The Management Accountant

Official Organ of the Institute of Cost and Works Accountants of India established in year 1944 (Founder member of IFAC, SAFA and CAPA)

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IDEALS
THE INSTITUTE STANDS FOR

❑ to develop the Cost and Management Accountancy profession ❑ to develop the body of members and properly equip them for functions ❑ to ensure sound professional ethics ❑ to keep abreast of new developments.

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MISSION STATEMENT

"ICWAI Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views and should not attributed to ICWAI.

CONGRATULATIONS

Mr. Chandra Shekhar Verma, Fellow Member of the Institute of Cost & Works Accountants of India, on his taking charge as Chairman, Steel Authority of India Limited (SAIL)

Editorial

India is facing a peculiar problem. While the rest of the world grapples with the spectre of deflation, Indian policy makers are fighting a tough battle against the menace of inflation. In fact leading economists have identified a major structural weakness of Indian economy, namely the tendency of the economy to overheat at very early stages of its growth cycle.

One important reason behind this phenomenon is supply side constraints namely the limits placed on growth due to infrastructural bottlenecks. Thus when growth places demand on resources, the unavailability of resources puts a brake on the growth process and thereby feeds inflation. Hence it is felt that if India is to grow by double digits, one of the prerequisites is to increase the absorptive capacity of the economy through improvement in the infrastructural sector.

Transport and logistics is the backbone of the infrastructure of any economy. Poor transport facility and weak supply chain delays completion of projects, results in time and cost overruns, makes coordination more difficult, raises prices increases wastages and reduces profitability. Hence transport and logistics is an important cog in the wheels of growth.

Broadly, transport and logistics management is the management of a network of interconnected businesses involved in the ultimate provision of product and service packages required by end customers. It spans all movement and storage of raw materials, work-in-process inventory, and finished goods from point of origin to point of consumption.

Transport and logistics can be integrated with business development through : (a) **customer service management process** (provides the customer with real-time information on scheduling and product availability through interfaces with the company's production and distribution operations); (b) **procurement process** (activities related to obtaining products and materials from outside suppliers involve resource planning, supply sourcing, negotiation, order placement, inbound transportation, storage, handling and quality assurance many of which include the responsibility to coordinate with suppliers on matters of scheduling, supply continuity, hedging, and research into new sources or programs); (c) **product development and commercialization** (coordinate with customer relationship management to identify customer-articulated needs, select materials and suppliers in conjunction with procurement, and develop production technology in manufacturing flow to manufacture and integrate into the best supply chain flow for the product / market combination); (d) **manufacturing flow management process** (concerns activities related to planning, scheduling and supporting manufacturing operations, such as work-in-process storage, handling, transportation, and time phasing of components, inventory at manufacturing sites and maximum flexibility in the coordination of geographic and final assemblies postponement of physical distribution operations); (e) **physical distribution** (this concerns movement of a finished product / service to customers); (f) **outsourcing/partnerships** (managing and controlling this network of partners and suppliers requires a blend of both central and local involvement) and (g) **performance measurement** (on parameters of cost, customer service, productivity measures, asset measurement and quality).

In this issue, we have compiled articles regarding how Cost and Management Accountants can contribute their knowledge and expertise to the development of this crucial transport & logistics sector. ❑

President's Communique

B. M. Sharma, President

> When someone like Lord Krishna, the master of Yoga & embodiment of knowledge, and a sincere devotee like Arjuna, come together, there shall be all kind of prosperity, victory, happiness and steady resolve, this is my conviction.
>
> Shrimadbhagvadgita

My dear Professional Colleagues,

It is my honour and privilege to be elected as the President of the Institute for the period 2010-2011. At the outset I express my gratitude to all members of the Council for reposing trust and confidence in me as the President of our esteemed Institute. I thank all of my predecessors, especially Shri G. N. Venkataraman for their kind help, guidance and cooperation during my stint as Vice–President for 2009-2010. I would also like to place on record the salutary work of all my illustrious predecessors and their contribution towards the development of our profession and Institute. I look forward to their continued support in my endeavour to take the profession and the Institute to greater heights.

Today, we are living in dynamically changing and challenging times that offer new opportunities for growth as well as many challenges. While the world has been badly affected by the economic meltdown, India has shown admirable resilience and robustness. We, as a responsible and responsive stakeholder, will take the growth story forward as we are fully geared to meet the challenges. On this aspect, I take this opportunity to thank the qualified graduates and members of our Institute who are truly the pillars of this great Indian success story. Silently they make their contribution towards conservation of national resources leading to optimum usage for productive purpose. Through this communiqué, I would like to assure my professional friends that your Council will continue to let its work speak for itself.

The entire cost and management accounting community is seized of many issues vital for the profession which are very dear to us. Through my first communication with you, I wish to briefly share them with you. We all know, these originated, were sustained, got nurtured and are reaching their logical conclusion during the current term of your Council. The entire Council has worked hard to see that the issues culminate to the advantage of the cost and management accounting community.

Name Change :

All of you are aware that the Central Government introduced Cost and Works Accountants (Amendment) Bill, 2010 in the Rajya Sabha, on 28th April 2010. The Rajya Sabha has referred the Bill to the Parliamentary Standing Committee on Finance for its examination. The Institute was asked to present its views before the Standing Committee on 7th July 2010 and we have made strong representation before the Standing Committee. We are actively following up on the matter. As all of you are aware, the earlier Parliamentary Standing Committee on Finance in 2004 had also recommended change in the name of our Institute, in line with global practice and need of the day, to the Institute of Cost and Management Accountants of India.

Companies Bill 2009 :

As you are aware, the Companies Bill 2009 is also under consideration of the Parliamentary Standing Committee on Finance. The Council had sent its suggestions to the Ministry of Corporate Affairs as well as the Standing Committee. The Council was asked to present its views before the Standing Committee on 24th May 2010 and we have been actively following up the relevant issues with the Ministry of Corporate Affairs as well as the Parliamentary Standing Committee on Finance.

● President's Communique ●

In addition to above, the following key issues are also to be concentrated upon:

- Wider participation for members of the Institute under the new regime defined by The Company Bill, 2009
- Implementation of Expert Group Recommendations
- Greater role for CMAs in upcoming GST and DTC
- Bringing out more Cost Accounting Standards and updating the existing ones
- Issuance of Guidance Notes on Cost Accounting Standards
- Support Research in Management Accountancy topics
- Equitable role for our members in new regime of multidisciplinary LLPs
- Well-designed courses on Valuation, IFRSs, etc.
- Representation to the Government for enhanced role for our members in service and practice, both.
- Seek strategic tie ups with more Domestic/International Institutions for mutual benefit
- Win-Win relationships with other professional institutions.

Friends, in addition to addressing the above objectives, your Council is also fully aware of the necessity of preparing the organisation to meet the challenges. Towards this end, focus areas will be :

- Prompt and timely service to students and members;
- Improved efforts for placement of our graduates/members
- Address difficulties and concerns of members – in Employment and Practice;
- Making practice as a Cost and Management Accountant a lucrative option
- Greater interaction with International Accounting and Management Bodies for benefit of the members and profession
- Bringing Head Quarter, Regional Councils and Chapters on a common IT platform to achieve inter-connectivity. This will bring about marked improvement in efficiency and effectiveness of the entire organization
- To take effective part in all the initiatives of The Ministry of Corporate Affairs in enhancing corporate governance and address the needs of all stakeholders.

I am confident that with the help and support of Vice-President Shri M. Gopalakrishnan, colleagues in the Council, Regional Councils, Chapters, members, students and employees of the Institute, your Council will be able to achieve the above goals.

I solicit your suggestions for uplifting the Cost and Management Accounting Profession and Professionals.

Wishing you happiness, success and prosperity.

With best wishes,
Yours sincerely,

(B. M. Sharma)
President

Date : August 02, 2010

Our New President

B. M. Sharma, President

ICWAI is pleased to announce the appointment of Shri B. M. Sharma as the new President of ICWAI for the year 2010-11. An M.Com from Pune University, Shri Sharma is a Fellow Member of ICWAI and has been a Central Council member of the Institute for the periods 2004-07 and 2007-till date. He is a practicing Cost Accountant with over 19 years of professional experience.

Shri Sharma has previously held the post of Vice-President of ICWAI in the year 2005-06 and 2009-2010. Prior to being elected as Vice- President for the year 2009-10, he was the Chairman of Professional Development (Technical) Committee of ICWAI in the years 2004-05 and 2008-09. He has been the architect behind publication of various professional development publications like Guidance Notes on Cenvat Audit, Valuation Audit under Central Excise Act, VAT- Its Accounting & Auditing, Input Tax Credit in Service Tax, Guidance Note for Valuation fro CAS-4 under Excise etc. He was also instrumental in bringing out four Management Accounting guidelines—Implementing Benchmarking, Valuation Management -A guide to Management Accountant, Implementing Corporate Environmental Strategies and Tools & Techniques of Environmental Accounting. He has represented ICWAI and India at various international fora of accountants like South Asia Federation of Accountants (SAFA), Confederation of Asian and Pacific Accountants (CAPA) etc.

Shri Sharma was President of Tax Bar Association of Pune for the period 1994-98. He was also on the Board of Directors of Maharasthra State Warehousing Corporation as nominee of Central Warehousing Corporation (Central Government) for the period 2005-08. At present, he is a member of the State Level Taxation Committee of Maratha Chamber of Commerce & Agriculture, Pune.

Shri Sharma has undertaken many training programmes on VAT organized by NIPFB and sponsored by Government of Maharasthra. He has been a faculty on VAT for various seminars organized by Regional Councils of ICWAI, ICSI, branches of ICAI and other professional and trade bodies. Apart from this, Shri Sharma has also presented papers on VAT, Sales Tax, Corporate Laws and Effective Vendor Planning for management of Sales Tax/VAT leading to cost reduction. Widely traveled, Shri Sharma has participated in many seminars and conferences as paper writer, moderator, Chairman as well as organizer of such programmes.

We wish Shri B. M. Sharma the very best for the present challenge as President of ICWAI.

Our New Vice-President

M. Gopalakrishnan, Vice-President

ICWAI is pleased to announce Shri M Gopalakrishan, B.Com, FCA, FICWA as its new Vice President for the period 2010-11.

Shri Gopalakrishnan has been a member of the Central Council of ICWAI for the terms 2004-07 and again from 2007-2011. He was the Chairman of Cost Audit and Assurance Standards Board of ICWAI in 2009-10 and the past chairman of the Cost Accounting Standards Board of ICWAI. During his chairmanship he spearhaded the new approach to Cost Accounting Standards aligning with International practices. He represented ICWAI in the Expert Group formed by the Ministry of Corporate Affairs, Government of India, on review of Cost Accounting Records, Cost Accounting Standards and Cost Audit Report Rules. He has been the guiding force behind many initiatives such as Centralised Campus Interview, Technical Publications (during Diamond Jubilee and India Corporate Week Celebrations), India Corporate Week Celebrations, Investor Awarness Week, Getting Connected, Meet the Mentor and Green Initiative in the Southern Region on behalf of the Central Council. He also represented ICWAI in the Accounting Standards Board of The Institute of Chartered Accountants of India. He has also been a regular speaker in various conferences on Total Cost Management, Cost Accounting Standards, Performance Management, Balanced Score Card, Performance Metrics, Integrating ERP to Performance Reporting and Cost Management Maturity Model of CII. He has been involved many key programmes of ICWAI such as National Convention at Hyderabad, First Global Summit on Management Accounting (2008) at Delhi and various programmes as Chairman Technical Committee.

Shri Gopalakrishnan is a Fellow member of The Institute of Cost & Works Accountants of India and The Institute of Chartered Accountants of India.

He served in the Southern Regional Council of ICWAI from 1990-97. He was the Chairman – Southern Region of ICWAI for the year 1996-97. During his Chairmanship, the Southern Regional Council of ICWAI was associated with the Total Cost Management Movement jointly with Confederation of Indian Industry of Southern Region. During the same period he also spearheaded the initiative for cost evaluation of new technologies in collaboration with The Indian Institute of Technology, Madras, India, supported by a MoU with IIT, Madras.

Shri Gopalakrishnan is a practising cost accountant since 1983. He is the Senior Partner in S. Mahadevan & Co., Cost Accountants, which was established in 1979. He has been focusing on shop floor driven cost management practices, activity based costing, balanced score card, performance management solutions and business intelligence for manufacturing and service sector.

Shri Gopalakrishnan is also an adviser to many listed companies (both in manufacturing and service sector) in the Southern part of India. He is also associated with new technology tie up ventures for R&D set-ups with various consumer durable manufacturers.

We wish Shri Gopalakrishnan success in his new responsibility as Vice-President of ICWAI.

Ashwin Dalwadi
(Chairman-Journal Committee)

Dear Friends,

It is a matter of pleasure and honour to serve as the Chairman of the Journal Committee of ICWAI for 2010-11.

Being the official organ of ICWAI, The Management Accountant holds a very pivotal role in disseminating the good work done by the Institute for its members, profession, society and nation at large. I as Chairman, propose to further upgrade the journal with more interesting and useful articles / write-ups that will be beneficial for our readers who are a diverse lot of professionals, students, academicians and representatives from the industry and government bodies.

In keeping with the four pillars of our Institute and our strategic areas of focus, readers are requested to contribute to articles with special emphasis on important topics like GST, IFRS, Direct Tax Code, Financial Inclusion, Corporate Governance and Environmental issues for Business. Special features of the journal on the above mentioned areas will be published to make the process more participative. Your contribution by way of articles, suggestions and criticisms is highly solicited to enable us to make the journal better.

It will also be our endeavour to invite eminent personalities from the fields of banking, economics, public finance, capital markets, government, regulatory bodies and industry experts to share their knowledge and experiences with us through the journal. In this context, I request all the Regions / Chapters to forward the speeches / presentations of experts invited to attend seminars organized by our Regions / Chapters to the Journal Department, Kolkata for publication and wider coverage in the journal.

As you are aware that the Students' journal has been discontinued and students are been sent the members' journal. I would like students to express their views regarding this change in practice and whether they require any modification in the structure of contents in the members' journal so that it is more useful to the students.

Readers are also requested to come forward with their ideas / projects on various domain areas for printing in the institute's Research Bulletin / specific publications or for undertaking research project works for industry / sector.

Many initiatives have been taken for ensuring full satisfaction of our readers. Prompt processing of requests for address change of existing members and requests for new subscriptions of new members; making available details of returned journal list are just some of the measures to make life easier for our readers. I propose to continuously strive to improve such readers' facilities.

Wishing everyone luck and best wishes,

With warm regards,

Ashwin Dalwadi
(Chairman-Journal Committee)

August 2nd 2010

1.	**Executive Committee**	**Quorum (4)**
1.	Shri Sharma, B.M. President	Chairman
2	Shri Gopalakrishnan, M. Vice-President	Member
3.	Shri Venkataraman, G.N.,	Member
4	Shri Banerjee, Kunal	Member
5.	Shri Wadhwa, Chandra	Member
6.	Shri Mukherjee, Somnath	Member
7.	Shri Goel, H.K.	Member
	Shri Sudhir Galande (CEO)	*Secretary*

2.	**Disciplinary Committee**	**Quorum (3)**
1.	Shri Sharma, B.M. President	Chairman
2.	Shri Gopalakrishnan, M. Vice-President	Member
3.	Shri Banerjee, Kunal	Member
4.	Dr. Sampath, V. R. S. (Nominee of Central Government)	Member
5.	Shri Jagannathan, V.S. (Nominee of Central Government)	Member
	Shri Kaushik Banerjee [Director (Discipline)]	*Secretary*

3.	**Examination Committee**	**Quorum (3)**
1.	Shri Sharma, B. M. President	Chairman
2.	Shri Gopalakrishnan, M. Vice-President	Member
3.	Shri Venkataraman, G.N.	Member
4.	Shri Kothari, V.C.	Member
5.	Shri Mohanty, S. C.	Member
	Smt Chandana Bose (Sr. Director-Exam)	*Secretary*

4.	**Finance Committee**	**Quorum (4)**
1.	Shri Sharma, B. M., President	Chairman
2.	Shri Gopalakrishnan, M., Vice President	Member
3.	Shri Bhargave, S.R.	Member
4.	Shri Dalwadi, A.G.	Member
5.	Dr. Bandyopadhyaya, Sanjiban	Member
6.	Shri Durga Prasad, A.S.	Member
7.	Shri Singh, Balwinder	Member
	Shri R. N. Pal (Sr. Director-A&F)	*Secretary*

5.	**Training & Educational Facilities Committee**	**Quorum (4)**
1.	Shri Mukherjee, Somnath	Chairman
2.	Shri Bhargave, S.R.	Member
3.	Dr. Bandyopadhyaya, Sanjiban	Member
4.	Shri Raman, A.N.	Member
5.	Shri Singh, Balwinder	Member
6.	Shri Durga Prasad, A.S.	Member
7.	Shri Wadhwa, Chandra	Member
8.	Shri Mohanty, S.C.	Member
9.	Shri Kothari, V.C.	Member
	Shri Arnab Chakraborty (Director-Studies)	*Secretary*

