. The unit control code is operated along with the classification code for specifying the nature of transactions. The unit control code 001 denotes pay of all Gazetted Officer serving the factory.

The list of unit control heads to be prefixed to classification code heads have been circulated by Accounts Section vide circular no. A/11/0102/XV dated 26.7.96.

Great care has to be taken in making out the Punching Media as these forms the basis for financial compilation as well as adjustments for cheques drawn on various treasuries, receipts deposited through MRO etc.

The classification codes for different types of transactions are provided in the 'Classification Hand Book' Defence Services (for Service Heads) and pamphlet of Revenue, Debt and Remittance Heads (for RDR Heads).

### **How financial transactions are brought to Account**

The sections in MO and Br. AOs responsible for making payments adjustments prepare PM at time of passing the bills. The Punching media are sent by Br. AOs to the local EDP Section for data capture in the prescribed format and the data file after validation is forwarded to EDP Section of MO for generation of weekly and monthly compilation as per time schedule fixed for each year. The data entry of PMs pertaining to MO is done at the MO, EDP Centre. After merging the data files received from all the Br. AOs, monthly compilation is generated. The data is also sent to CGDA, EDP Centre for inclusion in All India Compilation.

### **Some of the Important Sub-Compilation and its use**

1. Code-wise Compilation - This shows Month-wise booking against each code head for the Fy. organisation as a whole. Used in EDP Section.
2. Book Compilation - This shows monthly and progressive bookings against each code. Used by Accounts Section and EDP.

**1. Sectional Compilation** - Bookings made by the Sections/Br. AOs during the month are shown in this compilation, sent to all the compiling Section for reconciliation and confirmation of correctness of bookings.

**2. GPF-DAD Statement (Non-DAD Statement)** - Audit Sections reconcile the amount as per this compilation with reference to GPF Schedules.

**3. RDR Head Compilation** - User Accounts Section, MO.

**4. Cash compilation (CCO-2)** (Summary Details sent to All Br. AOs Accounts Section, Stores Section, Pay Section, 'T' Section of MO.

The CCO-2 Compilation shows the booking Voucher-wise for each factory/formation. It helps management to have latest expenditure figures under different heads and to have effective budgetary control. The CCO-2 compilation includes booking made by different sections in MO and Br. AO on behalf of a factory e.g. the TA bills passed by `T Section for payment is directly booked to the concerned Fy code by the `T Section.

Expenditure already compiled to All India Compilation by the DAD Cell attached to the four PAOs at Kolkata, Delhi, Bombay and Madras on account of Central purchase of Stores and by the DAD Cell attached to embarkation Hqrs. At Bombay and Madras for custom duty are brought into the CCO-2 compilation by re-allocation through Class - VII Voucher prepared by Stores Section on receipt of details from the concerned paying authority. Similarly, the expenditure on account of MES works expenditure are compiled to the Fy code head by the Regional CDAs and the Account Section reallocate the expenditure in the CCO-2 compilation.

### **Steps required to be taken for ensuring error-free Compilation**

1. The entries made on the PM must be clear and legible.
2. The operation of Fictitious classification codes as well as wrong Fy/unit control code must be avoided
3. The Rt. Side total and the Charge side total of PM must tally to balance the PM.
4. To avoid backlog of vouchers, it must be ensured that the data file is sent to MO by the fastest mode of communication now available to ensure its receipt in MO by the scheduled date.

### **Important areas of Concern**

Issues to Army, Navy and AF and other departments are made by debiting the issue codes of Army, Navy and AF etc by Contra -Credit to Fy. Code head. Separate codes have been provided for identifying the nature of stores issued both on the Fy and Army side. It is observed that Br. AOs are not correctly debiting/crediting the appropriate issue code though such mistakes are on the decline. Most care must be exercised while preparing PMs for issue transactions to avoid any mistakes since the amount compiled in such PMs are in crores and any error is viewed seriously. The detailed codes are given in the CS No. 41/98 issued to classification hand book, Defence Services.

### **COST COMPILATION**

The cost of each article manufactured in the factory is compiled under three elements of cost

- (i) Direct Labour
- (ii) Direct Material
- (viii) Overheads

Orders for production are placed on the shops in the shape of manufacture and material warrant in the shape of batch or quantity. The warrant along with the standard estimates forms the main instrument for control over utilisation of labour and material on an individual job or batch. This also forms the basis for compilation of cost.

Warrant is the authority for utilisation of labour and drawal of materials. Expenditure incurred under the elements of cost viz. Labour, material, variable overheads and fixed overheads are collected warrant-wise. Cost Cards by warrants will be maintained in the Local Accounts Office. Cost Cards will be opened immediately a warrant is issued. Particulars regarding Extract Number, Quantity ordered Work Order / Warrant Number, nomenclature of material and estimated cost under different elements of cost will be filled in. Postings are made on the Cost Cards warrant-wise from Labour, Material and Transfer Voucher Abstracts and Component Abstracts wherever applicable.

