CHAPTER XVII

Costing and Prices of Jute Goods

Significance of costing.

Under the terms of reference, we are required to recommend measures for securing a fair price for jute goods as well as for jute. The governing influence on the price of jute goods at the present time, when India has no longer a monopoly of production, is the world demand for the commodity. This is affected by various factors such as fluctuations in general world trends of agricultural crops, by competition from other manufacturing countries, by the emergence of substitute fibres or the use of alternative packaging materials and the extension of bulk handling methods. The main element of cost in prices of jute goods is the price of raw jute. This is subject to fluctuation. At the same time, the other principal factor, which is the limiting condition of price changes, is the cost of production of Indian mills. As the elasticity of demand for jute goods is due to their being the cheapest packaging medium for agricultural as well as industrial products, it should be the aim of the manufacturer to produce them at the lowest possible cost consistent with the maintenance of standards and quality. There are however, very wide variations in the production charges of jute mills and these are reflected both in the wide range of profits made and in the system of costing followed.

Only *ad hoc* estimates in the past.

So far no comprehensive enquiry has been made into costs of the jute industry. In May 1939 the I.J.M.A. told the Fawcus Committee that while costs of production vary from mill to mill, an average cost of representative mills would on the basis of a 45 hour week be Rs. 198·8 for hessian and Rs. 126·6 per ton for sacking. In calculating this cost, managing agency commission, overhead charges, depreciation and interest on working capital, were taken into account but not the cost of jute, which was a fluctuating factor. From time to time since the War, there have been *ad hoc* cost enquiries by Government in connection with orders placed on the industry. We have for our examination used the available materials.

Lack of uniformity.

At present there is no uniform system of cost-accounting maintained by mills. Many of them (mainly Indian mills) have told us that no standard system of accounting is followed but the product cost for hessian and sacking is arrived at on the basis of actual statistical results of past working. They say that prices are quoted not entirely on the cost basis for each product but on the basis of competitive prices ruling in the market. A good many mills have stated that the costs estimated on the basis of past working are adjusted from time to time with reference to appreciable changes in the current price, of the main raw materials, principally jute, and alteration in constituent charges of processing and manufacture. They say that the costs are calculated on the total expenditure against the total production, and no subdivision under different heads of costs is made, though some mills do keep separate accounts for all main items of expenditure and use them for the purpose of economy control. Over fifty per cent. of the mills, including most of the non-Indian managed groups, and covering about 60 per cent of the output of the industry have replied that a system of cost accounting on the basis of standard costs prepared by a firm of foreign experts, has been adopted as a uniform method of calculating costs. These standard costs are prepared by reference to (a) normal output, (b) normal performance of labour and machinery, and (c) expenses incidental to (a) and (b). The cost of each department of operation is ascertained separately in suitable units of work done by reference to the standard output. Each month the actual output as against the actual costs are compared with the standard set and variations in the cost of materials and in the cost of conversion in departments are arrived at. These standard costs are revised periodically to give effect to changes in the rates of wages or variations in the output caused by introduction of new machinery, alteration in normal working time or in the composition of the output. The system of process cost accounting includes a build-up under the heads batching and preparing, spinning and winding, beaming and weaving, sack sewing and finishing and packing, and shipping. Costs are worked out on a monthly basis and reflect the actual adjusted expenditure debitable to that month.

Standard Cost" system.

The standard cost system, although it has been adopted for purposes of cost control by a large section of the industry, is yet not adopted as the basis of pricing. The I.J.M.A. who have been receiving digests of costs from the mills who have used the services of the expert, have therefore pointed out that "many members are outside the scheme and the digests so far prepared have been adversely criticised by many mills as not being representative of the true position. At the present stage of development of the Association's cost accounting scheme, the figures contained in the digests can be no more than tentative calculations, which should be treated with the utmost reservation."

Typical heads for costing.

The following items of expenditure enter into the broad group heads of cost; (a) direct expenditure, (b) works on-costs, and (c) other overheads:

a) *Direct expenditure.*

Jute.
Batching Oil and Emulsifier.
Starch.
Dyes.
Selvedge Yarn.
Hoops, Buckles and Pins.
Boating (Carriage to Calcutta).
Departmental Wages.

(b) *Works on-costs:—*

General Mistries' Wages.
Boiler and Engine Staff Wages.
Sundry Wages.
Office and Store Clerks' Wages.
Holiday pay.
Sick pay.
Provident Fund.
State Insurance
Maternity Benefit.
Pension and Gratuities.
W.C.A. Insurances.
Management & Foremen's Salaries.
Coal.
Electricity.
Lubricating Oil.

Repairs & Furnishing: Building Plant & Machinery General.

Fire Insurances.

Welfare Expenses.

Rent and Municipal Taxes.

Depreciation.

(c) *Other Overheads*:—

(i) *Administration Expenses*:—

Consequential Loss Insurances.

Sundry Insurances.

I.J.M.A. Levies.

Subscriptions and Donations.

Motor Lorry and Car Expenses.

Sundry Mill Expenses.

Calcutta Office Expenses.

In addition to the foregoing items, proportions of the expenses shown under Heading '(b) Works on-costs' above, are allocated against Administration Expenses.

(ii) *Selling and Distribution Expenses*:—

Brokerage and Commission.

Data collected.

To measure the trends in costs of gunnies, particularly of the main constituent items, we obtained from the mills an analysis of their costs for the years 1951-52 and 1952-53 for two popular constructions, namely hessians 40″ 10 oz. and B. Twills. A very large number of mills have given us the figures but a substantial section of the industry have also mentioned that they do not maintain such elaborate costs data but fixed prices on the market basis.