6.	**Professional Development Committee**	**Quorum (4)**
1.	Shri Banerjee, Kunal	Chairman
2.	Shri Venkataraman, G.N.	Member
3.	Shri Wadhwa, Chandra	Member
4.	Shri Bhargave, S.R.	Member
5.	Shri Raman, A.N.	Member
6.	Shri Mukherjee, Somnath	Member
7.	Dr. Bandyopadhyaya, Sanjiban	Member
8.	Shri Durgaprasad, A.S.	Member
9.	Shri Dalwadi, A.G.	Member
10.	Shri Jena, P.K. (Govt Nominee)	Member
	Shri J. K. Budhiraja (Director- P.D-T&P)	*Secretary*
	Shri Chiranjib Das [(Dy Director-Studies)]	*Secretary*

7.	**Journal Committee**	**Quorum (4)**
1.	Shri Dalwadi, A.G.	Chairman
2.	Shri Raman, A.N.	Member
3.	Shri Goel, H.K.	Member
4.	Shri Durga Prasad, A.S.	Member
5.	Dr. Bandyopadhyaya, Sanjiban	Member
6.	Shri Singh, Balwinder	Member
7.	Shri Wadhwa, Chandra	Member
	Ms. Anamika Mukherjee (Dy Director- R&J)	*Secretary*

8.	**Continuing Education Programme Committee**	**Quorum (4)**
1.	Shri Goel, H.K.	Chairman
2.	Shri Dalwadi, A.G.	Member
3.	Dr. Bandyopadhyaya, Sanjiban	Member
4.	Shri Mohanty, S.C.	Member
5.	Shri Raman, A.N.	Member
6.	Shri Singh, Balwinder	Member
7.	Shri Venkataraman, G.N.	Member
	Shri D. Chandru (Additional Director)	*Secretary*

9.	**Members' Facilities & Services Committee**	**Quorum (4)**
1.	Shri Mohanty, S.C.	Chairman
2.	Shri Goel, H.K.	Member
3.	Shri Dalwadi, A.G.	Member
4.	Shri Kothari, V.C.	Member
5.	Shri Venkataraman, G.N.	Member
6.	Shri Durga Prasad, A.S.	Member
7.	Shri Banerjee, Kunal	Member
	Shri Kaushik Banerjee (Additional Director)	*Secretary*

10.	**Regional Council & Chapter Co-ordination Committee**	**Quorum (3)**
1.	Shri Singh, Balwinder	Chairman
2	Shri Mohanty, S.C.	Member
3.	Shri Venkataraman, G.N.	Member
4.	Shri Kothari, V.C.	Member
5.	Shri Durgaprasad A.S.	Member
	Shri S. R. Saha (Additional Director)	*Secretary*

11.	**WTO & International Affairs Committee**	**Quorum (4)**
1.	Shri Raman, A.N.	Chairman
2.	Shri Bhargave, S.R.	Member
3.	Shri Singh, Balwinder	Member
4.	Shri Durga Prasad, A.S.	Member
5.	Shri Banerjee, Kunal	Member
6.	Shri Mukherjee, Somnath	Member
7.	Shri Chakrabarty, D.S.	Member
	Shri Sudhir Sharma (Dy Director)	*Secretary*

12.	**Cost Audit & Assurance Standard Board**	**Quorum (5)**
1.	Shri Bhargave, S.R	Chairman
2.	Shri Kothari, V.C.	Member
3.	Shri Mukherjee, Somnath	Member
4.	Shri Wadhwa, Chandra	Member
5.	Shri Goel H.K.	Member
6.	Dr. Bandyopadhyaya, Sanjiban	Member
7.	Shri Raman, A.N.	Member
	Shri Tarun Kumar (Dy. Director- Technical)	*Secretary*

13. Taxation Committee	Quorum (4)
1. Dr. Bandyopadhyaya, Sanjiban	Chairman
2. Shri Mukherjee, Somnath	Member
3. Shri Wadhwa, Chandra	Member
4. Shri Mohanty, S.C.	Member
5. Shri Bhargave, S.R.	Member
6. Shri Goel, H.K.	Member
7. Shri Munesh Kumar (Govt. Nominee,)	Member
Shri Chiranjib Das, Dy. Director (Studies)	*Secretary*

14. Committee for Accounting Technicians	Quorum (4)
1. Shri Venkataraman, G.N.	Chairman
2. Shri Singh, Balwinder	Member
3. Shri Bhargave, S.R.	Member
4. Shri Dalwadi, A.G.	Member
5. Shri Goel, H.K.	Member
6. Shri Mohanty, S.C.	Member
7. Shri Banerjee, Kunal	Member
8. Shri Mukherjee, Somnath	Member
Shri L. Gurumurthy (Director-CAT)	*Secretary*

15. ICWAI-ICAI-ICSI Co-ordination Committee	Quorum (4)
1. Shri Sharma, B.M. President	Chairman
2. Shri Gopalakrishanan M., Vice-President	Member
3. Shri Banerjee, Kunal	Member
4. Shri Wadhwa, Chandra	Member
5. Shri Raman, A.N.	Member
6. Shri Singh, Jaikant (Govt Nominee)	Member
Shri Sudhir Galande (CEO)	*Secretary*

16. Members in Industry, Centre of Excellence & Information Technology Committee	Quorum (3)
1. Shri Durga Prasad, A.S.	Chairman
2. Shri Kothari, V.C.	Member
3. Shri Raman, A.N.	Member
4. Shri Goel, H.K.	Member
5. Shri Mohanty, S.C.	Member
6. Dr Bandopadhyaya, Sanjiban	Member
Smt Anita Singh (Jt. director)	*Secretary*
Shri Arunkumar (Asst. Director)	*Secretary*

17. Navi Mumbai Research Centre Project Committee	(Quorum 3)
1. Shri Kothari, V.C.	Chairman
2. Shri Bhargave, S.R.	Member
3. Shri Dalwadi, A.G.	Member
4. Shri Venkataraman, G.N.	Member
5. Chairman,WIRC (Co-opted)	Member
6. Secretary, WIRC (Co-opted)	Member
7. Chairman,Navi Mumbai Chapter (Co-Opted)	Member
Shri R. N. Pal, Sr. Director (F&A)	*Secretary*

18. Cost Accounting Standards Board		Quorum (8)
1. Shri Wadhwa, Chandra	(Central Council Member – ICWAI)	Chairman
2. Shri Banerjee, Kunal	(Central Council Member – ICWAI)	Member
3. Shri Singh, Balwinder	(Central Council Member – ICWAI)	Member
4. Shri Mohanty, S.C.	(Central Council Member – ICWAI)	Member
5. Shri Mukherjee, Somnath	(Central Council Member – ICWAI)	Member
6. Shri Dalwadi, A.G.	(Central Council Member – ICWAI)	Member
7. Ms. Nandna Munshi	(Central Council Member – ICWAI)	Member
8. Shri Goyal, B.B.	[Adviser (Cost), Govt. of India]	Member
9. Shri Joshi, D.V.	(Past President, ICWAI)	Member
10. Dr. Bhattacharyya, Asish K.	(Professor – IIM, Calcutta)	Member
11. Dr. Gandhi, Sailesh	(Professor – IIM, Ahmedabad)	Member
12. Dr. Gupta, C. P.	(Professor ,Delhi University)	Member
13. Shri Muraliprasad, S. A.	(Director, SAM Consultancy Services)	Member
14. Shri Singh, Jaikant	(Nominee of MCA)	Member
15. Shri Maheshwari, Sanjeev	(Nominee of ICAI)	Member
16. Shri Kasodkar, Milind	(Nominee of ICSI)	Member
17. Shri Adukia, Raj Kumar	(Nominee of ASSOCHAM)	Member
18. Shri Vig, Vikas	(Nominee of PHDCCI)	Member
19. Shri Thiagarajan, J.	(Nominee of CII)	Member
20. Nominee of FICCI		Member
21. Nominee of SEBI		Member
22. Shri Sahay, R.N.	(Nominee of CCI)	Member
23. Shri Dhingra, A. K	(Nominee of TRAI)	Member
Shri J. P. Singh (Director-Technical)		*Secretary*

19. Members' Benevolent Fund Committee :	(Quorum 2)
1. Shri Sharma, B.M. President	Chairman
2. Shri Gopalakrishnan, M. Vice President	Member
3. Shri Banerjee, Kunal	Member
4. Shri Balwinder Singh	Member
Shri Kaushik Banerjee (Additional Director)	*Secretary*

Role of Cost and Management Accountants in Air Express Transportation (Express Delivery) Services

CMA Mike Bharwani*

The aviation industry has played a key role in globalization by compressing time and distance covered, which has helped businesses to obtain goods and services immediately and efficiently to meet customer demands. While the high costs of utilizing air express services were earlier considered as a barrier, this is not a limiting factor any more, especially in sectors where timely delivery is critical, such as medical supplies, perishable commodities, spare parts, fashion items and other services where customer demand is strong enough so that selling prices cover express transportation costs. In this paper, the financial advice and expertise provided by management accountants is discussed.

Introduction

Organizations have a wide selection of multi-modal transport choices available that provide the logistics management teams of companies the flexibility to make optimum choices in selecting air, ship or road transport or even a combination of these. The successful examples of online technology companies like Amazon, Cisco and Dell—which have utilized e-commerce to record exponential business growth—would not have been possible at such pace without the availability of efficient supply chain management, logistics and payments infrastructure.

In the air cargo transportation sector, the air transport service provider offers a range of services ranging from air express services at the high end with value-added services such as door-to-door service (pickup and delivery), special packaging, customs clearance, tracking features and commitment to delivery time with money backed guarantee, while at, the low end, the service offered can be an airport to airport cargo (ATA) freight service without the frills and hence charges are low for the ATA services.

The services are marketed and differentiated as international priority services (time sensitive), international carton (box) package, international express freight, economy service (delayed or next day service) and cargo freight, which offers the least selling price. Other sophisticated forms of services can include a combination of international express transportation coupled with logistics and warehousing services that offer direct distribution to retailers and, accordingly, attract a higher realization price due to the premium service offered.

This industry is capital and labor intensive as it requires huge investments in airplanes, vehicles, IT equipment, as well as investments in staff costs for couriers, engineers, pilots and other professionals.

The management accounting profession can add considerable value to the air express and cargo industry in several ways and experienced professionals will find that their services and advice can be extremely useful to their business partners. The following section describes some of the critical areas where management accountants with their expertise can make a significant contribution.

Pricing, Revenue optimization and Yield Management

The pricing structure in the air express industry follows a lane sector or zone based pricing structure wherein countries are grouped according to their geographical proximity, accessibility, and other considerations, with fuel costs and contractual transportation costs being important cost components. Typically, for international pricing, the neighboring countries bordering the origin country would be in the first zone (1 or A), where prices at this zone would be at the low level and prices would increase for each subsequent zone group of

* MBA, AICWA, CPA, Finance Director, UAE. Email : mike.bharwani@gmail.com

countries, going up to six or even more zones.

Other considerations determining the inclusion of a country in a particular zone and its price positioning include the delivery arrangements that the air transportation service provider company has in that country, such as whether it has its own direct operations, or whether it contracts with a franchisee partner in that country and the negotiated rates that the partner charges for providing such services to the principal partner. Agent contractual rates can be on a per package basis, per kilogram basis—or a combination of both.

The concepts of variable costs and contribution margin come to the forefront as airline executives very often grapple with decisions on pricing and selling the empty space on their carriers and having at least some contribution towards fixed costs or risk facing the prospects of under-recovery of flight costs. It is in the interest of the airline transport provider to ensure that the air flight capacity (load factor) is fully utilized or close to being fully utilized and decisions need to be taken on ensuring that the flight has maximum revenues across the different product portfolio (express, economy, freight types) and that the minimum variable costs are recovered for the cargo freight services.

Costing Assumptions and Load Factors

The costs of flight for flying from one point to another is referred to as linehaul for a particular lane sector and is made up of fuel, maintenance, crew costs, air control costs, landing fees, navigation, administration fees, and other variable and fixed costs. The load factors for particular lanes sectors are analyzed to determine the type of flight costs that can be recovered in order to set prices to stimulate demand and thereby help optimize revenues for that lane sector. The following table serves to illustrate, for example purposes the costs that can be considered relevant at different levels of load factor or flight capacity utilized.

Scenario	Load Factor % Range	Cost Assumptions
A	Up to 30%	Incremental costs only (Fuel, Main tenance)
B	30% to 50%	Incremental costs (Fuel, Maintenance) plus some % of Variable costs (Land ing fees, Navigation fees, etc.)
C	50% to 70%	Incremental costs (Fuel, Maintenance) plus 100 % of Variable costs (Landing fees, Navigation fees, etc.)
D	70% and above	Incremental costs (Fuel, Maintenance) plus Variable costs plus Fixed Costs

Cost Database & Activity-Based Costing

Management accountants need to maintain updated cost databases covering the various transportation linehaul costs per lane sector flown, which would be useful in evaluating different connecting schedules scenarios and determining whether there are some efficiencies to be obtained from other airline providers and on-board couriers (OBC) with their scheduled time commitments.

There can be opportunities to identify cost savings and improvements during this regular exercise. Additionally, they can play a role in evaluating along with the marketing teams to ensure that fuel surcharges imposed by airline carriers can be passed on to customers and withdrawn when no longer charged. Activity based costing can be employed where accounting and ERP systems are utilized and the various costs and resource elements involved in activities such as courier tasks, package scan, pickup, transport, customer service, handling, customs clearance, invoice, etc. are accurately identified and captured in the systems. This would be useful in product pricing decisions.

Customer Account-Based Pricing and Customer P&L Analysis

Management accountants can review the historical shipment profile of existing customers, as well as ascertain the likely profile of prospective customers in order to determine the revenues and profitability analysis and propose special pricing with discounts that can help increase sales in particular zones from existing customers or help win new accounts by attractive price positioning taking the overall business of the prospect into consideration.

A caveat at this stage would be

prudent. Management accountants need to evaluate the discounts provided to customers to ensure that customers are actually utilizing the sectors that they committed to and are not simply choosing the best rates from multiple air transportation service providers and are not giving other more profitable business else where. This can be taken care of by either providing the discounts post shipments after the fact or by conducting regular profitability analysis of customer accounts and providing them with reminders of their sales agreement entitling them to qualify for discounts or special pricing.

Planning, Reporting and Performance Metrics :

Management accountants play a key role during the business planning phase in developing operating plans for individual cost center and P&L owners by analyzing past trends and forecasting future volumes along with evaluating capital expenditure investments. Given the high capital and other labor intensive requirements to meet demand and fuel future growth, management accountants can evaluate feasibility of business and operations proposals by utilizing techniques and criteria such as discounted cash flow (DCF), net present value (NPV), internal rate of return (IRR), payback period, profitability index (PI) and earnings before income and taxes (EBIT).

During the planning phase, management accountants can help drive profitability goals by defining efficiency targets for the business and operations teams in the following year by planning for an improvement in cost per pack (CPP) (e.g. achieve a reduction in CPP by 3% to 5%), improvement in the service quality level index which is a measure of how well customers are served and improvement in yield / pack and / or yield / kg realizations. By defining both cost and yields targets along with profitability goals, care is taken to ensure that cost per pack target achievement do not entirely come at the expense of increasing volumes from low yields, since the targeted CPP metric would benefit from having costs spread over large volumes.

During the course of the year, management accountants play a key role in providing timely (weekly, monthly) performance dashboards of the results of the business operations and the comparisons with the plan, forecasts and previous year. Evaluating the cause of variances with the plan targets can help management take corrective actions early on and help apply pressure to find ways of driving costs lower, such as renegotiating contract transport rates or finding alternative suppliers or even evaluating different routes.

Treasury functions and hedging

Fuel costs are one of the important cost items that can impact the air transportation business adversely and management accountants having experience in the treasury arena can employ derivatives and other financial instruments to hedge fuel costs and thereby be certain of cost assumptions staying valid. Additionally, operations in certain countries may be exposed to fluctuating currencies and management accountants need to ensure that the pricing list for services provided in the country are updated to reflect these currency fluctuations, although it is not feasible to do this fre-quently due to marketing and customer communication limitations. In some instances, a USD price list can be adopted, where local regulations permit or settlement with the agent partner can be performed in USD.

Conclusion

Management accountants can add considerable value in a number of areas in the air express transportation industry. In order to be considered as valuable business strategic partners of management, they need to demonstrate their financial and business acumen to management as opportunities develop and help drive value-added activities towards business goals. ❑

Role of CMAs in the Logistics and Transportation Sector

CMA R. Veeraraghavan*

Logistics is the management of the flow of ***goods, information*** and other resources between the point of origin and the point of consumption in order to meet the requirements of consumers (fre-quently, and originally, ***military*** organizations). Logistics involves the integration of information, ***transportation, inventory, ware-housing,*** material-handling, and ***packaging,*** and, occasionally ***security***. Logistics is a channel of the ***supply chain*** which adds the value of time and place utility. Today the complexity of production logistics can be modeled, analyzed, visualized and optimized by plant simulation software.