### **Accounting of Labour Charges**

The primary cost accounting documents used for the collection of labour expenditure by jobs and various indirect work orders are as mentioned below:

- (i) Piece Work Card
- (ii) Day Work Card
- (ix) Allocation Sheet
- (x) Labour Punching Media

### **Piece Work Cards**

PW cards are prepared on completion of production and certified as accepted by shops for claiming payment.

The PW Cards show

- (1) Ticket No. of Piece worker or gang piece work No.
- (2) The W.O. and Wt. No.
- (3) Description of work performed
- (4) Quantity accepted
- (5) Operation hours admissible

The PW cards are initially priced on average hourly rate of the Fy and the difference between Actual Wages paid and card value is levied through DOP and increment percentage.



### **Day work Cards**

For Day Workers who are paid by attendance the Shops prepare. DW Cards showing T. No. of workers, W.O., Warrant and time spent on job.

Normally one card is prepared for each week.

For workers who are continuously engaged on the same job throughout the month, the shops prepare a monthly allocation sheet instead of DW cards.

### **Labour Punching Media**

For booking payment pertaining to leave pay holiday pay, Overtime Bonus, Dearness and other allowances in Cost Accounts the AO prepares Labour PM showing Section Code No., WO No. and total amount. All these PM relate to indirect work orders only. A file containing piece work card and Day work and Labour PM is generated by the wage roll package which is used as an input by the Costing Package to generate Labour Abstract, SVC, and SFC.

### **Accounting of Material**

Primary Documents: - Demand Notes, Return Notes, Receipt Vouchers, Issue Vouchers and Transfer Vouchers. The stores authorized for drawal as per material abstract are drawn on Demand Note and any excess stores returned through Return Notes. The Demand and Return Notes of a month after validation and pricing are posted in PSL and a file containing DN/RN generated by Inventory package. This file is used as an input for generating material abstract using the costing package.

The material abstract is a tabulation in which the expenditure incurred against each WO and Wt. is shown Demand/Return Note-wise and also the net total against each WO/Wt. The net expenditure for each warrant is posted in Cost Card pertaining to concerned warrant.

### **Overhead Expenses**

Overhead expenditure may be defined as expenditure which are not directly related to production but are expended for providing various facilities and services incidental to production.

These are indirect expenditure and comprised of expenditure on account of indirect material, indirect labour and other charges. Since such cost cannot be directly allocated to production these are apportioned on a fixed percentage. As such, at the beginning of the financial year sub-budget committee fixes VOH and FOH leviable for each section. This percentage is levied on direct labour while generating Labour Abstract.

### **Closing of Cost Cards**

The list of warrants completed during a month is received by the costing section and necessary action is taken to close the Cost Cards. The unit cost of production will be worked out under each element of cost.

At the close of the financial year the total cost so arrived under different series of work order constitute the total cost of production for the factory. This cost is compared with the estimates separately provided for each W.O. (element-wise) and the variation beyond 10% under each element is suitable explained. Apart from this cost arrived at as per cost compilation is compared with Financial Compilation and reconciled as per procedure laid down in Chapter-X of O.M. Pt - VI Vol. II.

### **PRODUCTION ACCOUNT**

Production Account –

- (i) is a ledger account compiled by Branch Accounts Officer(s) and consolidated by PCA (Fys), Kolkata.
- (ii) Figures under Debit and Credit items are compiled by taking into account the various transactions of revenue expenditure and revenue receipts affecting cost of production of articles produced during a financial year.
- (iii) Is debited with the value of opening unfinished semi (WIP), direct labour, Direct Stores and Overhead Charges.
- (iv) Is credited with certain relief to Overhead charges viz. Rent, Rates, Electricity and Water Charges recoverable, Unclaimed Wages lapsed, Sale proceeds of machinery, closing value of unfinished semi (WIP), Cost of avoidable rejection (KOP) and Cost of Production.

#### **Note:**

- (i) Certain transactions which are not revenue in nature viz. Book Value of Discarded Assets, Sale proceeds of machineries etc. are also accounted under Production A/c but impact of which are finally kept out of production.
- (ii) Certain profit and losses not generated out of the production process viz. Profit/Loss on Sale of Surplus, Obsolete Stores, Stock-pile items etc. are also initially accounted under Overhead element of Production A/c but kept finally out of Production Cost.