The cost data furnished to us, however, covered a very representative cross-section of the mill industry and their results did not show any significant divergence from the findings of the expert of the I.J.M.A. We have also been able to obtain from the Chief Cost Accounts Officer of the Ministry of Finance a detailed estimate, on the basis of the trends disclosed in the above reports as well as in Government cost accounting reports in the past. As far as the processing costs are concerned, which are not susceptible to the same kind of fluctuation as the market price of raw jute, the results indicated a satisfactory common trend. A copy of the Chief Cost Accounts Officer's report is sent to Government as a confidential annexure.

In our view the following estimate will indicate the structure of a fair price for jute goods of two typical constructions:— An estimate of fair prices

Items of cost	Estimate for 100 yds. hessian 40"× 10 oz.	Estimate for 100 bags B Twill. 44"×26½" × 2¼lbs.
	Rs.	Rs.
1. Labour (Direct and Indirect)	7 500	20·00
2. Other materials 3. Works on cost excluding depreciation.	7,000	21·50
	14·500	41·50
4. Administrative overhead assessed	1·000	1·50
	15·500	43·00
5. Depreciation	1·110	3·00
	16·610	46·00
6. Brokerage	0·330	0·75
	16·940	46·75
7. Managing Agents' Commission	0·180	2·88
	17·120	49·6
8. Interest on working capital at Rs. 13·8 per ton for hessian and 4½% on Rs. 300 per ton for sacking	0·380	1·35
	17·500	50·98
9. Return on block at Rs. 64 per ton of hessian and 8% on Rs. 800 per ton of sacking	1·780	6·40
	19·280	57·38
10. Jute	24·321	57·07
	43·600	114·45

The above calculations have been made on the basis of prices of raw jute in terms of Assam bottoms at between Rs. 26 and Rs. 27 per maund. Due allowance has been made for manufacturing losses. The actual batching mix will yield different costs for sacking and hessian. The average in the above calculations has been taken at Rs. 28 per maund for hessian and Rs. 22 per maund for sacking. Adequate allowance has been made for covering the cost of the higher qualities of jute for manufacture of hessian. In the case of sacking also the allowance given is considered quite adequate as cuttings and cheaper qualities are admixed liberally. The processing charges also provide for all incidental overheads like managing agents' commission, interest on working capital and a fair return on block. The block has been estimated on a fair basis which should suffice for old as well as new units. In the case of old units in particular the return would be on the liberal side.

It will be seen from the above analysis, that the main fluctuating element in the cost is the price of raw jute. It is computed not merely on the current market price of jute but is related to the average price of the stocks held by the mills, and the quality and admixture utilised in the manufacture of the particular construction. Over the short period, it has been observed that not only the elements like direct wages do not vary but they are more or less the same for all the mills. The overheads naturally vary between mills but for the same mill they do not vary to any large extent at different periods. The variation in the overheads element is natural as it includes a substantial element for depreciation. Interest on working capital also is a variable element.

For determination of fair price an allowance for profit in the shape of a reasonable return on capital has also to be included. During the war period, for instance, when orders were placed with the industry on a "cost plus basis" such an element had been allowed. During the period of price control that prevailed before 1951, prices were fixed, which were ceiling prices, namely Rs. 35 per maund jute on the basis of white jat bottoms, Rs. 55 for hessians 40″×10 oz. 100 yards and Rs. 155-12-0 for 40×26½ h.d. 2¼ lbs. 100 bags B Twill. These figures did not represent any fixed ratio between the price of raw jute and jute goods, and allowed a large margin for "conversion costs" including depreciation and profits. More recent estimates of costs have shown that the processing costs element has to be pitched lower, notwithstanding the rise since then in wages and in costs of miscellaneous stores. Some of the trade Associations have mentioned that the manufacturing costs of hessian at Rs. 500 per ton and of sacking at Rs. 300 per ton will still allow mills to make profits in the sale of jute goods manufactured with jute at current prices. These figures are, however lower than the assessment of fabricating costs given by the cost account expert. They have urged that the cry that since prices fell below the peak levels following decontrol, most mills have been working at a loss, is not true. This is particularly the case in regard to the older mills, the capital investment in which has been more than recovered and some of which changed hands at a premium. It will be seen from the statement that we have appended to this report that during the last 3 years although there has been a steady downward trend in prices of jute goods barring occasional spurts, the majority of mills have continued to declare reasonable dividends (*vide* Appendix VI).

More important than price fixation is stabilisation.

For reasons similar to those mentioned in regard to fixation of price of raw jute in Part I, we do not consider it desirable to prescribe fixed prices for jute goods, even ceiling prices. Price control during wartime was designed mainly for the unimpeded furtherance of the war effort. It was neither for the benefit of the consumer nor the mill. On the other hand in normal times 80 per cent. of the jute goods produced are for export. Price control on jute goods will not therefore be to the advantage of the Indian consumer. In a period of rising world prices, it might redound to the advantage of the overseas buyer or to the trader who can manage to secure prices over the ceiling prices. In fact, it was a situation of this kind that led to the steep increase in the export duty on jute goods. We have not recommended any fixed price basis for raw jute, but have supported the view that prices should be allowed to stabilise themselves over a long period and the advantages to the grower should come from other positive measures for removing the handicaps under which he suffers. Similarly we refrain from making any recommendation regarding fixed prices for jute goods in general. However, in the present highly competitive markets for jute goods, it should be the endeavour of mills and exporters to bring down the sale prices to a stable competitive levels. The reaction in the U.S.A. market to the very high prices charged in the post devaluation period and to the degree of fluctuation in prices and uncertainty in performance of orders that prevailed over a period, should be a lesson to all sections of the trade and industry to study the overseas market and satisfy its every requirement. Observers with intimate knowledge of overseas markets have stated that a pattern of stabilisation of jute goods prices will be more welcome to foreign buyers than even a drastic reduction of prices.