The Transportation & Logistics industry sector comprises a wide range of service providers, covering all modes of transport – air, road, rail, sea – as well as related services such as warehousing, handling, stevedoring, and finally value added services like packaging, labelling, assembling etc. In addition to these 'physical' services, T & L includes all sorts of planning, organisational and management services in the area of transportation and logistics. Over the past years, we have seen a trend to consolidation, resulting in larger, integrated groups operating in more than one of the T&L sub-sectors. As a result, the limits between the T&L sub-sectors become more and more indistinct.

Globalisation and outsourcing of logistics services created double digit revenue growth in the industry in the early part of the 21st century, however, the economic downturn which made itself felt across the world in 2008 resulted in a dramatic drop in the sector's growth in 2009. The industry was suddenly faced with some of the most difficult market conditions in history. Liberalisation and privatisation are one starting point that is driving change in this complex, rapidly changing sector.

In addition, trade routes are shifting and networks have become increasingly complex—as have the operating agreements between companies sharing resources. Regulatory requirements have changed substantially in recent years. In an interconnected world where companies are operating across national boundaries and—together with many local partners accounting and governance issues are becoming more complex, as is customs and tax compliance. Companies looking to build a durable business need to continuously offer added value. As business models change in the industry, many companies are evolving from forwarding and warehouse managing companies to highly industrialised, IT driven supply chain providers.

Transport and logistics is a very diverse sector that plays a major role in the global economy. It enables the movement of goods, services and people as efficiently as possible. We rely on having goods available where and when we want, as well as the ability to get from A to B with ease.

Cost and Management Accountants are vital to the strategic resource planning and allocation, particularly to this Industry with diverse pillers of growth and competition. Sustenance becomes the Buzz here, with global trade under stiffer competition, survival of logistics business depends on the movements of goods and the support it receives from the sector. With competition comes the need to introspect on the cost of delivery and align the drivers to growth path.

Since the focus of the cost and management accountants is not limited to preparation and presentation of financial accounts and well extends beyond the area of financial management to Cost ascertainment, Cost control and strategizing the cost to financial planning in decision making, the right skill gained by the CMA is

* FICWA

helpful for the organizations in this sector to tread in the path of successful sustenance.

CMA should be specifically concerned with the cost of services rendered to the ultimate consumer, tracing it to the drivers that trigger these costs enumerated and try to indulge in elimination avoidance and reduction through a root cause analysis, keeping in mind that the quality is not put to stake. In order to achieve this CMAs have to build upon a Cost-structure tracking system, allow recording or data capturing at the point of incurrence and enable data analysis in real time.

Since the sector has diverse field of operation ranging from Ports(Air and Sea), Handling Agents(Clearing and forwarding), Transportation including transport of passengers by various mode, the role of CMAs will significantly change in the situation. Though everyone would interested in rendering the service at a low cost, efficiently, with proven quality to attract customers in the long-run and create a sustainable value. Moreover, there may be different compliance issues that CMAs may encounter in terms of taxation and licensing etc. Cash flows in these sub-sectors may be entirely different; also the forms of oraganisation may be unique (for instance Sea-Port Sector and Railways in India is still under Government—by and large).

CMAs have the right role in proper financial management and expenditure management to see that the cost of service is able to sustain competition and grow in the long-run. Since the service cost impacts the cost of goods when it lands to the ultimate customer it is necessary that this sector focus on proper financial and cost management and there is a strategic alignment between these two to arrive at the right price for the service rendered.

Since the sub-sectors in the industry can range in scales of operation as a solution provider and an associate to decisions, CMAs should carefully perceive the requirement planning and realization matrix to define a path and tread through the same, there can be no common solution to a particular problem across time and space. It is the right structure that gets built up to reveal the path of growth in identical cases, so the focus of the CMA should be to build the right structure that determines the cost parameters and also involve in strategic financial planning process that comprehensively takes into consideration the "Revenue stream expectation—cost of funds—cost of service operations".

Formulas for Successfully Lowering Costs in Transportation and Logistics

First, it was airlines. Then, it was other companies in a wide range of sectors that adopted a low-cost formula for their businesses. This approach involves finding the best price for the company and the customer while emphasizing a strict policy of cost containment.

Many firms in logistics and transportation have made a low-cost model central to their operations. Two tools appear to be fundamental : Innovation, and Common sense.

The concept of a low-cost formula owes its success to airlines that have made air travel accessible to all social strata. EasyJet and Ryanair, for example, revolutionized the market by offering cutthroat low prices while enforcing draconian, company-wide cost control policies, helping them to attract customers and profits. Many policies in the low-cost model—such as paying an additional charge for baggage—have been so successful, that Spainair, Iberia and other traditional airlines couldn't help but adopt them as well. The result? They've launched their own initiatives aimed at lowering costs, becoming more competitive in terms of pricing along the way.

Little by little, the low-cost model has become popular beyond airlines. From hotels to real estate, companies are using it to attract customers who are, more than ever, looking for a strong relationship between quality and price.

Getting to Work

For its part, the transportation and logistics sector is looking for ways to deploy the low-cost model without harming service levels.

Not only does this approach involve lowering costs, but also maintaining the same levels of quality while keeping a long-term perspective. A low-cost approach is not short term. It involves a continuous effort to achieve organizational efficiencies, while considering all products or services in terms of what they cost.

Low cost is not just about reducing costs but about changing management to gain efficiencies. It involves adjusting a product to the needs of each customer and definitively lowering costs, but it also contributes value to the company.

Everything that a company transports have maximum urgency —that transportation providers must differentiate between their rates for shipments that must be delivered rapidly and those shipments where saving money has the highest priority, and their customers are willing to wait longer for delivery. One has to offer the customer a premium service for the most urgent deliveries, but also another, cheaper one [with a slower shipping time]. Quality means delivering [the shipment] when you promise to do so; not necessarily delivering it the next morning.

Success Stories

Every manufacturer focuses on transportation costs which adds to the cost of product at the time of delivery—while speed, safety are not neglected though.

A low-cost, common sense initiative first requires exploratory work and analysis, involving everyone who is part of the transportation process. Asking customers and suppliers questions, paying attention to operations, and spending time watching the loading dock are always ways to get excellent results.

Collaboration is a good way to cut costs. Integration of supply-chain may be beneficial from scaling point of view as well as Controls.

Today, you need low-cost strategies more than ever, but not just at any price. You need both lower costs and higher quality. Our low-cost culture involves critiquing all operational processes, and we devote one meeting a week to doing that.

Another example of how to optimize resources in a low-cost environment is to economically combine various modes of transportation. The essence of this low-cost approach is the efficiency of the processes. You can achieve excellence by offering a low-cost service or product while fulfilling your customer's precise expectations. Neither more nor less than the service and the price you've agreed on.

"An excellent service is one that fulfills exactly what the customer's goals are. That is low-cost service."

Logistics Sector In India

With $50 billion worth and growing at 7% annually India has a huge potential for the Logistics.

Features of Indian Logistics Industry :

- A number of small-integrated players.
- Transportation costs account for nearly 40% of production costs.
- Logistics costs around 13% of GDP, compared to 8% in the US.
- Growth in Indian economy is the major driving factor for the demand in logistics industry.
- Chemicals, metals, FMCG, cement and textiles have been identified as the top five contributors to logistics revenues.

Growth Drives for Logistic sector in India :

General growth of the Indian economy.

Manufacturing boom-for ex-ports as well as for domestic market.

Expected rise in International trade from India.

MNC's setting up manufac-turing in India—Nokia, Flextronics.

Government's thrust on Infrastructure—US$17 billion to upgrade highway networks.

Implementation of VAT will lead to growth in warehousing business.

Opening of organized retail sector—attracting retail chains like Wal-Mart and Carrefour in addition to Indian players like Pantaloon and Reliance.

The Indian government is making great efforts by

Privatizing ports and airports

Increasing the number of gateway ports

Investing in highway projects

Streamlining customs and excise procedures

Implementing EDI systems

Improving the rail network. ❑

The Application of the Activity Based Costing in Logistics Costs

B. Ramesh*

Activity based costing is a methodology that measures the cost and performance of cost objects, activities and resources. Cost objects consume activities and activities consume resources. The problems that conventional costing methodologies raised were the main reason for developing a new theoretical approach to this subject. Logistics is the management of the flow of goods, information and other resources between the point of origin and the point of consumption in order to meet the requirements of consumers Logistics consists of activities that facilitate the movement of goods from supply to demand. As many such activities require the use of ports, port authorities have taken a particular interest in the various port activities involved in logistics. Performance indicators of logistics activities measure the performance of a logistics system and evaluate its efficiency level. Activity-based costing (ABC) can assist logistics managers by revealing the links between performing particular activities and the demands those activities make on an organization's resources. Logistics activities are oriented to create value for consumers, suppliers and other companies involved in the physical management of goods. To reduce logistics costs and provide the level of customer service demanded,it is important to know the resources used in every activity through an efficient logistics cost analysis system.

Introduction

Definition :

Activity based costing is a methodology that measures the cost and performance of cost objects, activities and resources. Cost objects consume activities and activities consume resources. Resource costs are assigned to activities based on their use of those resources, and activity costs are reassigned to cost objects (outputs) based on the cost objects' proportional use of those activities. Activity Based Costing (ABC) is an accounting technique that allows an organization to determine the actual cost associated with each product and service produced by the organization without regard to the organizational structure. It is developed to provide more accurate ways of assigning the costs of indirect and support resources to activities, business processes, products, services, and customers. ABC systems recognize that many organizational resources are required not for physical production of units of product but to provide a broad array of support activities that enable a variety of products and services to be produced for a diverse group of customers. The goal of ABC is not to allocate common costs to products. The goal is to measure and then price out all the resources used for activities that support the production and delivery of products and services to customers.

Activity based costing is a relatively new type of procedure that can be used as an inventory valuation method.The technique was developed to provide more accurate product costs. This improved accuracy is accomplished by tracing costs to products through activities. In other words, costs are traced to activities (activity costing) and then these costs are traced, in a second stage, to the products that use the activities. Another way to express the idea is to say that activities consume resources and products consume activities. Essentially, an attempt is made to treat all costs as variable, recognizing that all costs vary with something, whether it is production volume or some non-production volume related phenomenon. Both manufacturing costs and selling and administrative costs are traced to products in an ABC system. Note that treating selling and administrative costs in this way is not acceptable for external reporting. In traditional full absorption costing and direct (or variable) costing systems, indirect manufacturing costs are allocated to products on the basis of a production volume related measurement such as direct labor hours. Thus, the fundamental differences between traditional systems and activity based systems are: (1) how the indirect costs are assigned (ABC uses both production volume and non-production volume related

* MBA, M.Com., PGDT, ICWAI (Final), Associate Professor, Department of Business Management, St. Mary's College of Engineering and Technology, Near Ramoji Filim City, Hyderabad.

bases); and (2) which costs are assigned to products (in ABC systems, an attempt is made to assign all costs to products including engineering, marketing, distribution and administrative costs, although some facility related costs may not be assigned). At the present time, most of the companies that use the activity based method have developed stand alone, microcomputer based systems separate from the company's mainframe cost accounting system used for external reporting. The idea is to develop more accurate product costs than the traditional cost accounting system provides so that management can make better strategic decisions such as product introduction, pricing, mix and discontinuance. In these systems, ABC is not used as an inventory valuation method. Activity based costs are not charged to the inventory accounts. However, it is used to determine product costs once per year, or, more frequently, when changes are made in the production process.

Description of ABC Methodology

The problems that conventional costing methodologies raised were the main reason for developing a new theoretical approach to this subject. Johnson and Kaplan are considered the inventors of ABC, although they do not use this terminology at the beginning of their studies [Johnson and Kaplan, 1987]. The first time the concept of ABC appears is in a later article [Cooper and Kaplan, 1988]. The analysis of cost and profitability of individual products, services, and customers represents a critical issue that companies were concerned with and one where ABC tries to help. The primary focus was to ask what is important for the organization, and what information is needed for management planning and control functions. Finally, useful information for managerial purposes should not be extracted only from a system designed primarily to satisfy external reporting and auditing requirements.

Meaning of logistic

Logistics is the management of the flow of goods, information and other resources between the point of origin and the point of consumption in order to meet the requirements of consumers (frequently, and originally, military organizations). Logistics involves the integration of information, transportation, inventory, warehousing, material handling, and packaging, and—occasionally—security. Logistics is a channel of the supply chain which adds the value of time and place utility. Today the complexity of production logistics can be modeled, analyzed, visualized and optimized by plant simulation software.

Concept of logistics costs

Logistics consists of activities that facilitate the movement of goods from supply to demand. As many such activities require the use of ports, port authorities have taken a particular interest in the various port activities involved in logistics. Performance indicators of logistics activities measure the performance of a logistics system and evaluate its efficiency level. As such, performance indicators can be used in improving logistics systems within a particular firm or throughout a national economy. The major reason for measuring logistics performance is to reduce operating costs. Measuring operating costs helps to identify whether and where to make operational changes to control expenses and identify areas for improved assets. Although logistics performance indicators can be evaluated in various ways, depending on the purpose, in general they fall into one of two categories: (1) costs indicators, which indicate costs consumed in carrying out logistics activities, and (2) service indicators, which indicate the results of logistics activities.

Since business competitiveness can be enhanced through cost reductions and service improvements in logistics activities, it is important that companies and governments be competent in measuring logistics rela-ted performance.Cost indicators are popular performance indicators, though the measurement methodology has not been standardized. Moreover, there is no guideline regarding which indicator to use when measuring the efficiency or productivity of individual logi-stics activities.

Logistics costs include :

- cost of transport activities, for each mode;
- cost of storage or warehousing activities;
- cost of time value or investment in goods in a logistics system, including the added value of transportation;
- cost of physical form changes required for effective and/or safe transport, storage, and handling;
- cost of marking, identifying, recording, analysis, as well as data transfer and handling;
- cost of stacking/unstacking activities;
- cost of added packaging required;

- cost of material transfer activities;
- cost of consolidation / deconsolidation activities;
- cost of information and telecommunications integration;
- cost of logistics system management;
- cost of unavailability of goods (when required).

In general, the costs of transport activities and non-physical handling activities, such as an inventory and related time costs, constitute the majority of logistics costs.

Role of activity-based costing (ABC) in logistics

Activity-based costing (ABC) can assist logistics managers by revealing the links between performing particular activities and the demands those activities make on an organization's resources : (1) ABC differs from traditional cost accounting by tracing costs to products according to the activities performed on them. (2) Traditional approaches allocate direct and indirect costs on a proportionate basis using volume-based cost drivers such as direct labor hours, machine hours, or material dollars. Volume-based cost drivers will distort costs whenever products consume resources in disproportionate amounts. ABC has gained acceptance within manufacturing as an effective technique for accurately assigning product costs; however, most companies have not extended ABC to logistics, (3) and only a few leading-edge companies have attempted to apply ABC to reduce costs and improve logistics performance. (4) The results suggest a gaining acceptance of ABC within logistics, and most firms expect the ABC applications in logistics to produce results similar to those experienced in manufacturing.

Application of the Activity Based Costing in logistics costs

Logistics activities are oriented to create value for consumers, suppliers and other companies involved in the physical management of goods. The capacity of these companies to produce and deliver value depends on their ability to supply the consumers with the products and services in the location at the moment at which they want to get them, at competitive prices, and at the lowest total cost. To realise the required level of customer service at the lowest total cost, it is fundamental to analyse the logistics activities presents in the company and the cost that these activities generate. Many logistics operations require cooperation among companies. The costs that the companies pay depends on the decisions that they take about the realisation methods of their logistics activities. The cost recording and analysis system has to help the companies to identify the best collaboration methods, to correctly define economic advantages.

Activity based costing (ABC) identifies and measures, with reference to the single company, the costs sustained to realise logistics activities influenced by the companies that cooperate along the supply chain. The cost of every logistic activity depends on the operating methods adopted by every company involved in the cooperation. Cost measurement associated with the logistics activity is fundamental because with this value it is possible to calculate the cost differentials derived from the cooperating company's behaviour. Through reducing the logistics activity cost it is possible, in turn, to pass this reduction onto the price paid by the consumer, thus making the company's offering more competitive and economic and improving the economics of the whole supply chain. ABC can be defined as a system of calculating the costs of individual activities and assigning those costs to cost objects such as products, customers and delivery channels on the basis of the activities undertaken to produce each product or service.

The application of this analysis method to every point in the chain of distribution allows :

A. to measure the real cost sustained for every logistic operation made with a specific client, supplier or distribution channel;

B. to link at every logistics activity cost to their respective performance;

C. to reduce the wastes of the resources used in the logistics activities.

Managers need accurate information to identify the cost reduction opportunities, and to re-engineer their logistics processes with the aim of making them more efficient. The success of these attempts depends on the ability of the cost analysis system to identify the resources consumed for specific product, procurement channel or logistic activity. The detail and complexity level of this information depend on the products, services and delivery channels used. The cost analysis for each activity allows a more efficient assignment of the resources identifying the cost reduction and new technology investment opportunities because it informs of real profitability for every client, product or service. The identification and development of the more profitable activities, present along the supply chain, should create an improvement in the business performance.

Logistics costs and the ABC process

To reduce logistics costs and provide the level of customer service demanded, it is important to know the resources used in every activity through an efficient logistics cost analysis system.