Documents/ Information required for Compilation of Production Account –

| Sl No | Name of document  | Remarks   |
|-------|---|---|
| 1     | Un finished Shop Semi Statements showing Work Order, Warrant-wise details of shown for the quantities lying as unfinished condition as on 31St March. | Semi Statements are prepared by Fy and priced by LAO after reconciling with the relevant cost and PL Card. Semi value are to be worked out series-wise and Labour payment and material element-wise.  |
| 2     | Inspection Notes/ Production Vouchers (P. Vr)   | Prepared and submitted by Fy. Accounted through Production Ledger (P.L.) Card by LAO. COP is worked out on the quantities passed in inspection. Value of Avoidable Rejection is calculated taking into account rejection quantities appeared in P.L. Card (duly reconciled with concerned warrant) and deducting the permissible quantity as per NR% provided in the ESTT/ warrant. |
| 3     | Production Estimates  | Prepared by Fy and priced by LAO taking into account the updated rates.   |
| 4     | Shop copy and Accounts copy of Warrants (both Material and Manufacture).  | Wts. Are floated by Fy transactions are posted both by Fy & LAO. After completion, Shop copies of completed Wts are received from Fy. By LAO. Posting into the Cost Card and P.L. Card are required to be verified with the postings made in Wts.   |

| Sl No. | Name of document  | Remarks  |
|--------|---|--|
| 5      | Cost Abstracts viz. Labour with Overhead Abstract Material Abstract T.V. Abstract (including Foundry/ Process T.V. or allocations Master Cost Card Tabulation (M.C.C.)) | Cost Abstracts are generated in EDP by LAO based on the primary documents received from Fy. (Viz. PW/DW Card, Material Demand/Return Notes Transfer Vrs. etc.) and some documents generated by LAO viz. (Labour Cost Punching Mediums, Overhead Allocations, Foundry/Process T.V./Allocation) etc.   |
| 6      | Manufacturing A/c- Statement "B"  | Compiled by LAO monthly showing Rent, Rates, Electricity and Water Charges etc. recoverable, recovered etc.  |
| 7      | Priced Store Account (PSA) -  | Compiled by LAO monthly summarizing the receipt and issue transaction of material category (PSA Code) wise took place during the month. One summary is also prepared showing value of Opening Stock of material, value of total receipts and issues of material and value of closing stock of material as on the closing day of the month. |
| 8      | Cash Compilation (CC02)   | Compiled by PCA (Fys), Kolkata showing Fin. Code wise Expenditure/Receipt. A statement showing major (important) items appearing under Dr/Cr. entries visa-a-vies source of receipt of input data item-wise are shown in Annexure - A enclosed.  |

## PRODUCTION ACCOUNT

### ANNEXURE - 'A'

Debit Item

| Sl. No. | Particulars                 | Source of Figure  | Remarks   |
|---------|-----------------------------|---|---|
| 1       | Work-in-Progress As on 1.4. | Should be equal to the value of work-in-progress on 31st March shown against Cr. item 3 of Previous year's Production Account (Closing balance of previous year to be brought forward as opening WIP) | Figure should also agree with the opening value of WIP shown in work-in-progress A/c of Principal Ledger.                         |
| 2       | Direct Labour               | Total value of labour expenditure (other than expenditure of 01 & 02 series) appeared in Labour and T.V. Abstracts pertaining to the year of account.   | Figure should agree with the total Direct Labour expenditure shown in the Debit side of work-in-progress A/c of Principal Ledger. |
| 3       | Direct Stores               | Total value of Material costs booked under Direct series (i.e. other than 01 and 02 series) as tabulated in the summary of Material and T.V. Abstract for the year.                                   | Figure should agree with the Total direct material expenditure shown in Debit side of work-in-progress A/c of Principal Ledger.   |
| 4       | <u>Overhead Charges</u>     | Total expenditure incurred on account of Pay & Allowances etc. in respect of employees and officers (other than IEs) and booked under class of cost 14 against '01' series work order.                | Figure should agree with the supervision charges shown in the debit side of Overhead expenses A/c of Principal Ledger.            |
|         | (B) Transportation Charges  | Total expenditure appeared in CCO-2 under Financial code 808/02 (amount should also be booked under Cost W.O .. 01/00030/00).   | Figure should agree with the transportation charges shown in Debit side of Overhead Expenses A/c of Principal Ledger              |
|         | (C) Miscellaneous Charges   | This figure should normally agree with that shown against W.O. 01/00037/00 Incidental & Misc.   | Figure should agree with the relevant item appeared under Dr. side of O.H. Exp. A/c in P.L.                                       |

Factory Accounting - IDAS (P)

|   |  |  |
|---|--|--|
| (a)Contingent Charges   | Exp. (less amount charged direct).   |  |
| (b) Cost of DGOF<br>(i)Effective Charges<br>(ii) Non-effective Charges                          | Figure intimated by the PCA (Fys) and appeared under cost W.O. 01/00027/00   | -Do  |
| (c) DAD Charges<br>(i) Accounts<br>(ii) Internal Check  | Figures should agree with the Share intimated by PCA (Fys), Kolkata on account of Central Administration (Accounts) plus Expenditure of Local Accounts Office (percentage of distribution set accounts of Internal check is 80% & 20%) | Figure should agree with the amount shown against W.O. 01/00028/00(Central Administration (Fys)) and01/00029/00 (Fy. Account Office. |
| (d) Superannuation Charges  | As worked out by LAO in superannuation charges Register adopting the rates intimated by PCA (Fys) Kolkata.   | Figure should agree with the amount booked under cost W.O. 01/00013/00   |
| (f) Indirect Labour   | Summarized net figure of Labour expenditure appeared against '01' and '02' series in Labour Abstract and T.V. Abstract (i.e. Dr. - Cr. W.O.)   | This figure should agree with the total labour Expenditure appeared in IE Statt.   |
| (g) Indirect Stores   | Summarized net value of Material expenditure appeared against '01' & '02' series work order in Material Abstract & T. V. (i.e. Dr. - Cr. W.O.)   | This figure should also agree with the total amount appeared under Material Column of IE Statt.                                      |
| Note: -Total of Indirect and Direct Stores should agree with Cr. item 1(a) & 1(b) of Store A/c. |  |  |

Factory Accounting - IDAS (P)

|   |  |   |
|---|--|---|
| (D) Depreciation Charges<br>(a) Depreciation  | As worked out and calculated by LAO in the Capital Block Register (sum of depreciation amount of all capital assets other than land). Depreciation to be worked out adopting Straight Line Method. | Figure should agree with the amount booked under cost W.O. 01/00018/00 for other items 01/00019/00 for Building 01/00034/00 for Machinery 01/10034/00 |
| (b) Book Value of Discarded Assets  | Sum of book value lying in Capital Block Register in respect of items sold/discarded as on the date of sale transaction.   | Figure should agree with the amount appeared under cost W.O. 01/00050/00  |
| Note - Amount shown against 4(D) (a) & 4(D)(b) should agree with the amount appeared under cost W.O. No. 01/00050/00                              |  |   |
| (F) Losses:<br>(a) Surplus Stores<br><br>(b) Obsolete Stores<br>(c) Waste & Scrap<br>(d) Loss of Stores on Charges<br>(e) Others losses on Stores | Amount appeared in PSA Against PSA Issue code 76<br>- do - 77<br><br>-do- 78 & 79<br>-do- 70 to 74<br>-do- 68 to 69  | Amount should agree with losses   |
| (H) Over-absorbed FOH   | Amount of FOH levied (based on pre-determined percentages) in excess of leviable FOH [ i.e. incurred FOH (Dr. - Cr. W.O.) less KOP less watt insurance charges if any]                             | Amount should agree with the summary of IE statement (01 series)  |
| (I) Over-absorbed VOH   | Amount of VOH levied (based on predetermined percentages) in excess of leviable VOH [i.e. Incurred VOH (Dr. - Cr W.O.) less KOP amount.  | Amount should agree with the summary of IE statement (02 series).   |

Note: - Over/under absorption both for VOH and FOH must be within  $\pm 5\%$  limit. If actual exceeds 5% limit, course of Re-levy to be taken

**CREDIT ITEMS**

| Sl No | Particulars  | Sources of Figure  | Remarks  |
|-------|--|--|--|
| 1     | Relief of Overhead Charges -<br>(a) Misc. Credit –   |  |  |
|       | (i) Rent & Rates Recoverable   | Amount compiled in Manufacturing A/c Statt. B. Amount should also be booked under Cost W.O. 01/00125/00  | Figure should agree with Cr. item of OH Exp. A/c in) principal Ledger.       |
|       | (ii) Elec. & Water Charges recoverable   | Amount compiled in Manufacturing A/c Statt. B. Amount should also be booked under Cost W.O. 02/00117/00  | -do-   |
|       | (iii) Unclaimed Wages Lapsed   | AS intimated by Fy. Management Amount to be booked under W.O. 01/00140/00  | -do-   |
|       | (iv) Sale proceeds of Machinery  | Amount worked out by AO with the entries of sale Reqr. Of Machinery items.<br>Amount recovered should be compiled under Fin. Code 01/922/35 (deduct code).<br>Amount should also be booked under 01/00151/00 | -do-   |
|       | (d) Profit on sale of<br>(i) Surplus Stores<br>(ii) Obsolete Stores<br>(iii) Waste and Scrap | Amount appeared in PSA against Rt. Code.<br>PSA Rt code 21, 25, 119 PSA Rt. Code 22<br>PSA Rt. Code 23, 24<br>Amount of profit to be booked under W.O. 01/00131/00   | -do-   |
|       | (g) Care & Custody of Stock  | Amount booked under cost W.O. 01/00046/00  | Fig. Should agree with concerned Cr. item of OR Exp. A/c in Principal Ledger |