ABC introduction could be subdivided in operating phases :

1. identifying and classifying the main logistics processes;
2. breaking the processes down into activities;
3. identifying the resources consumed in performing the activities;
4. determining the costs of the activities through resource driver;
5. assigning the costs to the cost objects through activity driver;
6. assessing the total cost.

The typical logistics processes in a manufacturing company are :

Demand forecasting and planning, procurement, material handling, inventory management, warehousing, order processing and transportation. A firm may have more or fewer processes depending on the nature of the business and the level of outsourcing implemented. To correctly analyse the logistics cost, it is necessary to break down the processes down into activities, creating a map of the logistics activities for the company. An analysis of the resources consumed in each activity will identify inefficiencies caused by poor logistics activities planning that generate an excessive consumption of the resources. Different kinds of resources are consumed according to the logistics activities presents in the company and the way in which they are used. To define for each activity the utilisation of resources, ABC uses the concept of resource driver. For a specific activity the resource driver is simply a factor that causes or influences costs. The activity focuses on the most important processes and sub-processes carried out in the company involving several business functions. Once the resources for the activities have been imputed, it is necessary to identify the factors that generate the demand for that activity from each cost object. The activity drivers measure the frequency and intensity of activity arising from each cost object. Through ABC for each activity, it is possible to identify at least one activity driver. Some costs may have numerous drivers, but only the most relevant should be used. The selection of cost driver is an important phase because it influences the level of accuracy of the final object cost assessment. The most relevant drivers can often be determined by questioning those employees who are most familiar with the activity to indicate which factor causes an increase or decrease in the time and effort they spend on the activity. The cost drivers should have direct relationship with the amount of effort required by the activity.A cost driver is usually expressed on a cost per unit basis. To assess the total cost of an activity for an individual cost object, the ABC multiplies the usage amount of a cost driver in performing that activity bythe unit cost of the driver. Allocating resources directly to activities and specific cost objects that utilise those activities are the most important phases of the ABC system. Through the identification of the costs sustained for each operation, connected to specific cost objects, it is possible to value the cost differential between customers, products, market segments or distribution channels. The ability to trace the costs to specific cost objects has immeasurable benefits in corporate decision-making roles. Nevertheless the information related to costs sustained in each business activity might not be sufficient. To face up to important management decisions, it could be necessary to determine the costs sustained from all of the companies in the the supply chain to fully understand the logistics activities and the variations that these costs undergo in relation to changes in the collaboration relationship.

Several factors

1. Identifying cost drivers or the structural determinants of the company's logistics activities and their behaviour;
2. Measuring cost drivers in sufficient detail so as to understand causes and effect activities;
3. Measuring the interaction of cost drivers (determining whether they reinforce or counteract each other);
4. Identifying the specific service levels that matter to customers and measuring their value;
5. Recognizing the correct tradeoffs among the logistics and service criteria;
6. Evaluating these, both as a whole and incrementally, to contain costs without undermining

needed differentiation in the distribution function.

The information obtained from integrated logistics management supports such key logistic decisions as determining needs for warehouse space, identifying warehouse locations, choosing delivery channels, deciding to outsource, etc. Despite the significant impact and costs involved in these decisions, the information needed to make these decisions remains largely inaccessible. Furthermore the planning of a integrated logistics system doesn't need only the total cost valuation for a logistics activity, but it is necessary to consider the effects produced on other important business processes such as production and marketing in order to minimize the company's total cost—the use of traditional cost accounting system based on volume and the improvement of business.

Conclusion

The comparison calculation of different scope logistics cost can help enterprise adjust the idea, for example, if the supply logistics cost is higher than normal, then the manager can get the best choice through comparing the self-transport supplier transport and transport by others. In the business process, we can get the cost control experience and improve the lower efficiency logistics activity by comparing the resource consumptions of the same activity in the different logistics costs. Robert Kaplan pointed out the applicability of ABC method. In fact, ABC method is not applicable enough to identify costs with many reasons. Opening the black box, the process of resources consumed, is to break it into activities. To realize and identify the cost accurately, more information related with activities should be acquired in time. Especially, no standard rule is to implement ABC method for enterprises. ❑

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Cost and Management Accountant's Role in Logistics Sector

CMA R. Gopal*

To run and manage a business is not a childish game. We have to meet many hindrances. Those hindrances are Personnel hindrances, Place hindrance, Time hindrances, Finance hindrances and Risk hindrances. Personnel hindrances can be solved by channel of distribution. Place hindrances are solved by Warehousing. Time hindrances are solved by logistics. Finance hindrance is solved by banks. And Risk hindrances are solved by Insurance sectors. Out of these lists of solvers, we shall deal with logistics.

Transport solutions services offer customized transport solutions to wide cross-section of— product segments and industries, integrating the state-of art technology, process, people and management for contributing end-to-end services right from suppliers to customers in the entire supply chain spectrum. Package delivery services have undergone a change in its business model. The re-engineering has been done to provide esteemed customers of PDS much better services, a larger network, reach reliable and quality services and to better symbolize our expanding range of nationwide capabilities.

*MFM, M.Phil, AICWA, Cost Accountant Bhavani (T.N.)

Activities of logistics are :

1. Time bounded transit services.
2. Investment in dedicated assets.
3. Dedicated fleet for transportation on specific carriers with planned loads, offering customized cost effective end to end solution.
4. Easy billing.
5. Integration of IT software solutions providing a virtual visibility of cargo movement with information flow. Logistics execution includes the process, technology and organization support that help manage inbound and outbound transportation, warehousing, package delivery and own fleet across an enterprise and the enterprise's extend supply chain. Improving logistics performance remains challenge for many firms, even for those who have achieved better customer services levels and higher profits from implementing well–structured logistics initiatives.

Capabilities of logistics bear a long list. Let me list out some of them :

1. Single interface for all transportation requirements.
2. A national network covering all aspects of transportation that caters to various industries.
3. Freight Management covering the complete transportation need on turnkey bases from need assessment, taking into account reasonability back freighting, consolidation of cargo, cross-docking, routing, scheduling and contract management. 4. Large service associates base to enhance service capabilities. 5. Complete delivery supervision to ensure that all consignments are delivered safely. 6. Corporate backing capabilities in mobilizing large resources of capital, manpower and fleet. 7. Capability to manage complex movement of cargo at multi-locations. 8. Scaling up of the operations as per requirement of the customer. 9. IT enabled services integrating the material movement flow with the information flow. 10. On-time submission of soft PODs.

Logistics manages multi-user distribution centers, which provide benefits of shares infrastructure to our customers to increase efficiencies in their supply chain. The range of service includes warehousing services, secondary transportation. In-plant logistics, distribution solutions and value added services supported by cutting edge technology. Logistics also offers package delivery services to cater to medium and small enterprises, proprietary business forms etc. We provide reliable, time bound, door-to-door cost–effective services with all the features of express cargo by using state-of-art technology and value added services through real time shipment status.

In order to provide integrated solutions to out valued customer all logistics organization are promoted into a asset based organization, with a large and rapidly growing operating fleet, comprising of a range of vehicles such as haulage multi axle trailers, double axle trailers, vehicle, tractor trailers, Reefer trucks and tankers. Fleet centers are in operation at central area.

To provide effective transportation solutions, fleet is a critical component. As logistics is an asset base with a large operating fleet, comprising of vehicles such as long haulage multi-axle trailers, double-axle trailer vehicles, tractor trailers, reefer trucks and tankers. A solution is provided to cater to each business segment. These assets are backed by having fleet centers and an efficient fleet management system. Vehicle tracking system comprises (i) A GPS base system to provide real time data location, speed distance traveled at any route deviation. (ii) A two- way communication system between the control center and the vehicle. (iii) Provides complete transparency of data. (iv) For outsourced vehicles, tracking is done physically through truck checkpoints located at strategic location covering the road network nationally. Applying out know-ledge and technology to provide customized solutions by aligning our capabilities with customer requirements to deliver the cutting edge to our customers.

Activities of customer care center of logistics organization are as follows :

(i) a dedicated team of customer care personnel for a better understanding of the customers' needs and sensitizing the various departments to customer needs.

(ii) A two-way communication with the customers for a regular feedback on the service levels.

(iii) Personalizing customer relations.

Implementation process of logistics organizations are :

(i) mapping of the customer's requirements and building solutions as per specific requirements.

(ii) Key account management concept with a long term business relation.

(iii) Emphasis on contract service levels.

(iv) Following a continuous process of improvement and replicating the best practices in the industry.

Cost and Management Accountant's activities in relation to logistics are as follows : They have to deviate the records into two aspects. One is quantity details and other is expenses details. List of expenses with respect to logistics department are Cost of Asset, Its depreciation rate, Salary of driver and Salary of assistants of vehicle, salary of staff, Insurance, Diesel consumption, Road tax, Lubrication oil, Repairs and maintenance, Permit fees. And quantity details are Distance covered per day, number of vehicles, number of days operated per annum, Number of semi-trips traveled, occupancy ratio for every month or every season / quarter, Profit ratio. Based on these information calculations of receipt of freight charges is collected. Separate fixed charges are also levied in case of other charges. To check up the fixation of per km charges impose audit work.

List of audit activities are as follows. Regarding value of asset refer invoice, check the depreciation rate as per Company's Act and income Tax Act and confirm which rate is imposed and confirm with actual depreciation and found the variance. Substantiate the reasons for disposal of variance. Regarding of salary of any personnel, check the agreement and confirm basic salary, allowances, and perquisites. Verify the attendance regarding present, absent, overtime, abnormal time, idle time etc. Check up the cash book or bank statement regarding payment of wages / salary. Regarding Insurance, check up the policy and confirm that the current period premium is paid and renewed properly. Regarding lubrication and repairs and maintenance, check up any annual maintenance service contract, is entered or not and confirm that the payment made thereon. Check the bills for payment made. Verify that the bills are authorized by proper higher official and initials of any director / owner. Verify the permit fees with reference to registration of certificate. Profit percentage is as decided by various factors like company's policy, competitor's price, market trend, other fleet policies etc. Payment is made as spot payment except one or two customers who are maintaining current accounts. Regular Mandatory deductions are income tax deducted at source and service tax deducted at sources if more than statutory limits. No other deductions. Insured logistics is also permissible.

Logistics may be three parts (i) through land route; (ii) through sea route; (iii) through air route.

Land route is normally cheaper. If land route is not available party will shift to sea route. But due to urgency only some parties will prefer the air route, being highly expensive. To illustrate, let me take textile business, which will prefer all three routes. Monthly profitability statement reveals so. It is an example to explain the conclusion.

Inv no.	Invoice value	freight	%	Reason
228	2,089,155.00	20,270.97	1	Land route freight
229	323,298.00	108,514.06	34	Air freight
230	190,128.00	11,110.43	6	Ship freight
231	1,846,913.00	22,019.21	1	Land route freight
232	1,441,694.00	32,139.93	2	Ship freight
234	2,526,874.00	49,900.40	2	Land route freight
235	2,681,005.00	99,350.98	4	Ship freight
236	854,013.00	29,894.60	4	Ship freight
237	3,249,461.00	138,227.45	4	Ship freight
238	1,654,593.00	19,880.97	1	Land route freight
239	2,250,865.00	59,705.00	3	Ship freight
240	534,992.00	3,456.00	1	Land route freight
241	128,726.00	7,484.98	6	Ship freight
242	147,671.00	3,756.00	3	Ship freight
243	1,734,124.00	21,302.56	1	Land route freight
244	2,200,412.00	24,016.21	1	Land route freight
245	1,664,597.00	19,429.62	1	Land route freight
246	660,265.00	16,989.00	3	Ship freight

We need not stop with freight only. As a cost accountant, we have to think about working capital interest for the delay, stock keeping cost also—so that profitability will be concluded in right way. Expenses met after sales which is called post sales expenses, which includes bill discounting charges, and rediscounting charges imposed by the bank are also considered. So logistics is considered for computing profits.

Conclusion :

Logistics planning is a most important aspect in computing profits of an organization. Selection of logistics media will consider many aspects like material, labor, factory overheads, other variable overheads and fixed overheads. So prefer best logistics mode out of three modes. ❑

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Members of the Institute who are having outstanding membership dues have been communicated individually to pay their dues. In addition, their due position is also uploaded on Institute's website www.icwai.org under the option **Members->Member Details->Search Details & Check Dues**. All members having outstanding dues are requested to pay the same immediately.

The Annual Membership Fee for 2010-2011 for Associate and Fellow Members of the Institute shall become due and payable on 1st April, 2010 at the following rates:

Associate Annual Membership Fee : Rs.500/- (Rs.125/- for members entitled to pay at reduced rate)

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All members are requested to pay their respective membership fees along with arrears, if any, immediately and **not later than 30th September, 2010**, the last date of payment as per Regulations 7(6) & 7(7) of the Cost and Works Accountants Regulations, 1959. Moreover, the Elections to the Council and Regional Councils are scheduled to take place in 2011.

The fees may be paid by Cash / Demand Draft / Pay Order / Cheque at the Headquarters / Regional Councils / Chapters of the Institute. The Demand Draft / Pay Order / Cheque should be drawn in favour of "The ICWA of India" and payable at Kolkata. In case of outstation cheque not payable at Kolkata, Rs.30/- is to be added towards Bank Charges. Fees may also be paid online through the Institute's Internet Payment Gateway on the link: http://www.icwai.org/icwai/membership_payment . In case of payment made at the Regional Councils/Chapters of the Institute, the position will be updated upon receipt of the remittance at the Headquarters.

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Logistics and Supply Chain Management – Contribution of the Cost and Management Accountants

CMA Mrityunjay Acharjee*

Logistics can be defined as providing the right type of products and / or services at the right price, at place, time and in the right condition. A quick look back at some logistics history may prove very enlightening.

Logistics management

Logistics management is that part of the supply chain which plans, implements and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customer and legal requirements. A professional working in the field of logistics management is called a *logistician*.

Third-party logistics involves using external organizations to execute logistic activities that have traditionally been performed within an organization itself. According to this definition, third-party logistic includes any form of outsourcing of logistics activities previously performed in-house. If, for example, a company with its own warehousing facilities decides to employ external transportation, this would be an example of third-party logistics. Logistics is an emerging business area in many countries.

* AICWA.

Business logistics

Logistics as a business concept evolved in the 1950s due to the increasing complexity of supplying businesses with materials and shipping out products in an increasingly globalized supply chain, leading to a call for experts called supply chain logisticians. Business logistics can be defined as "having the right item in the right quantity at the right time at the right place for the right price in the right condition to the right customer", and is the science of process and incorporates all industry sectors. The goal of logistics work is to manage the fruition of project life cycles, supply chains and resultant efficiencies.

In business, logistics may have either internal focus (inbound logistics), or external focus (outbound logistics) covering the flow and storage of materials from point of origin to point of consumption (see supply chain management). The main functions of a qualified logistician include inventory management, purchasing, transportation, warehousing, consultation and the organizing and planning of these activities. Logisticians combine a professional knowledge of each of these functions to coordinate resources in an organization. There are two fundamentally different forms of logistics: one optimizes a steady flow of material through a network of transport links and storage nodes; the other coordinates a sequence of resources to carry out some project.

Production logistics

The term *production logistics* is used to describe logistic processes within an industry. The purpose of production logistics is to ensure that each machine and workstation is being fed with the right product in the right quantity and quality at the right time. The concern is not the transportation itself, but to streamline and control the flow through value-adding processes and eliminate non–value-adding ones. Production logistics can be applied to existing as well as new plants. Manufacturing in an existing plant is a constantly changing process. Machines are exchanged and new ones added, which gives the opportunity to improve the production logistics system accordingly. Production logistics provides the means to achieve customer response and capital efficiency.

Production logistics is becoming more important with decreasing batch sizes. In many industries (e.g. mobile phones), a batch size of one is the short-term aim, allowing even a single customer's demand to be fulfilled efficiently. Track and tracing, which is an essential part of production logistics—due to product safety and product reliability issues—is also gaining importance, especially in the automotive and medical industries.

Supply Chain Management and Logistics

The modern day competitive environment has encouraged firms to reformulate their corporate strategies in context of supply chain management. This also provides transformation of operations of the organization towards the achievement of the business goals of the organization. Global orientation is often favored by many firms for handling the complexities of relationships around the supply chain management when it comes to maintaining relationships with customers and suppliers from different geographic locations. There is an urgent need for striking a balance between the costs of coordination between multiplicities of customers with the need to generate customer value.

This has resulted in the creation of the need for a vast range of supply chain management (SCM) and logistics solutions which cover several factors such as supply chain, logistics, material handling, storage, Information Technology (IT), warehousing and inventory management. This has benefited the efficiency and productivity of the complete value chain in several dimensions of profits, speed and customer service.

India is being treated as the destination of the future in the field of logistical service providers all over the globe. Indian logistical market players have started to gear up and position themselves in the global scenario. The true potential of these service providers is yet to be realized. India is keen to offer transportation and logistical service to grow itself as an emerging marketplace. The key sectors include fashion, gems, jewelry, pharmaceuticals, precision tools and engineering goods, all of which need special shipping provisions.