Factory Accounting - IDAS (P)

|   |  |   |  |
|---|--|---|--|
| 2 | Deptt. Stores utilized on Indirect work orders | Sum of process and Foundry Materials booked under '01' and '02' series W.Os appeared against class of cost 22, 28 etc.  | Fig. Should agree with the amount posted against Dr. item of Misc. charges A/c of Principal Ledger.        |
| 3 | Work-in-progress as on 31 <sup>st</sup> March  | Sum of WIP value worked by LAO for all the Cost Cards inclusive of process/Foundry WIP. Fig. Should agree with the sum total of semi Statt. Prepared by Fy and priced by LAO.   | Fig. Should agree with the closing WIP value shown in work-in-progress A/c of principal ledger.            |
| 4 | Under absorbed fixed charges                   | Excess of leviable FOH over levied amount.  | Amount should be agreed with the summary of IE Statt. (01 series).   |
| 5 | Under absorbed variable charges                | Excess of leviable VOH over levied amount.  | Amount should agree with the summary of IE Statt. (02 series)  |
| 6 | Cost of Production                             | Sum of cost of production worked out by LAO for all the articles completed during the year. Figures should agree with total COP of all the Cost Cards. Amount Should agree with the grand total of COP shown in 10A and 10B Statt. Showing cost of outturn. | Amount should agree with sum of Cr. Item 2 to 6 of WIP A/c (showing indenter wise cost of production).     |
| 7 | Cost of Rejection (KOP)                        | Sum of cost of Avoidable Rejection worked out for all the warrants/Cost Cards involving excess rejection (i.e. in excess of normal rejection percentage)  | Fig. Should agree with the amount shown in Cr. side of WIP A/c or Dr. side of P&L A/c in principal ledger. |

**Note** - Cost of rejection (KOP) is required to be worked out by LAO on receipt of completed Wts. From Fy where quantity shown as rejected (reconciled with P.L. card) exceeds normal rejection provided in Wt./Estt.

**An idea about Principal Ledger maintained in the  
Branch Accounts Office of Ordnance Factories**

Principal Ledger is maintained out side all financial accounts by the concerned Accounts Officers for the purpose of preparing the consolidated Manufacturing Accounts viz. Production Accounts, Finished Stock Accounts and Capital Accounts and arriving at the cost of Production of articles manufactured in the factory.

The different heads in the principal ledger are so arranged as to provide information required for the compilation of the consolidated Manufacturing Account and also for effecting reconciliations of the figures compiled in Cost Accounts.

The following heads of Accounts (Total 30) are at present maintained in the Principal Ledger: -

1. Custom Duty A/c.
2. Stores Cash Purchase A/c.
3. Stores Supplied by other Factories A/c.
4. Transportation Charges Account.
5. Stores A/c.
6. Sale of Stores (Surplus obsolete & Waste) A/c.
7. Issue of Stores on Payment A/c.
8. Wages A/c.
9. Supervision Charges A/c.
10. Misc. Charges A/c.
11. Misc. Credit A/c.
12. Overhead Exp. A/c.
13. Work-in-Progress A/c.
14. Rent, Rates, Water and Electricity charges Recoverable A/c.
15. Payment Services A/c.
16. Manufacture for Own Fy. Stock A/c.
17. Services to other Fys. A/c.
18. Services for Capital Asset A/c.
19. Manufacture for the Army A/c.
20. Profit and Loss A/c.
21. Capital Assets A/c.
22. Proforma Capital Asset A/c.
23. Capital Assets Stock Pile A/c.
24. Cash Ledger A/c.
25. Preliminary Exp. A/c.
26. Deferred Revenue Exp. A/c.

27. O/s Asset A/c.
28. O/s Liabilities A/c.
29. Capital Outlay A/c.
30. Balance A/c.

Posting into Principal Ledger are generally made month wise, For which transactions are first need to be journalized based on the data available from the following documents compiled monthly.

- i) Priced Store A/c (Showing For better appreciation copy of Issues and Receipts of PSA for 4/91 in r/o M & S. Fy Stores) and Journal Entries there of
- ii) Cash compilation (Showing Copy of Summary Sheet of 0002 Receipts and Expenditure for 4/91 in r/o M & S. Fy., and compiled) Journal Entries prepared
- iii) Cost tabulation
- iv) Manufacturing A/c -Statement A & B.

Specimen posting of figure / data under Dr. and Cr. entries of various ledger accounts based on the Journal entries prepared.

In addition to the postings made based on the monthly documents, some postings have also to be done annually in respect of transactions like Superannuation Charges (Cost debit), Cost of free ration etc. to D.S.C. Share of Central Administration charges both for Fy and Accounts, Cost of unpaid telegrams, Share of Cost of Ordnance Factory News etc. Information /data on such transactions can only be made available at the year end.

Principal Ledger is required to be closed annually. For which balances of each head of account (other than Balance A/c.) are struck at the year end and transferred directly or finally through Subsidiary account(s) to the Balance A/c. Dr. balances of Balance A/c. represent Assets while Credit balances exhibit liabilities of the Factory as on the closing day of the year and sum of all such Dr. entries should tally with sum of all the Cr. entries of Balance A/c. Such agreement of totals of Dr. and Cr. side of Balance A/c. proves the arithmetical accuracy of postings made into various heads of accounts of Principal Ledger.

### **Reconciliation of Cost and Financial Accounts**

Vouchers, through which financial transaction takes place, are classified in accordance with the budget heads they pertain to and a consolidation of such financial compilations with details are sent monthly to each Branch Accounts Office. These transactions are journalized by Dr. or Cr. to Capital Outlay A/c. and posted in the Principal Ledger.

On the other hand, expenditure on labour, Material and other charges compiled to Cost of Manufacture through Cost documents like D.W. and P.W. Cards. Demand/Return Notes, Allocation Sheets etc. are all posted in Principal Ledger to the debit credit of the respective Subsidiary accounts like Wages accounts, Store A/c, Supervision charges A/c. Misc. charges A/c. etc. to be finally transferred to the Work-in-Progress A/c. and there from to the Capital Outlay A/c.

Thus figures from both ends are finally booked to Capital outlay A/c. and the fact that all expenditure which has appeared in financial compilation has been incorporated in Cost Accounts is automatically verged by Capital Outlay A/c. which balances to itself.

### **Computerised Wage Packages**

1. In 1997 it was decided that such Accounts Office in Factory Organisation should have own Computer center. Accounting function of the Accounts offices would be done using those computers. Accordingly three phase actions were taken up (i) Setting up EDP Centre at each branch Accounts Office (ii) In house development of three Accounting packages - Wage, Inventory, Costing (iii) In house development of manpower in computer.

By 1998 the computer centers were set up and software packages were developed by the three Nodal team for implementation. The packages are at different stages of implementation in different offices.

2. **Wage Package:** - This package aimed at standardization in the process of calculation of wage of Industrial Employees working in Ordnance Factories within the framework of rules on the subject.

2.2 For implementation of package; the following master database are to be created at the beginning and subsequently are to be maintained. They are (i) IE Master (ii) Leave Master (iii) Deduction Master (iv) Code Master (v) Warrant Master.

2.2.1 **IE Master:** - This master contains personal information about each Industrial Employee which has bearing in calculation of his entitlement.

Some field like, home state, bank name, bank A/c no. are also provided to expand the scope of the package to audit of LTC bills; payment by Cheque etc. The main source of creation of this master is the service book of individual employee. In case Factory management has already created Personal Information System in magnetic media; data from that source may be captured in the IE Master database format. The same should be audited 100% with reference to Service book before implementation of the package. Few cardinal fields which need special attention are DOB (date of birth), IE - Type (1 for on strength; 0 for out of strength) Fund-AC No (Fund Account Number) CGEGIS.Dt (date of entry to CGEGIS), Prs-Scl-cd (Present Scale Code). Basic-Pay, Spl-Pay, Per-Pay, DNI (Date of next increment) Ph-hand-cd (Physical handicap Code), HRA-Adv (HRA admissibility), R/A-Adm (Risk allowance admissibility)

**2.2.2 Code Master** ( codefl.dbf) This master is created by the package development team where every aspect like, scale, grade, trade, educational qualification, state, town, Factory, penalty type , earning code, deduction, penalty ground etc., have been codified. Further maintenance scope has been left with the implementation centers to suit their local requirements. This master is used by the program in each of its validation stages.

**2.2.3 Leave Master:** - This master is to capture the balance of leave by direct data entry from the leave balance register maintained by Factory. Subsequent maintenance of this master will be done through the package. The initial figures entered into the master are subject to 100% audit by Internal Audit while audit of service book. Status of audit is also to be captured.

**2.2.4 Warrant Master:** - This master is created by transfer of data from costing package. The intention was that wage package can even run on stand alone PC.

**2.2.5 Deduction Master:** - This master is designed to capture details of advances paid to IE and subsequent recoveries thereafter. This master may take the place of maintenance of demand register both for long term & short term advances. The master may be created by transfer of data from Factory management (as prior to computerization recoveries were made by Factory Management). Correctness of the entries may be verified with reference to Demand register maintained by Accounts Office.

**2.3** The following are the transaction files created by Accounts Office every month on the basis of source documents received as shown.