Logistics and transportation management is a discipline that is concerned with the effective and efficient flow of materials in an economic and industrial system. Logistics management follows a systems approach for the management of several sub-disciplines such as customer service, traffic management, inventory control, location analysis and materials handling. Transportation management is concerned with the domestic and international transport management in the economic work environment of today.

The study of Logistics and transportation management has come up as a specialized program and the subjects found predominantly in the study of logistics are : ∗Transportation Systems ∗Business Logistics Principles ∗ Transportation Management ∗ Business Logistics Systems ∗ Warehousing Management ∗ Global Logistics Management ∗ Freight Claims Management ∗ Import and Export Management ∗ Minimum Wages Act and Consumer Protection Act ∗ Business laws and Management processes.

Logistics development in India

Logistics in India doesn't differ too markedly from logistics anywhere else in the world. It's the art and science of managing and controlling the flow of goods, products, services, energy, information and people from the origin point to the destination point. It includes the proper combination of several activities such as material handling, warehousing, and information, for the purpose of ensuring supply of the right product, at the right time, at the right place, for a right cost, in the right condition.

In this article, we'll strive to define some commonly used logistics terms. Logistics has evolved to a greater extent than ever thought possible and this has been attributed mainly due to the modern and advanced business enterprises which have given due attention towards its development.

Logistics can be defined as delivering products at the right time, for a right price, at the right place and in the right condition. The role of a logistic manager and logistic executive is to handle the various tasks related to logistics and to assign responsibilities that pave the way for logistics to be recognized as an integral part of any organization.

There are some terms which relate to the concept of Logistics and any aspirant who wants to have a deep insight into the overall procedure of logistics must be aware of these frequently used phrases :

Certificate of Origin

This refers to a certified document that is used in foreign commerce with regard to the origin of goods. This document certifies that the products which are ready to be exported have been manufactured in a specific geographical location and country. This certificate is sent to the importer by the exporter of the product. This may be beneficial in claiming any concessions. This certificate needs to be signed by the exporter of the product and needs to be certified by the local chamber of commerce.

Warehousing

This is the procedure of storing goods at a safe and clean place for the purpose of safeguarding the goods and may involve keeping goods to be sold at later stage. This can be described as a place or store where merchandise or products are kept. It is done for safe-keeping of goods, usually for sale at a later time.

Distribution

It refers to a process of the movement of people, services and resources to the place of their consumption or where they are required. This usually involves storage, transportation, issue and disposal of goods.

Transportation

Refers to the movement of supp-lies, goods, people and equipment by any mode of transport such as rail, trolley, water, or air. This is considered to as be important as-pect of any organization as timely delivery of products ensures customer satisfaction and brand name for organization. The mode of transportation may be dependent on several factors like customer requirements and specifications, past experiences, speed and geographical locations.

Consignor

Consignor is a person who makes the shipment of goods for the purpose of delivering the same by any mode of transport such as sea, trolley, land, or air. Also known as shipper or sender. He is usually liable for hiring the transportaion vehicle for the goods sent by shipment to be delivered to the consignee. In a transaction based on credit, he has the right to stop the goods in transit.

Freight Forwarders

They are specialists in the process of consolidation and usually transport goods of various organi-zations under one container or vehicle. This helps in lowering the transportation costs.

Couriers

They are known for secure and speedy delivery of goods and packages, normally those smaller and lighter in weight. They can deliver both domestically and internationally.

Logistics Providers

They are responsible for managing the complete transportation process on their own, from tracking of goods to organizing documents, and from warehousing to storage.

Logistics and transportation focus on several benefits inherent to various forms of transportation such as railways, metros, ships, ports, buses, ships, trolleys, rickshaws, or trucks. The selection of the mode of transportation depends on numerous factors such as quality and quantity of goods, their cost, available time, instructions of customers, availability of vehicles, climatic conditions, and past experiences.

ABC analysis

Refers to the process of classification of products as per the level of importance in terms of their relative criteria such as purchase or sales volume. It can be described as a technique that is used in a business sense for denoting a categorization of large volume of data into groups. These groups thereafter can be marked as A, B and C. This means that activities that are considered high on priority are labeled as A, those with a lesser priority are grouped under B, and the group of activities that are last on the list of priority are labeled C.

Open Policy

This refers to a cargo insurance policy that has an open contract. It gives protection for all the shipments of an exporter that are afloat or in mode of transit within the specified geographical locations for an unlimited period. This policy comes to an end when the open policy is canceled by the insurance company or insured.

Military Logistics

Means a system which is initialized for the purpose of creating and sustaining military capabilities. It can be also described as the art and science of planning, controlling and managing the maintenance and movement of the armed forces of military. It deals with the designing, storage, development, maintenance and disposition of available material resources. It also deals with the movement and hospitalization of military personnel, operation and facility disposition and is regarded as very ancient in nature, with its roots way back in the times of the Roman and Greek empire.

Consignee

This refers to an individual, company or manufacturer to whom a shipper or seller sends merchandise. Intermediate consignee refers to a party who is responsible for merchandise delivery to the ultimate consignee. Ultimate consignee, on the other hand, refers to a party who is in the actual receipt of the merchandise in an export-related transaction.

Airway bill

This refers to a bill of lading that is related to air transportation which tends to serve as the shipper's receipt. It indicates that the carrier company has consented to the listed goods and under an obligation to carry the products that are delivered in the form of a consignment to the destination airport in accordance with the conditions specified to the consignee and consignor. Airway bills are always non-negotiable.

Task of Logistics Management in Supply Chain

Logistic managers are given the task of marketing logistics as well as communicating logistics with a purpose of positioning logistics in the present competitive environment. The cut-throat competition so commonly associated with many current organizations has caused most businesses all over the world to remain proactive and any organization which ignores the importance of logistics has to blame itself. The entire purpose of logistics is defined when the logistics managers start to take marketing initiatives.

Logistics and marketing management are concerned with the effective flow of products and services in the economy and pertain to the distribution of both consumer and industrial goods. Marketing is considered to be a vital part of an economy and there is a need for an efficient marketing system which can ensure that all marketing activities are carried out in accordance with the predefined goals of the business.

Logistics managers and executives nowadays are entrusted with the added responsibility of taking important decisions and they want a better due in return for their work by being recognized as members of the pivotal winning team. Wholesalers, manufacturers, business firms and retailers are facing the urgent need to formulate implement policies pertaining to marketing. This can be done by the execution and development of executive marketing programs and strategies. The logistics executives and managers are primarily concerned with expansion of product line and product development, choice of the channels of distribution and are also concerned with the overall development of promotional programs and establishment of pricing methods and policies.

Logistics is primarily concerned with a high degree of development in the relations that concern marketing exchange. It is commonly believed that an effective marketing strategy creates opportunities for the implementation of logistics in addition to building up effective and efficient logistics systems.

A developed economy or an economy which is expanding its horizons for its overall development requires the integration of both logistics and marketing. This greatly influences the facilitation of the concepts of logistics and marketing. There is interplay between flow-oriented logistics and the market-oriented concept of marketing. Thus, the manufacturer of a product is benefited in such a way that he is enabled to increase the informational and material properties of the product as evated by the end-consumer. This integration also helps in stimulating the emergence of marketing logistics within the logistics structure to provide the customer with a wide range of options.

The concept of effective marketing which is widespread in the developed countries of the world allows modifications on the part of commercial mediators, their concerned functions, and objectives. These mediators shift their base from traditional catering to solvent demand for goods which are demanded by the customers to respond to customer groups' particular demand. The marketing strategy allows the commercial mediators to get involved in supplying various means of production besides raising the standards of servicing by efficiently and effectively performing their func-tions. This also leads to a reduction in the levels of price and costs through the streamlining of product flows.

Thus, it can be rightly concluded that marketing and logistics are inter-related and an organization which wants to achieve equilibrium of stability and overall development must consider them as an integral part of the organization.

Logistics towards inclusive development

Logistics companies help other companies to run their business smoothly without worrying about the transportation issues. They help streamline the task of delivering shipments of their customer companies. They specialize in the field of transportation and can perform all activities from pick-up of the shipments to assisting on tracking the geographical location of the shipments and to safely deliver the goods at the right time and in a safe and hygienic condition, thereby attaining customer service and appreciation. By doing this, they retain their existing customers and prospective customers come their way.

Logistics is regarded as the complete set of functions that are concerned with planning, controlling and managing a smooth flow of products and services, people, real-time data and information that are considered to be of utmost importance. This also includes the steps that are involved in delivering the products and services without shrinking the budget of the company.

It is commonly believed that no manufacturing, distribution or marketing activity can be completed without the support of an effective logistic system. The logistic system needs to be drafted in such a manner that it is able to achieve the business goals of the company besides being a supporting hand in the successful implementation of the plans and policies of the company.

Problems and challenges in logistics & supply chain management

A logistics company may face numerous problems or challenges while performing their duties, namely :

- Globalization of Supply Chain

due to the advances in the field of logistics, supply chains are now considered to be global as their area of distribution has spread far. Logistics companies have their network levels, both domestically and internationally. In the present competitive environment, there is an urgent need for them to manage their complex operations around supply chains that have characteristics of effective distribution, multi-point sourcing and global delivery.

- Growth of existing networks and service footprint. These days customers are not merely satisfied with delivery of goods. A logistics company must be able to provide multi-modal services, additional and unique features, timely delivery and complete assistance across the life-cycle of the shipments. There must be steps taken by the logistics company for the development of new routes in addition to the expansion of services offered and networks.
- Transparency in supply chain. Logistics companies must be ready to offer visibility of supply chain to its customers which can enable the customers to effectively plan and manage any variations in the levels of demand and supply beside inventory.

Thus, it can be said that logistics companies can help ensure cost savings and enhanced efficiencies in addition to lowering the level of inventory. They also help companies by delivering infrequently matched enterprise access to important business information using web-based architecture. They are also helpful in improving the delivery time and thereby resulting in enhancing levels of customer satisfaction.

Establishment of Business Plan

It's an accepted fact that there is always a need for a proper and efficient business plan for any particular element such as planning or controlling in an organization. Similarly, there is also a need for a business to clearly establish its logistics business plan. This can clearly point out the steps required and the personnel who will be performing the tasks and assigning responsibilities.

The logistics business plan must be clearly defined so that there is no confusion or vagueness in the content of the plan that could interfere with accomplishment of the desired objectives of the organization.

While drafting a logistics plan, you must keep in mind all possible present and future scenarios. The ascertainment of future conceivable scenarios can be made by a logistic manager with the ability to carefully plan, analyze and implement forecasts to a considerable extent on the behalf of the enterprise. He must ensure that he has the answers to the following questions which are regarded as basics while providing a foundation to any of the business plans. They are as follows :

1. What is the purpose of writing the business plan?
2. Do the organization really need this plan at this stage?
3. What would be the expectations of its readers?
4. Who is to be in charge of this business plan?
5. Who are likely to benefit and otherwise be affected by this new plan?
6. Would this plan be fruitful in the coming years?
7. What would be the responsibilities of the personnel?
8. What would be the level of training of such personnel?
9. What are the expectations and suggestions of the people for whom it is going to be drafted?
10. Would this plan result in future development of the enterprise?

It would be worth considering any concerned areas which could be : ∗ Insurance ∗ Legal Services ∗ Infor-mation Technology ∗ Banking ∗ Travel ∗ E-Commerce or Merchant Banking ∗ Real Estate ∗ Website develo-pment. The logistics business plan must be organized in a manner that each of the personnel knows his duties and roles and makes sure that the duties assigned to him are performed on time. This would make sure that the plan is at least worth a try. The plan's success would be dependent on the entire organization and a good logistic plan will benefit the whole organization. This would require a high level of understanding and coordination in all departments of the organization, each giving their best towards the attainment of common objectives.

Logistics can be classified as a complete process of providing goods at the right time, at the right place, for a right price and at the right condition. Logistics has evolved to unmatched heights because of advances in the field all over the globe. Many organizations which used to treat the process as a burden are now focusing on the growth and development of logistics by making it as an integral part of the organization. Those with an interest in the field may find some logistics terminology initially confusing, so below we present definitions of some frequently used phrases :

Army logistics

Army logistics, also known as military logistics, refers to the art and science of the process of planning and making sure that the movement and maintenance of the armed forces is in due accordance with the laid-down plans and procedures.

Army logistics deals with procurement, maintenance, distribution and replacement of personnel and material. Army logistics, when taken in a comprehen-sive sense, deals with :

1. Designing, developing, storage, maintenance and acquisition, disposition and evacuation of material.
2. Hospitalization, evacuation and movement of personnel.
3. Furnishing or acquisition of services.
4. Maintenance, operations, acquisition and disposition of available facilities.

Army logistics is as old as the concept of war. In ancient times, people used to find their own knotted clubs, place of shelter and food during the time of war. Every soldier was himself responsible for obtaining his necessities. With the advances associated with time, soldiers joined larger groups and some men were assigned the task of arranging these items of necessities for their counterparts. These were among the first instances of an army logistics organization.

Logistics cannot be termed as an exact science as it does not follow a defined set of principles or adhere to previously laid guidelines in the same manner each time. It does not even follow a predefined set of tables as in case of science. Military logistics is dynamic in nature. Therefore a particular solution cannot be prescribed for every similar situation. It is primarily concerned with ensuring services and supplies at the right time, at the right place, when and where needed, in the most optimal and economical way and by making use of the best available options to do the task.

The personnel engaged in army logistics take the decisions regarding any type of problems which are logistical in nature. This is done by them through their ability to analyze, interpret, intuition and by using their past experiences. The decision-making ability of these people is not solely dependent upon the professional knowledge imparted to them from the military institutions, but also from tactics, strategy, personnel and training.

Matters related to logistics have frequently been of utmost importance in deciding the outcome of wars. This can be clearly understood by taking as example the failure of the German naval force to sink enough cargo in the 2nd Atlantic Battle of the Second World War, which helped the British troops to continue fighting. It is often believed that the destruction of the enemy's supply lines and guarding own supply lines is a crucial element in deciding the outcome of the war. Modern developments have led to enhanced army logistics performance due to less use of time and financial resources. This has raised the standard of the armed forces and in a way, has proved to be beneficial for their overall growth and development. Accuracy and speed are the major factors nowadays for the flow of information and materials from its providers to its users.

Logistics as a management function

Logistics refers to various functions associated with the organizational disciplines of planning, managing and controlling the flow of goods and services, people and related information. It includes all the steps that are required to achieve the timely delivery of a product, goods or services from the point of origin to the point of destination. Logistics statistics are integral to the achievement of this goal.

Statistics is considered to be a mathematical science which pertains to the collection, interpretation, analysis and the presentation of data collected from various sources for the purpose of ascertaining several conclusions. The methods involved can be used for the purpose of summarizing or describing a collection of data. Business statistics, on the other hand, has been described as the science of positive decision-making in the possible face of uncertainty and is widely applicable in several fields of management such as financial analysis, produc-tion, operations, customer service, marketing research and auditing. This helps a business to draw some financial conclusions which can be of importance to the future growth and developmental needs of the organization.

The numerous tasks performed by logistics can be sub-grouped into several parts to easily identify the role and needs of each part individually :

Planning and Statistics

Planning is an integral part of an organization and the logistics manager needs to plan effectively to ensure that the logistics system run in accordance with the predefined business goals of the organization. Statistics can be helpful in analyzing the previous data and make the necessary conclusions for effective planning. The functions include planning volume for transportation routes, defining transportation routes for different modes (air, land or sea), controlling the freight costs and assessment of carrier performance. All these functions can be better achieved by receiving a comparison of predefined and actual data through statistical analysis and itemization of resources according to the concerned business regions and areas.

Purchasing and Statistics

Purchasing is also an important task for the organization and the logistics managers and executives must ensure that the delivery of the purchased items is done in accordance with the actual needs, management decisions and prevalent laws of the land. Statistics can be beneficial in analyzing and interpreting the previous data and make the necessary conclusions regarding purchasing trends, market value and delivery costs.

Inland Logistics

The role of a logistics manager or executive also extends to monitoring of shipments of the organization and complete calculation for the mode of transportation. This can be better achieved with significantly lowering the level of manual work and shipping costs.

Maintenance and Handling of the modes of trans-portation

The logistics manager or executive are also responsible for ensuring that all the modes of transportation carrying goods or people are in a safe and working condition. They are responsible for negotiations with vendors, courier companies and carriers for timely supply of vehicles, delivery of shipments and also tracking the geographical location of the shipment/consignment. Statistics can be helpful in analyzing the previous data, drafting the necessary conclusions and insight knowledge about the depreciation, developmental and market trends.

Therefore, logistics statistics can be be very useful in ascertaining the position of an organization in addition to allowing an insight into the field of logistics. They can be of importance to the organization as the presentation of data in the form of tables or figures can make the study of development easier and plans and policies can be drafted to further advance development of logistics systems.