- (A) (i) Prom-dbf (ii) Penal.dbf (iii) Smp.dbf (iv) Rdtout.dbf  
(v) Fojoin.dbf
- Factory order issued during the month.
- (B) PIC.dbf - Periodical Increment Certificate.
- (C) AttFy.dbf - Monthly Acquittance Roll.
- (D) Cardtrans.dbf - OPW / GPW Card.
- (E) Gangdtts.dbf - Gang transfer memo of Section.
- (F) Levtms.dbf - Leave Factory Order
- (G) Syatt.dbf - SARS.

2.4 Other than IPW / GPW Card details other informations are received in Accounts office in hard copy. As such IPW / GPW Card details can be captured by transfer of data from Factory computer but other informations are to be captured by direct data entry.

2.5 The activity in the EDP Centre for calculation of wage may be divided into three parts. (i) Pre-payment week activity (ii) Payment week activity (iii) Post payment week activity

2.5.1 (a) **Prepayment Week Activity:**- During this period the transaction data base needed for maintenance of Master as mentioned in A & F of para 2.3 are created and validated. Corresponding Master are updated with the validated transaction.

2.5.2 (b) **Payment Week Activity:** - On the first day of the month the changed status of personal Information System in comparison to last month's status is generated and handed over to manual group for checking and authentication. Once this is audited the entitlement audit is complete and processing of rate of each element of wage is started. During this period transaction details as mentioned in B.C.D.E.G of para 2.3 are captured, validated and processed.

Outputs generated during this period are profit statement. Profit summary, pay slip, pay bill, earning summary, recovery summary

2.5.3 (c) **Post Payment Week Activity:** - During this week transaction details for SARS & Cost PM are captured, validated and processed. Different master like, Demand Master, History Master are updated during this period. Outputs generated during this period are recovery schedule, supplementary payment bills (not related to current wage period), and generation of different MIS.

2.6 Validation Checks are provided in two different stages. In the data entry screen validation checks are provided for each field and in case of any invalid entry the cursor is not allowed to proceed with out proper validation; the reason for invalidation are also displayed in the screen. Batch validation programs are also provided in the package to validate data which is captured by transfer of data from other computer.

2.6.1 Nature of validations is of two types (i) by exact matching (ii) by range matching. When the exact valid value of any field can be predicated as per manual the nature of validation checks provided is exact matching. As for example in the data entry screen of PIC, the values in each field can be exactly predicted hence validated with the corresponding value in the IE Master. Same is the case of validation of PW Card with warrant. There are cases where the exact value is not known like, OT hour, OTB hour, NSA hour, NSB hours etc. In those cases a logical range check has been provided. The purpose of the range check in the validation is to avoid skip of key during data entry. In those cases the accuracy in the input can only be ensured by 100% auditing of check list. The check list of Factory orders, attendance, supplementary attendance, cards, and deduction will fall under this category. The package does not allow to process record unless the file is made free from error.

2.7 The main objectives of the package are (i) to be make accurate payment is IEs with least possible time (ii) to furnish necessary management information regarding payment (iii) to create necessary database of payment for further (iv) to standardize the whole work.

2.8 After implementation of the package the time for processing of data has been reduced and in many factories the data of date of payment to IEs have been advanced. Many non standard practices have been removed. After implementation of the package the Accounts Offices now have necessary tools to control the amount of requisition to GMs.

2.9 In the manual system many control audit was not feasible because of shortage of manpower. As machine has now taken care of the major strain of calculation the available manpower can now be directed towards management audit i.e. necessity audit or adequacy audit. As the package is now standardized necessary system audit package can be developed.

2.10.1 DO's:-

- i) After creation of master the same to be 100% audited with reference to authenticated hard copy e.g. Service Book in case of IE Master.

- ii) After creation of transaction file the same to be validated and checklist printed and reconciled.
- iii) EDP should process data in transaction file only after the same is authenticated as correct Audit Section.
- iv) Change PIS output to be printed each month and 100% audited with reference to Factory Orders.
- v) Before authorization of payment it is to be ensured that hours shown in the earning summary tallies with the checklist total as amended; change pay output exhibits the same information as is generated by change PIS.

#### 2.10.2 Don'ts:

- i) Correction in master by directly using it.
- ii) Make shortcut by avoiding validation loops to save time.

**Limitation:** - Wage package so developed has the following

**Short comings** - No provision has been made for calculation of productivity link bonus.

No provision has been made for fixation of pay and calculation of arrear.

No provision has been made for calculation of pay on more than one rate of pay or more than one entitlement which takes place due to promotion in the middle of month or occupation / vacation of quarter in the middle of the month.



### **Computerised Inventory Package**

The package was developed with an aim to provide reliable, accurate and timely information on material available in the factory. This standardized package will become the most effective tool for material management and will be the guiding tool for Finance representative in the TPC.