Responsibility of Logistics Department

The logistics department is entrusted with the responsibilities of ensuring that the entire process of logistics is maintained and developed in accordance with the goals of the business at an economical cost. The tasks of the logistics department involve storage, distribution, warehousing, movement of goods from one place to another (internally or externally), tracking and delivery of goods. It includes a complete process of planning, managing, controlling and coordination to make sure that the goods reach the right place, at the right time, for the right cost and in a right condition. The various tasks performed by the department may be summarized as follows :

1. Ensuring all the requirements of the customers are met on time in an efficient and safe manner.
2. To coordinate with third party logistics (3PLs).
3. To ensure that there is a safe and timely dispatch of goods.
4. To draft plans, policies and procedures for successful implementation of logistics system.
5. To ensure that the business goals of the organization are in synchronization with logistics system.
6. To create and maintain customer support.
7. To maintain coordination with vendors, service providers and transport carriers.
8. To ensure that no fraud is committed.
9. To ensure timely supply and payment of goods and reduce inventories.

Besides the performance of the above tasks, the department also performs numerous other tasks, namely :

Customer service management process

The department ensures that the goods are reached on time, in a safe condition, and at the right place. It also serves as a middleman between organization, vendors and carriers for tracking down the geographical location of the goods and thereby provide customer support.

Procurement process

Strategic plans are developed by the department to support development of fresh product and manufacturing flow management. This helps in bringing raw materials or semi-finished goods to the premises of the organization in a safe and proper condition at an economical cost. This also involves interactions with 3PLs. The department is also responsible for coordination with suppliers with regard to scheduling, hedging and timely delivery.

Physical distribution

This process is concerned with the movement of finished goods to reach the point of destination. The department is responsible for the selection of the best mode of transportation while delivering the goods to the place of destination.

Thus it can be rightly concluded that the logistics department does play an important role in ensuring the delivery of goods and is therefore rightly considered as an integral part of a modern-day organization

Logistics business plan

The plan must be clearly defined so that there is no confusion in the minds of the logistics team. This clarity will help to accomplish the desired objectives of the organization. It must be drafted in accordance with the objectives of the organization. Its aim must be to provide timely delivery of goods besides rendering normal functions of logistics under strict deadlines and in conformity with business goals.

The logistics team works under predefined objectives to ensure that the product is delivered as and when needed, for an economical price and in the right condition. It may use the services of various modes of transportation such as trucks, buses, trolleys, courier companies, flights, boats or outsource the task to third-party logistics (3PLs).

Third party logistics are organizations which are specialists in the field of outsourced logistics services with expertise in pick-up and delivery of shipments on the behalf of their clients. They also make sure that any consignment is sent on the most economical and optimal route keeping in view the time and cost factors. Third party logistics are also beneficial in providing economies of scale as they tend to combine several orders from various customers into a sole shipment. They can also decide on various alternate routes available in cases of delay at the receiving locations of the consignment.

Thus, logistics do play an important role in the execution of normal tasks associated with an organization. The organization must make necessary plans and guidelines to ensure that their logistics information system is functioning smoothly at all times.

Global business environment & Logistics development

In the current scenario of serious competition in the global business environment, an effective and efficient logistical system is a must for providing and delivering quality products to the point of destination. The organization must be vigilant enough to eliminate any inefficiencies and improve their operational performance on a regular basis. Any organization, whether big or small, can benefit from a proper logistics transport system.

Logistics involve all steps in the process of providing and delivering raw materials, semi-finished and finished goods from the origin to the destination.

One may wonder here about how the goods can be transported. The following ways should give a clearer view of this :

How would one decide the carrier best suited to their needs? There are several factors that must be thought of before selecting a carrier for the transportation of your goods. They may be all or any of the following :

1. Delivery schedules; 2. Cost factor; 3. Past experiences and recommendations; 4. Experience and market value of the carrier company; 5. Insurance provided, if any; 6. Memberships of professional or trade associations; 7. Level of coverage, domestic or international or both; 8. Location of carrier company.

How can effective transportation and logistics system help your business? An effective logistics system is likely to benefit the prospects of the company. This may lead to cost savings, enhanced efficiency and reduction in the levels of inventory on hand.

There are several factors which contribute to the success of any mode of logistics transport, some being short transit time, punctuality, tracking of goods, proper storage and warehousing of goods, proper established network, cost-effectiveness, teamwork, and providing customer service at the optimal level.

Logistics in International Scenario

The reduction of trade barriers, both on the domestic as well as international front, has led to a rapid growth of the logistics market throughout the world. Items such as Swiss cheese, Chinese gadgets and Italian fashion goods—that were earlier limited only to the place of manufacture—have now crossed the geographical boundaries to take their place in the international market. This has indeed globalized the area of operations and has benefited several economies.

Apart from favorable governmental policies, it is the growth of logistics that has made all this possible. The boundaries have been minimized due to advances in the modes of transportation. Logistics not only deals with delivery of goods at the right time, for a right price, and in the right condition, but also has extended its role in globalizing the sphere of products and services.

The global logistics sector has evolved and remained open to favorable changes during the last 20 years. Nowadays the manufacturers do not feel reluctant in outsourcing and adding considerable value to the functions performed by logistics much above the normal functions of delivery, warehousing, storage and distribution of goods. Global logistics management is considered to be highly integrated and therefore requires a thorough knowledge of materials management, customs regulations, foreign exchange, purchasing, supply-chain management, transportation and information technology. This trend is quite visible throughout Americas and Europe and is slowly attaining its due importance in Asia Pacific countries like China and India.

These days the logistics manager assumes one of the most important and complex jobs in the organization. The profitability of a business, along with consistent levels of customer satisfaction, depends to a great deal on the skills of the logistics manager.

The growth is eminent in the Asia-Pacific region with China emerging as a global economic power with a seismic effect on the global market of logistics. India is steadily following China's footprints by consistent marching onto the field of logistics due to favorable market trends, outsourcing, and government policies. Developed nations like the United Kingdom and the United States already have strong logistics policies and are keen to outsource from China, India and Asia-Pacific due to the cost factor.

In the current business scenario, there are ample job opportunities for people in the field of logistics and slowly and steadily the area and scope of logistics is on the upswing. With the increase in demand for logistics professionals, logistics organizations are raising their sphere of influence to unparalleled heights. The growth and development witnessed in the logistics sector is likely to fuel further growth for many more years to come.

Thus it would be right to conclude that the logistics market finally has its due share with ample job opportunities available and logistics being considered as an integral part of most savvy organizations.

The complete process of optimization of plans and procedures paves the way for creating an everlasting and sustainable competitive advantage for the organization throughout a supply chain despite the risks associated so commonly with unbounded challenges. There is a need for the integration of business processes of the organization with its technological systems for the purpose of enhancing speed, organizational responsiveness and flexibility in the networks of customers and suppliers.

Logistics analysis involves the use of numerous quantitative techniques, strategic and tactical planning on the part of the organization while still giving importance to the sphere of operational research. It involves logistical aspects such as network design, forecasting, inventory control and warehousing. The purpose of the investigation is planning and managing of the modeling and simulation analysis efforts to measure the logistics impact of the changes proposed by logistics management to procedures and techniques as a prototype mechanism.

Logistics analysis consists of the integration of inventory, facility location, transportation, packaging activities and informational flow for the purpose of managing an effective physical flow of outbound and inbound goods and services in a competitive environment. The complete cost and system approach are developed for planning and managing the various logistical functions that are prevalent within the organization. It may be dependent on the techniques of basic sampling and data analysis. This may involve the use of questionnaires and online or electronic ways of gathering information.

It is based on an in-hand application of several analytical tools that are beneficial in the field of logistics analysis. Also, examination of several features of the logistical system and the development of skills helpful in analyzing numerous technical logistical issues.

Logistics as an integral part of total

Logistics is an integral part of any organization and an effective logistics system can ensure efficient achieve-ment of business goals of the organization. Logistics service providers are facilitators which help the organization in an easy and economical manner. They help to provide a timely delivery of the raw material, semi-finished and finished goods, whether externally or internally, using different modes of transportation such as sea, land or air.

Previously, there was no focus on transportation of the products as the raw material suppliers were in proximity to the organization's premises. This approach to logistics was indeed limited in outlook, as the area in which logistics operate nowadays is surely bigger than this. In the modern work environment, logistics is not only concerned with internal movement of goods within the premises, but also extends to logistical material movement and covers a vast area that includes inventory control, re-ordering of products, and ensuring that the supplies are made at the right time and are in the right place.

Logistics nowadays is witnessing a trend of rapid long-term growth that is benefited by the booming global international logistics market and continued outsourcing in the field of manufacturing. The changes observed nowadays in the logistics sector are the result of stiff competition, favorable regulatory policies, and synergies resulting from mergers and acquisitions. Logistics is as important to an organization as its core principles for the attainment of maximization of profits and overall growth and development of the organization.

These days, with outsourcing and globalization being such familiar concepts, the concept of logistics has evolved to a greater height with ample job opportunities. The business enterprises of the modern-day economy now rely upon and want to develop logistics as an integral part of overall management. Parts, goods and even sub-assemblies are manufactured and moved from various parts of the globe to manufacturing locations around the world with its help. The problems of movement, warehousing, distribution, storage and customer service are benefited through logistics. In the current global scenario, where serious competition is the norm, no organization wishes to be left behind.

Outsourcing has made shifting of businesses to locations which are economical and efficient very easy. The cost of labor is the primary motivator for outsourcing by organizations. This trend has given birth to a new type of entity termed as third party logistics (3PLs). Third party logistics are organizations which are specia-lized in outsourced logistics services. They provide the company with efficient services and manage the pick-up and delivery of shipments on its behalf. They also make sure that the consignment is departed from the most economical and optimal route keeping in view the time and cost factors. Logistics service providers are also beneficial in providing economies of scale as they tend to combine several orders from various customers into a sole shipment. They also provide various other services to its customers such as bar coding, inventory hubs and track-and-trace abilities.

Reverse logistics

Reverse logistics refers to the complete process of planning, controlling and implementing the effective and efficient flow of raw materials, semi-finished goods, related information and finished goods from the point of consumption to the point of origin for the purpose of effective disposal. In other words, reverse logistics includes the processing of raw materials, semi-finished and finished goods using the rules of disposition. It is also used to denote the complete process of returning reusable storage devices such as containers for the purpose of reuse.

Reverse logistics software relates to software that is used, installed and implemented in an organization for the purpose of minimizing the levels of inventories and with an overall aim of maximizing customer satisfaction.

Factors that contribute to reverse logistics

1. Recall of product by the organization itself.
2. Damages in the stage of shipping or delivery.
3. Faulty and tampered goods.
4. Excessive adjustments of stock.
5. Remorse from buyers.

The process of reverse logistics includes the following stages : * Repair * Refurbishment * Re-manufacturing.

These stages help with the addition of value to satisfy the needs and requirements of the customer with regard to exchange or reuse of products. Therefore, it can be concluded that reverse logistics includes chargeable services for in-and-out of warranty products.

The main reasons why reverse logistics is slowly becoming more and more utilized in today's competitive business world are :

1. Increased levels of value recognition from the returned merchandise.
2. Need to provide high levels of customer service and satisfaction.
3. Improvements in the level of cash flow.
4. Lowering inventories.
5. Regulatory requirements for disposition of products.
6. Creation of revenue opportunities.
7. Reductions in the levels of supply chain-related costs.

Slowly and steadily, the concept of reverse logistics is depending more and more on automation because of its rising demand for applications, which are normally web-based in nature, for the purpose of streamlining the complex procedures of returned goods. Reverse logistics processes are usually paper-intensive and require the instalment of good in-house logistics management information systems for deriving optimum results.

Reverse logistics includes all

product-related information or an application that is returned for the purpose of after-sales service or repairing by the customers of the organization. It tends to help the manufacturers to raise the levels of customer service and satis faction by providing the customers with an entire view of the supply chains prevalent in the organization.

It is commonly believed that benefits can be reaped from reverse logistics only after proper ascertainment of the needs, requirements and business objectives of the organization. At this time, it is believed that most business organizations throughout the world do not have supply chain management systems which will allow the easy incorporation of effective reverse logistics software.

Role of Cost & Management Accountant in Logistics & Supply Chain Management

With the development of the logistics and supply chain management sector in India and across the universe, the role & definition of the cost & management accountant in this segment of the economy has also become immensely important. From laying down the strategies towards implementation of an adequate and proper logistics structure to determination of the pricing of any logistics movement and understanding the impact of such pricing in the entire supply chain management, cost & manage-ment accountants play a very significant role towards achieving an inclusive development of this sector of the economy.

The arena of the cost & management accountant, inter-alia, includes :

1. In-depth studies related to transportation management, inventory, packaging, materials handling, warehousing and facility location and thereby advising the management towards framing the most appropriate logistics and supply chain model.
2. Identifying the best accepted model of transportation sequencing and logistics sequencing and determining its relative strengths and weakness.
3. Accurately determining proper queuing of transportation and logistics towards achieving minimum cost of operation of all the activities. PERT and CPM methods are applied to determine the best sequencing model in the event where a cost & management accountant applies his expertise in this field.
4. Managing outbound and inbound flow of various products and the related information required in a logistics system towards ensuring earning of highest contribution from each activity.
5. Analyzing and reviewing all qualitative and quantitative issues pertaining to Logistics Network Designing and supply chain management. This includes studies on centralized versus decentralized network control, strategic partnerships and distribution network design.
6. Thorough study on the micro-economic and macro-economic principles of transportation systems. It also includes analysis on urban and inter-regional travel demand and project evaluation.
7. Analyzing and emphasizing on economic dimensions of various modes of transportation, market structures, cost functions and managerial implications of the economic principles of transportation.
8. In-depth study and review of inventory, routing and integrated distribution models including the multimodal logistics models towards framing long term logistics plan & policy.
9. Detailed analysis of the requirements of transport users besides providing an in-depth knowledge of mergers and ownership, and labor and market competition.
10. Determination of the price of the transportation & logistics services considering all category of cost involved, expected profits, effect of shadow pricing of other related and non-related incidences and the arms length price prevailing in the underlying market & economy.

Success of any production and process planning both in long run as well as in short run, prima facie depends upon adoption of proper and adequate logistics and supply chain management system. The cost & management accountants, with the dint of their expertise in the field of determination of cost of services and thereby accurately deriving the price of the logistics services, which ultimately leads towards total reduction in the cost of production and processing of goods manufactures and, services provided and finally, optimizing and maximizing the profitability of the organization.

It is the cost & management accountants who steer the entire supply chain management towards minimizing the cost of services and maximizes the profitability and thereby enhances the stakeholder's value creation. ❑

Indispensability of Cost and Management Accountants in Transport and Logistic Sector

CMA I. Mohamed Ibrahim*

Mobility of human beings, materials, equipments, birds, animals etc. from one country to another country, one place to another within a country is a basic feature of the universe created by the Almighty.

From time immemorable human beings move from place to place seeking food and shelter etc. They used to switchover place to place depending upon the seasonal features like rainy, summer, autumn etc. Hence transport is a recognized and adopted one by mankind in their day to day life even from ancient days.

Our ancestors, in those ancient days, used animals like camels, horses, donkeys, etc. as means of transport for their own movement as well as for the carriage of goods in their endeavor of shifting among places, subsequently they ventured into commercial activities too. In those olden days the means of transport were predominantly animals, as historical facts exhibit.

Thus Transport is not a recent concept invented by modern society, but it is a fact that it is born with mankind.

With the passage of time the trade and commerce which were initially confined to their habitants or among habitants, expanded to wide areas i.e., among countries and then continents to continents. The archeological findings, change in civilization etc. proves such trade and commercial activities among mankind of different continents and countries.

The early men, though wandered from place to place initially with their own legs, with their wisdom resorted to using various kinds of animals as means of transport. Mankind lived in places covered completely with snow used sledge, a small vehicle without wheels for their movement and movement of goods. In trade among countries or continents across seas or rivers the usage of boats and small ships were subsequently resorted to by our ancestors.

The Almighty insinuated wisdom in his creatures which enabled mankind to invent various kinds of transport. With the passage of time men invented small vehicle, initially animal driven carts, then small vehicle pulled by steam engines etc.

The advent of science and technology, higher education imparted by universities & colleges, and availability of research and developments facilities established world-over, in competition among countries across continents, culminated in invention, development of various kinds of hi-tech, hi-speed transports for usage on land, sea and space. These were both for civil and defense purposes.

Thus mankind, who used animals as means of transport in ancient times, with the advent of technological developments and inventions over centuries, is now in command of sophisticated hi-tech, high-speed means of transport and are able to put their legs in different countries in a day.

Such a phenomenon led to huge volume of trade and commerce cutting across towns, cities, countries and continents and ultimately contributed to the emergence of a single market world over smashing down all barriers as to countries, group of countries, continents etc. Thus the miracle of marketing any product or service of any destination at any place, with very few exceptions, in the world became a reality.

The technological developments and innovations continuously taking place in the Automobile, Aeronautic, Shipping sectors culminated in the advent of various kinds of transport vehicles usable in land, water and air for the carriage of mankind, cargo, animals etc., and are coping up with the aspirations of expanding trade and commerce world over.

The Logistic sector is predominantly a sister concern to other sectors of the economy, they cannot survive without one or the other. Thus the service and equipment industry, like transport sector, grow mostly in consonance with any one or other sector, like manufacturing sector.

* FICWA

Thus the survival, development and flourishment of Transport and Logistic sector in line with the other sectors is of vital importance for uniform growth of the economy of every country and the world as a whole. It may not be out of place to describe the said sector as one of the pillars of the economy, without which the other sectors cannot survive and grow. There is no substitute to this sector, as is evident from the standstill situations in times of strikes resorted to by truck and fleet operators, aviation employers or owners on one pretext or other.

As far as service and equipment sector is concerned it is like an ancillary sector to any one of the related sector mainly. The service and equipment sector includes several subordinate operations, allied equipments which could be leased in by the manufacturing houses etc., as and when needed.

The undertaking which provides services, besides transports such as shipping, trucks, lorries, railways, and air cargo, are public utility concerns such as electricity, gas and steam generation, schools, hospitals, canteen etc. It may be possible for some large industrial houses to have one or the other important utility services like power house, transport, hospitals, canteens etc., as in-house facilities catering to the needs of the factories, their employees etc. None can have all kinds of in-house utility services required by them under one roof. Thus several of the bigger industrial houses are looking to outsource one or other utility service from other service units in the market. In case of Medium and Small Scale Industrial sector, they have to completely depend upon utility service units in the market for such services right from inward transport, electric power, gas, outward transport and even for outsourcing badly needed highly technological manufacturing operations etc., not to speak of employee related welfare measures like canteens, hospitals etc. Hence the importance of Transport and Logistic sector is as high as any other sector.

Relevance of Cost Accountant

The techniques and procedures of Cost Accountancy embraces and covers all fields of activities. A simple definition is not possible. Going by the terminology published by the Institute of Cost & Management Accountants, London, "Cost Accountancy is the application of Costing and Cost Accounting principles, methods and techniques to the service, art and practice of cost control and the ascertainment of profitability". Cost Accountancy is the process of accounting the expenditures right from the very point of incurrence as to cost centers or cost units, exercising cost control, ascertainment of profitability of activities carried out or planned and presentation of statistical data thereon etc.

These observations on the terminology of Cost Accounting highlight the indispensability of the services of a Cost and Management Accountant (CMA) in the Transport and Logistic sector too. CMAs experts in Cost Accounting could efficiently guide every concern in the sector to growth and prosperity.

On the face of it, it may look sufficient and satisfied with the traditional method of Financial Accounting consists of the classification, recording and analysis of the transactions in a subjective manner as to the nature of business expenditure enabling the preparation and presentation of statements on the profits or loss of the undertaking for a period and the financial state of affairs as on a given date. The aspects of planning and control and decision making is absent in the traditional method of accounting. Thus it is nothing but a postmortem exercise.

The cost of manufacture or of rendering service is available in the financial accounts; but in total for the organization as a whole, and that too at the end of the accounting period alone. Whereas the Cost Accounting system evolved and implemented by the CMA brings out concurrently the cost of every product or service, the profit or loss of each thereof, as the process of manufacturing or rendering of service proceeds.

The diverse nature of activities in service undertakings necessitates the costing system adopted in them are also entirely different from the one in manufacturing concerns. The cost units that are in adoption in service units are related to the nature of service rendered, such as, unit of electricity, cubic meter of gas, tonne-km or passenger-km of transport of goods or mankind, respectively.

As far as transport undertakings is concerned the costing system evolved and put in operation by the CMA is such that to determine the operating cost of each or group of vehicles and thereby compute the cost per unit of service rendered. The cost units involved are different according to the needs of the concern such as bulk, length, weight, type of goods carried and distance covered in a trip. The commonly used units are hourly work, a kilometer, a tone, or quintal-km and passenger-km.

Hence for the growth and prosperity of an undertaking the said traditional method could not be a ideal one. Whereas, under Cost Accounting the expenditure incurred are recorded in an objective manner according to the purposes for which costs are incurred. The professional service of a Cost Accountant is therefore a necessity in transport and logistic sector too.

The CMA plans and chooses a suitable system of cost accounting to the undertaking where he works. A most efficient costing system suitable for the business is selected by him, under which he lays down various routines and procedures to be followed, designs the forms and documents to be adopted for the collection, allocation and apportionment of cost and presentation of end cost data and end results in an objective manner. He implements the system and moves with it effectively. Corrects the deficiencies that have cropped up in the implementation phase and thereby sets the system in motion to operate systematically. Automatically taking care of the internal control measures dovetailed therein.

The cost incurred in a cost unit or centre are classifiable broadly under three heads :

Fixed or standby cost : Expenditure incurred on garage charges, insurances, taxes, license fee, depreciation, establishment and running expenditure incurred on the administrative office and workshop, general service etc.

Maintenance cost : These includes expenditure incurred on repairs, maintenance, accessories and spares which are semi-variable in nature.

Operating and Running cost : The incurrence of these cost depends fully on the extent of usage of the transport, service or equipment. The expenditure incurred on fuel, lubrication, wages and allowances of operators & helpers etc. which are variable in nature.

The advent of Information Technology is handy to the CMA too, to transmit cost statistical data to the concerned executive in charge of the department as well as to the management on

- Comparative cost data on operating and running cost per unit of service against standards for the sector, enabling to avoid waste of fuel and consumables etc.
- Comparative cost per unit of service against standards exhibiting how efficiently the service unit, cost centers functions.
- Comparative study on cost of running own vehicle or service with hired one enabling to decide to have own or to outsource the utility service.
- Cost of idleness of the transport or service unit.
- Comparative cost study with similarly placed concerns in the sector citing how efficiently / adversely the organization is functioning duly bringing out deficiencies and inefficiencies contributed to loss of profit.

The CMA moves with the costing system in force and observes the cost being incurred on every activity, cost centre etc., and simultaneously monitors and ensures not only as to the incurrence of cost is according to plan, but also that the end result attained is as was contemplated.

In continuation the CMA examines the efficiency attained by comparing the actual performance against the plan / estimate / goal and investigates into the causes for variances. Such a study is also done by him with reference to the performance attained during different periods for the same cost centre, say a truck or bus or a fleet thereof, functioning in different regions etc. and there could be inter-fleet or inter-zone comparisons of the same company as well as with inter-company in the same sector of transport or a component of logistic sector.

This vital function of the CMA acts as an eye opener to the management who are posted with uptodate working figures of every cost unit / centre every now and then enabling them to intimate timely and proper management decisions.

A CMA functions not in isolation but in close co-ordination with other executives and cope-up with one and all for the betterment of the undertaking, be it transport, other service utilities like power or gas generating concerns, railways, shipping or aeronautic concerns.

The advantages of installing a proper Costing System and placing a Cost and Management Accountant in its command in a Transport or Logistic Undertaking are summed up herein below :

For the management

- Concurrent or continuous appraisal of the incurrence of cost, detection and prevention of errors, manipulations and fraud, then and there.
- The reliability of cost data without any doubt whatsoever enable the preparation and presentation of accurate reports and returns.
- Continuous updating of the cost accounting methods in line with the advancements taking place from time to time enhances the effectiveness of the control system and cost presentation.
- Brings out avoidable wasteful routine functions and procedures in the system and thereby enables to reduce the cost of operating the system itself and expedite the presentation of data.
- Phases out uneconomical service units of fleets, equipments etc. then and there owing to ageing, redundancy etc., on account of obsolescence and inducting fuel efficient, pollution-free ones.
- Acts as a catalyst to the Management to initiate timely action for economic and efficient usage of the elements of cost and other resources so as to enhance productivity, utilization of capacity and thereby to earn more profit.

For the Shareholders

- Ensures the correctness and adequacy of inventory valuation.
- Highlight the efficiency or otherwise of the management at different levels, optimum utilization of the scarce resources, and productivity of elements of cost etc.

For the Government & Consumers

- Reliable cost data which had weeded out abnormal and avoidable expenses enables to enforce tariff protection.
- Fare, Price fixations for various service utilities by Government is possible on the basis of the data made available by the costing system.
- Mismanagement, inefficiencies, inadequacies highlighted by the system enables to take timely corrective actions.
- Highlights areas wher e it will be possible to enhance productivity and attain high profit.

The financial crisis that rocked the world had its effect on all sectors of Indian Economy too. But our economic infrastructure withstood the storm and began to grow strongly and relatively faster. Government's quick response to the crisis by way of stimulus package consisting of concession / reduction in indirect taxes and other fiscal and monetary measures stimulated almost all sectors of economy and boosted demand.

Indian Automotive Sector

This sector is not an exception to the economic meltdown. The global automotive industry was also adversely affected. The Global Automotive production declined by 3.7% in 2008 followed by a decline of 13.5% in 2009 (Source OICA). Many governments in developed and emerging markets recognized the importance of this sector and responded with various measures to boost the demand for automobiles.

As a consequence of the stimulus packages put in action by the Goverment of India, comprising concessions in taxes and duties and other measures, the Automotive Industry came out strongly from the shock of the crisis and registered healthy growth of 27.9% in the financial year 2010 against the decline of 4.8% in the year 2009.

A table showing the statistical data published by the Society of Indian Automobile Manufactures, on the Domestic Industry sales during the financial years 2008, 2009 and 2010 along with the percentage of growth attained during the finan-cial years 2009 and 2010 is reproduced below. The table exhibits substantial growth in almost all segments of vehicles, both in passenger and commercial categories, ranging from 20% to 45% during the financial year 2010 over the sales of 2009. Consequential effect of this phenomenon in transport sector would also be substantial.

Conclusion

In line with the other sectors of the economy the Transport & Logistic sector also have grown. In view of the continued growth potential and positive outlook ahead in almost all sectors, there will be uniform growth in the economy. The Transport and Logistic Sector—which is a basic necessity for other sectors—will have to cope up with them in all respects. Hence there is dire necessity for this sector to have the Professional Service of a Cost and Management Accountant in every one of their concern so as to enhance their performance as well as to continue to sustain in the field, in view of the benefits etc., enunciated herein above. ❑

		Domestic Industry Sales			**Growth During**	
Vechicle category		F-08	F-09	F-10	F-09	F-10
Passenger Vechicles		1549882	1552703	1949776	0.2%	25.6
Cars		1203733	1220475	1526787	1.4%	25.1%
	A1 : Mini	69553	49383	633378	–29.0%	28.3%
	A2 : Compact	859197	885639	1128272	3.1%	27.4%
	A3 : Mid size	225725	241683	276071	7.1%	14.2%
	A4 : Executive	42195	33638	46346	–20.3%	37.8%
	A5 : Premium	6201	9093	11455	46.6%	26.0%
	A6 : Luxury	862	1093	1265	26.8%	15.7%
MPVs		100865	106607	150256	5.7%	40.9%
Uvs		245284	225621	272733	–8.0%	20.9%
Commercial Vechicles		488088	384194	531395	–21.3%	38.3%
LCVs		215912	200699	286337	–7.0%	42.7%
	Passenger	27832	26952	34421	–3.2%	27.7%
	Goods	188080	173747	251916	–7.6%	45.0%
M & HCVs		274582	183495	245058	–33.2%	33.6%
	Passenger	38647	34892	43081	–9.7%	23.5%
	Goods	235935	148603	201977	–37.0%	35.9%
3 Wheelers		364781	349727	440368	–4.1%	25.9%
	Passenger	234774	268463	349662	14.3%	30.2%
	Goods	13007	81264	90706	–37.5%	11.6%
2 Wheelers		9654435	7437619	9371231	–23.0%	26.0%
	Scooters	1050109	1148007	1462507	9.3%	27.4%
	Motorcycles	5768342	5831953	7341139	1.1%	25.9%
	Mopeds	413759	431214	564584	4.2%	30.9%
	Electric	17068	26445	3001	54.9%	–88.7%

Logistic Industry in India: Role of CMA

Satya Ranjan Doley*

Logistic outsourcing has picked up momentum since 1990 and more value added services are being offered. Logistic industry is still a nascent and fragmented industry in India but Industry players see further potentiality of growth in the sector. The emergence of India as a manufacturing hub, growth of the organized retail industry, increased domestic consumption and multi-nationals bringing in global best practices are all expected to boost the logistic industry. In the paper, the various problems con-cerning the functioning of logistic industry have been portrayed and there is an attempt to describe the role of CMA in the sector in the context of the present era.

Introduction

The concepts of logistics out-sourcing can be traced quite far back in history. In Europe, a number of logistic service providers (LSPs) can date their origins back to the Middle Ages (Lynch, 2002). Tracing the evolution of logistic outsourcing in recent decades, we find that in the 1950s and 60s logistic outsourcing was limited to transportation and warehousing. The transactions were mainly short term in nature. In the 70s the emphasis was on improved productivity, cost re-duction and long term contracts while value added services such as packaging, labeling system support and inventory manage-ment were on offer in the 80s. Since the 90s outsourcing has picked up momentum and more value added services are being offered. Some of them are import / export manage-ment, customs clearance, freight forwarding, customs service, rate negotiation, order processing, assembly/installation, distribution order fulfilment, reverse logistics, consulting services that include distribution network planning, site selection for facility location, fleet management, freight consolidation, logistic audit etc.

*Assistant Professor of Accounting and Finance, DHSK Commerce College, Dibrugarh, affiliated to Dibrugarh University (Assam), Pin: 786001. E-mail: satyadoley@yahoo.in

Logistic Market in India

In India, the logistic market is mainly thought to mean transpor-tation. But the major elements of logistics cost for industries includes transportation, warehousing, inventory management, courier and other value added services. The logistic costs account for 13 percent of GDP. The industry is currently on an upswing and is poised for a growth of 20 percent in the coming years.

Logistic industry is still a nascent and fragmented industry in India. It is estimated that while outsourced logistics account for 54% of total logistics spending in India, organized players have only 10% of the pie. In road transportation, which accounts for the biggest portion (36%) of logistic spending, 74% of operators are small time players owning a single vehicle. In outsourced warehousing, 92% of players are from the unorganized sector. Even among the organized logistics players, few offerings across multiple modes (air, water, rail and road) and services (transportation, warehousing and value added services such as packaging, cold chain and customs clearance).

Potentiality of Logistic Industry

Industry players see further potentiality of growth in the sector which would certainly encourage the development of the economy. Several initiatives are under way to boost development of roads (including the Golden Quadrila-teral, South and East-West Corri-dors Ports (Pipavav, Mundra and Dhamra) and airports (Bangalore, Hyderabad, New Delhi, and Mumbai). The emergence of India as a manufacturing hub, growth of the organized retail industry, increased domestic consumption and multi- nationals bringing in global best practices are all expected to boost the logistic industry.

Indian logistic industry is seeing increased demand due to economic growth. This is spurring global players such as DHL, AFL logistic CEVA and others to set up shop here bringing with them enhanced processes and technology solutions in additions to their global footprint and customer base.

According to the study, Indian logistic industry accounts for merely 2% of the $5000 billion global logistic industry. The Indian market is estimated at $90 billion and projected to burgeon to $385 billion by 2015. While the industry is growing at 10%, the 3PL (third party logistics) market, which accounts for 6% of the total market, is expec-ted to grow 16% and command 13% of the total logistic market by 2012.

Barriers in functioning of Industry

There are a number of hurdles associated with logistic industry which stand as barriers in the functioning of it.

- A lack of adequate infrastructure is big hurdle. Moving cargo by road has its own set of problems. National highways form only 2% of India's road network, but they handle more than 40% of road freight traffic which naturally leads to traffic jams. Regulatory requirements and cumbersome documentation also compromise speed.
- India's tax system is complex. To avoid multiple taxation companies typically have warehousing operation in every state. The result is a large number of small warehouses across the countries that lack the latest warehousing processes and technologies and do not offer economies of scale.
- Although the Indian logistics industry is growing its investment on information technology is not keeping pace according to the requirements of the sector to equip with the present day. Logistic sector spends little on information technology.
- Indian freight forwarders are not in a position to compete with multinational freight forwarders. MNCs can afford to offer lower freight rates because of their size and operations in many countries, whereas Indian freight forwarders are not capable of matching the same because of their smaller size and lack of access to cheap capital.
- The cost of operation is more and margin is less as observed in the functioning of logistic industry. Apart from this, there is an unfair competition of organized players with unorganized players in the sector.
- There is dearth of skilled manpower in the logistic sector because many do not regard logistic as a prime job. As a result, the sector is functioning without adequate number of knowledgeable and skilled man-power.

Role of Cost and Management Accountant (CMA)

Cost and Management Accountant plays a very significant role in a business concern. He / She occupies very a important position in the organization chart. He / She generally reports to the Managing Director. He / She performs a variety of functions and it is he / she who advises on matters relating to raising and investing of funds in the most judicious manner so as to maximize shareholder-wealth.

He / She applies his / her analytical abilities and skills while performing his / her various functions. Cost and management accountant esta-blishes, coordinates and maintains an integrated plan for the control of operations. He / She measures performance against given plans and standards. The result of operations is interpreted to all levels of management. He / She should evaluate various policies and programs. He / She is expected to report to Government agencies as required under different laws and to supervise all matters relating to taxes. Besides, he / she is to assess the effect of various economic and fiscal policies of the Government and to evaluate the impact of other external factors on the attainment of organizational objects. Function of protection of assets is also to be performed through the maintenance of internal controls, auditing and assuring proper insurance coverage of assets.