The Inventory Package is divided into number of module (a) Supply Order module (b) Inter Factory Demand module (c) Priced store ledger module (d) Assets and Liabilities module. The modules are not totally independent.

For implementation of the package, the following master databases are to be created at the beginning and are to be subsequently maintained. They are (1) Itemmast.dbf ( Stock item master file ) (2) SOMaster.dbf ( Supply Order master ) (3) Vendmast.dbf ( Vendor Master ) (4) SDMaster.dbf ( Security deposit master) (5) LiabMast.dbf (Outstanding liability file for Store transactions ) (6) Assetmas.dbf ( Outstanding Store Asset master) (7) IFD Mast.dbf ( Inter Factory Demand Master (8) IFDRate.dbf ( IFD rate master) (9) Codemast.dbf ( Details Codes).

**Itemmast.dbf:-** This master is maintained item code wise. All informations available in the priced store cum provisioning ledger are also available here except the details of transactions. This master on a cut off date to be created by transfer of data from Factory computer to avoid duplicate data entry. The balances, average ledger rates, last transaction data. Bin page line numbers are to 100 % audited with reference to manually maintained PSL before actual switch over.

In the manual system MCO division of the factory were making the initial entries in the PSL sheet before entering into the folder. In the present set up Factory EDP is opening new record in the Item master on the basis of information furnished by MCO division. As no print out of such transactions are available in Accounts Office; the only way to maintain the master is to collect data from the Factory on the new folios opened during a month and append the same in the Master.

**S.O.Master.dbf:-** This master is maintained for capturing supply order details. The master may be initially created by transfer of data from factory master. The same to be 100% audited with reference to supply orders maintained by Accounts Office.

For subsequent maintenance of the master the new S.O.details may be captured from Factory database and after necessary audit validation with reference to hard copy of SO received in Accounts office may be appended

in the master. Any revision in the existing S.O. may, however, be carried out by using the screen of the package.

**Vendmast.dbf:-** This master is maintained to codify information about the vendors. This master may be created by transfer of data from factory management. Its subsequent maintenance may be carried out by using screen of the package.

**SDMaster.dbf:-** This master contains all no information about the scrutiny deposits held by the Accounts Office. The master can be created by data entry from security deposit register maintained by Accounts Office. Subsequent maintenance can also be done by direct data entry.

**Liabmast.dbf:-** This master contains details of outstanding liabilities. Master can be created by data entry from the Liability register maintained by Accounts Office. Subsequent maintenance however can be done using program.

**Assetmas.dbf:-** This master contains details of outstanding assets. The Master can be created by data entry from the Asset register maintained manually. Every month the details of bills passed are to capture.

**IFDmast.dbf:-** This master contains details of the IFDs placed by the Factory on other factories. This master can be created by data entry from the IFD register maintenance manually.

**IFDrate.dbf:-** This master contains details of rates of IFD items on the basis of which receipt vouchers of the factory are to be priced. This master is created on the basis of OFB rate list.

The transaction files IFDRTVr.dbf, Rtvrfl.dbf, files IFDRTVr.dbf, Rlvrfl.dbf, Ovrfl.dbf, dnrnfl.dbf, issvrfl.dbf, nominal dbf, are created every month by transfer of data from Fy. Management. The data so received are to be validated by using validation programs in the module. The outputs are subject to 100% audit with reference to hard copy of documents before processing in the package.

The receipt vouchers when received in the EDP Section are validated and priced using S.O.module (IFD module for items of Inter Factory demand). Demand notes and issue vouchers are validated and priced using priced store ledger module. At the end of the month PSL and PSA are generated with various important management reports dike Slow moving Non-moving report, obsolete scrap waste report, unpriced receipt voucher listing report, store in transit report.

Bills of contractors as and when passed are also entered in the Asset master and by using Asset & Liability linking module the outstanding assets and liabilities report, balance sheet etc., are generated.

Nature of validation provided are validation with exact clause in Item Code, Unit of Quantity, PSA Code, S.O.Number, SO date, SO serial number, IFD number, IFD date, Bin quality BPLN.

The package allows to process data from a file containing error records only the error results are not processed.

The main objective of the package is to correct accounting of stores with minimum lead time and standardise the principal of accounting.

After implementation of the package the lead time for preparation of PSA has been reduced Branch Accounts Offices are in a better position to render management information.

Still there is a lead time of 15 to 45 days in reflection of documents in the Accounts. Factory Management is very critical on this issue. The proposal for updation of PSL once in a week is under consideration. This will enable to reduce the lead time. Linking of assets with liabilities can not be 100% implemented as (i) details of very old outstanding assets and liabilities are not available (ii) MIS number is not available in case of advance payment (iii) In case of Spl. Payment Adjustment bills are not prepared by the Factory Management.

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