CMA in Logistic Sector

There is need of service of the CMA in the sector like others to facilitate proper functioning of it. Accordin-gly he / she renders numerous services for the growth of the sector and contributes to buoyancy of the economy. The present day business is complex and expanding at a rapid speed which enhances the responsibilities of the accountant to a large extent. Logistics sector has numerous challenges ahead in view of era of privatization, liberalization and globalization; it necessitates the CMA to update to the latest development of the business. Among the various problems confronted by the sector, high cost operation is one of them which require control and CMA assists by applying his / her expertise. He / She is to offer his / her valuable guidance in the matters relating to taxation which enables the concern to fulfil the obligations towards the government by paying tax in time. Under the Companies Act 1956, there are certain companies which are compulsorily required to audit the cost incurred by the company and, in that case cost auditor is appointed to perform the task. Now-a-day, the role of CMA is broad based in the sense that in addition to the normal functions of the concern, he / she is to perform other activities which is expected of him / her in the profession to cater to the present requirements of time.

Conclusion

Initiative has been taken by the government to boost the development of the sector which is a part of the development strategy on the part of the government. The development of the sector would increase the export of the country along with creating job opportunity for the young generation which, in turn, provides solution of unemployment to some extent. With the growth of the sector, it is expected that the Indian economy will witness buoyancy in the years to come. ❑

IFRS – An Overview

CMA Wijo Gasper*

IFRS is an acronym for International Financial Reporting Standards. IFRS consists of standards (both IFRS and IAS) and interpretations originating from International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC). Both standards and interpretations are provided by International Accounting Standards Board (IASB). IFRS provides for broad principles rather than specific set of rules to be used while treating different type of transactions. It also provides a framework to define, recognize and measure elements of financial transactions and to prepare financial statements.

There are internal and external reasons why IFRS has become a necessity. Internal reasons can be roughly summed up as below. Companies that operate globally often have to accommodate accounting and reporting transactions under two different sets of Accounting Rules — first under local GAAP to meet tax, audit and regulatory requirements of local country and, secondly, under a different GAAP, which is more often based on the country where its headquarters are located, for the purpose of consolidated reporting. This, in turn, leads to maintenance of multiple books, increased effort and cost and leaves room for errors. More significantly, reconciliation of the primary reporting book and secondary reporting book —which are maintained based on different sets of GAAP becomes an eternal nightmare.

There are external reasons that are moving governments and corporate s to IFRS. Today, along with free trade, Capital markets are getting integrated, leading to an increased mobility of resources and funds. A single, globally accepted accounting and reporting standards facilitates easier comparison of investment options. This aids decisions on investments, mergers and acquisitions. Adoption of IFRS will ensure that financial statements are made available on a uniform platform and will do away the need for doing adjustments to meet regional needs. Companies that benchmark against global accounting and reporting standards stand to improve transparency and quality of financial reporting.

IFRS guidelines cover the below areas :

- IFRS 1—First time Adoption of International Financial Reporting Standards
- IFRS 2 — Share-based Payment
- IFRS 3 — Business Combinations
- IFRS 4—Insurance Contracts
- IFRS 5—Non-current Assets Held for Sale and Discontinued Operations
- IFRS 6—Exploration for and Evaluation of Mineral Resources
- IFRS 7—Financial Instruments : Disclosures
- IFRS 8—Operating Segments
- IFRS 9—Financial Instruments

Major pronouncements of International Financial Reporting Interpretations Committee (IFRIC) may be grouped as below :

- IFRIC 1—Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 2 —Members' Shares in Co-operative Entities and Similar Instruments
- IFRIC 3—Emission Rights Withdrawn June 2005
- IFRIC 4—Determining Whether an Arrangement Contains a Lease
- IFRIC 5—Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6—Liabilities Arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment
- IFRIC 7—Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8—Scope of IFRS 2. Withdrawn effective 1 January 2010
- IFRIC 9—Reassessment of Embedded Derivatives
- IFRIC 10—Interim Financial Reporting and Impairment
- IFRIC 11—IFRS 2 : Group and Treasury Share Transactions. Withdrawn effective 1 January 2010
- IFRIC 12—Service Concession Arrangements
- IFRIC 13—Customer Loyalty Programmers
- IFRIC 14—IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 15—Agreements for the Construction of Real Estate
- IFRIC 16—Hedges of a Net Investment in a Foreign Operation
- IFRIC 17—Distributions of Non-cash Assets to Owners
- IFRIC 18—Transfers of Assets from Customers

* Associate member of the Institute and a Certified Project Management Professional. He works as a program manager with, leading IT company. He has led ERP implementation projects across North America, Asia Pacific and Europe regions.

- IFRIC 19—Extinguishing Financial Liabilities with Equity Instruments

Transitioning from current accounting standards to IRFS will pose many challenges before companies. New data may need to be captured or existing data may need to be captured in new ways for IFRS compliance. There will be more detailed accounting and more disclosures. One such example is Segment Reporting. Change in accounting standard may not necessarily change the way companies operate or even produce or sell, but it does have significant impact on the way operations—be it success or failure—is measured and reported.

While Accounting goes global, taxation may remain local which will add to the list of challenges of implementing IFRS. In Germany there would be 2 sets of financial statements—one local for taxation purpose and another global for IFRS compliance. In Luxemburg, entities that adopt IFRS must get approval of Tax authority so that same standard of accounting may be used for Tax Purposes as well. In the absence of such approval two books may need to be maintained. In India, Ministry of Company Affairs and Accountants are studying impact of IFRS implementation on taxation.

IFRS is being rolled out in phases in India. During the phase of transition, comparisons between those using IFRS and those still using existing standards becomes difficult. Tax liabilities for firms falling under these two categories may also significantly vary. We can take a look at few examples :

Redeemable Preference Shares —Under the Indian GAAP, these are treated on equal footing with equity shares. Under IFRS, Redeemable Preference Shares will be treated as a third party liability. Consequently, the dividend on such preference shares is likely to be recorded as interest, which is a pre-tax item which would also be deducted for the purpose of computation of taxable income. Those using Indian GAAP will be required to treat this dividend as post-tax appropriation of profit.

Current Investments could be another example. Under Indian GAAP, these are valued at lower of cost or fair value. According to IFRS, they should be valued at only fair value. Under Indian GAAP, losses and gains on derivate instruments need not be recorded. Under IFRS guidelines, all gains and losses both realized or unrealized—are to be booked in the profit and loss account. A company following Indian GAAP need not value and book cost of options in its Profit and Loss Account. Under IFRS, these will need to be booked into Profit and Loss Account.

Companies that adopt IFRS for the first time are required to re-cast their balances sheet based on IFRS. Resulting adjustments will need to be booked to retained earnings or some form of equity account. This affects evaluation of net worth of business as a whole and would, in turn, affect capital gain tax computation in case of sale of business at a later stage. Minimum Alternate Tax (MAT) is computed as percentage of value of assets. Valuing assets under IFRS rules have a big impact on MAT computation. As for inventory valuation, LIFO method will no longer be permissible under IFRS guidelines.

Regulators of different countries have set varying timelines for movement into IFRS. European Union and Australia have adopted IFRS as on January, 2005.Canada will adopt the same in January 2011 whereas Japan would adopt this in July 2011. US would adopt IFRS only as late as January 2014. Around 115 countries in the world require or permit IFRS reporting. Also, financial year followed in countries are not uniform. While US, UK, Japan and India follow April to March calendar, Australia follows July to June calendar.

India ICAI has made IFRS mandatory for financial statements prepared after 1st April 2011. RBI has stipulated that financial statements of banks need to be IFRS compliant after 1st April 2013. By end of 2014-15, listed companies and non-listed companies with net worth of Rs.500 crore or more would have to transition to IFRS.

Oracle Financials is a leading ERP package that caters to both local and consolidation accounting needs. Prior versions of Oracle had Global Accounting Engine (GAE) feature that provided for posting into books based on different rules without duplicating transaction entry effort. Oracle R12 version comes with Sub Ledger Accounting (SLA) feature which facilitates rule based accounting to multiple books, while letting end user make only entry into primary set of books. Most IFRS requirements would be met by seeded Oracle features.

For business, transition to IFRS would mean two fundamental changes—business process change, and systems change. Hopefully, benefits that accrue over time would justify time, cost and effort that go into making this transition. While everything around us is going global, accounting profession also cannot afford to remain far behind!! ❑

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IFRS in India — Benefits versus Costs

Anuradha H. N.*

Adoption of IFRS is an attempt to establish a global standard for the preparation of public company financial statements in order to integrate domestic businesses with the global investor and financial community so that there is no language barrier. Its implementation is expected to result in a fusion of benefits and costs. In this regard, this article analyzes the costs and benefits of migrating to IFRS with reference to India.

Introduction

A move towards international financial reporting standards is gaining momentum in the world of accounting today. International Financial Reporting Standards (IFRS) is a set of accounting standards, developed by the International Accounting Standards Board (IASB), is becoming a universal standard for the preparation of public company financial statements. Over 100 countries worldwide have moved or in a process of synchronizing their national accounting standards with IFRS.

The rationale behind migrating to IFRS is to provide a single set of high quality, understandable and uniform accounting standards, to improve comparability, transparency in reporting to build up investors' confidence and to seek better access to international capital market at lower cost of capital.

In line with the global trend, the Institute of Chartered Accountants of India (ICAI) has declared convergence with IFRS in India with effect from April 1, 2011. Globalization of Indian GAAP will offer a blend of rewards as well as challenges. Thus, the analysis of its costs and benefits is vital to access its feasibility in order to reap maximum benefits with a minimum cost and to devise strategies to face the future challenges effectively.

* Lecturer, Department of MBA, TTL College of Business Management, Mysore

Objectives

The objectives of the study are :

I. To understand the evolution of International Financial Reporting Standards.

II. To analyze the benefits available to key stakeholders due to implementation of IFRS in India.

III. To assess the costs or challenges to be tackled by India on account of migrating to IFRS.

Scope and Methodology

The scope of the study is limited to analyzing the costs and benefits of IFRS adoption with reference to India. The study is based on secondary data. The data required for the analysis are collected from books, ICAI publications, newspapers, journals, and relevant websites.

Defining IFRS

The International Financial Reporting Standards (IFRS) is a novel way of looking at accounting. IFRS is an accounting framework that establishes recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements. In simple words, it is a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. These are generally principle based standards rather than rule based standards, its application requires exercise of judgment by the preparer and auditor in incorporating principles of accounting on the basis of the economic substance of transactions.

Evolution of IFRS

International Financial Reporting Standards are standards adopted by the International Accounting Standards Board (IASB), an independent accounting standard-setting body, based in London, which started its operations in 2001 for developing global accounting standards. IFRS came into limelight when the European Union decided to adopt it for all its member countries in 2005. Since then, IFRS has spread swiftly all over the world.

As of now, more than 12,000 companies in almost 100 nations have implemented IFRS. In 2005, countries of the European Union, Australia, New Zealand and Russia have adopted IFRS for listed enterprises. China migrated to IFRS in 2008. Brazil is expected to move in 2010, Canada, Japan and India by 2011, Mexico in 2012. US plans to move to the pattern by 2014. It is estimated that the number of countries requiring or accepting IFRS could grow to 150 in the next few years.

In India, Accounting Standards will undergo significant change from 1st April 2011, when the IFRS come into force as per the recent proposal of 1CAI which was announced in July 2007. In the first wave, IFRS will be implemented in the Public interest entities such as listed companies, banks, insurance companies, mutual funds, financial institutions, companies with a turnover of more than one billion rupees in the preceding year, companies with a borrowing of more than 250 million rupees in the preceding year and holding or subsidiary of the above stated companies.

Benefits to Stakeholders

Change is the order of the modern era. Changing over to IFRS fetch variety of benefits to the economy in general and to the diverse stakeholders in particular :

The Economy — The use of different accounting frameworks in different countries creates confusion among the users of financial statements. This confusion leads to inefficiency in capital markets across the world. Thus, globalization of capital markets recognized the need for a single set of high quality, universally acceptable accounting standards. This provoked many countries to pursue convergence of national accounting standards with IFRS. The convergence benefits the economy by boosting its international trade. It facilitates maintenance of orderly and efficient capital markets, accelerates capital formation and thereby contributes towards economic growth. It also encourages cross-border investment and leads to increased flow of capital into the economy.

Corporate world—Adoption of IFRS significantly improves the quality as well as comparability of financial information of Indian entities with global peers and industry standards. It will result in more transparent financial reporting and builds up trust and reliance among the stakeholders—both in India and overseas. This would augment the reputation and relationship of the Indian corporates with the international financial community. The Indian entities will be able to raise funds from the global capital market at lower cost of capital. As IFRS removes barriers to cross-border listing of securities, the companies will be able to attract more foreign investment. Besides, it simplifies the process of preparing the individual and group financial statements by eliminating multiple reporting and reduces the costs and complexities of preparing the financial statements.

Investors—Under IFRS environment, financial statements will be prepared by using a common set of consistent accounting standards, hence accounting information will reflect high degree of reliability, relevance and comparability across national borders. This facilitates better understanding of financial statements globally and also develops increased faith among the investors. The investors can also save the cost, time and the effort of converting the different sets of national financial statements and be able to compare the investment opportunities confidently.

Accounting professionals—Migrating to IFRS will offer ample opportunities to the accounting professionals of India across the globe as the same accounting practices will prevail throughout the world. Thus, they will be able to sell their expertise in India as well as any part of the world and can realize attractive returns.

Employees—Implementation of IFRS goes beyond a technical exercise for an accounting function. The training is needed for the entire organization, not just for finance or accounting personnel, to impart new skills and knowledge among the employees. Thus, the employees will get an exposure to novel concepts and can expect more career avenues as well as better remuneration.

Banks / financial institutions—Banks, as lender of funds, can perform accurate risk evaluation of borrowers. As a result, they can offer their loan products at competitive prices to their clients and can improve the relationship with them in the long run.

Regulators—Adoption of universal accounting standards would be beneficial to the regulators too, as this reduces the complexity associated with understanding the various reporting regimes.

Costs of IFRS—In addition to the above benefits, there are several obstacles and practical challenges to adopt and to achieve full compliance with IFRS in India.

Need for Regulatory amendments—The success of convergence with IFRS depends on the extent to which the national GAAP, legal and regulatory issues are amended to meet the requirements of IFRS; otherwise, the conversion process may not yield fruitful results. For instance, the Companies Act (Schedule VI) prescribes the format for presentation of financial statements for Indian companies, whereas the presentation requirements are significantly different under IFRS. Thus, the Companies Act need to be modified in line with IFRS.

Differences in economic environment—Every country has a unique culture, especially business culture. The economic conditions prevailing in each economy may be distinct in nature. Having a common set of international accounting standards may hinder the conveying of certain company specific information which is incomparable with others. For example, in India, even large publicly-traded companies have a large number of related party transactions. Thus, there is general requirement in India to disclose related party transactions as per AS 18. But it is not extensively covered by IFRS. Another issue to be tackled is that many countries including India do not have the adequate depth and breadth for reliable determination of fair values and they oppose the use of fair value approach, whereas IFRS is very much in favour of fair valuation principles.

Lack of Readiness—IFRS conversion will involve a fundamental change to an entity's financial reporting systems, processes and effects on business performance. Hence, conversion process requires the dissemination of IFRS knowledge throughout the organization to ensure its application on an ongoing basis. But many Indian corporations are unprepared to fully adapt to IFRS because they just consider this process as an accounting issue which can be left to the finance function and auditors.

Scarcity of resource pool—The number of accounting professionals with adequate practical experience on convergence process is lacking. As a result, the companies will have to rely on external advisors and auditors. Besides, the accounting professionals, auditors as well as their staff need to be well-trained to function under IFRS environment. It is also important to modify the syllabus of universities, colleges, and professional accounting bodies such as ICWA, ICAI etc. to broaden the pool of trained resources.

Costly exercise—Migrating to IFRS involves significant costs in terms of money, time and effort. There will be one-time cost of converting to IFRS including costs of internal personnel time, implementing IT systems, costs to dismantling the standard setting infrastructure and application of revised reporting policies, processes etc. In addition, educating all the stakeholders such as accountants, auditors, investors, regulators, employees, lenders, university faculty etc., would be a greater challenge within the prescribed time limit.

Burden for small and medium enterprises (SMEs)— Though the adoption of IFRS was made mandatory for public interest entities in the first phase, if any SME wants to implement IFRS it may find it too voluminous. They may also face the barriers such as huge cost; shortage of resources, expertise, etc. Keeping in view the difficulties faced by the SMEs, the IASB is developing an IFRS for SMEs.

Conceptual divergence—There is a common assumption that differences between Indian GAAP and IFRS are few as the former has been formulated on the basis of principles the of latter. It does not mean that the efforts required for convergence is minimum. There are significant differences between Indian GAAP and IFRS, differences in practical implementation and interpretation of similar standards in areas such as presentation of financial statements, accounting of financial instruments, business combinations etc. These differences must be harmonized to reap the real benefits of IFRS.

Impact on financial performance—Due to significant divergences between Indian GAAP and IFRS, the adoption of IFRS may have material impact on the financial performance of Indian organizations. The areas such as employee compensation, structuring of ESOP schemes, tax planning, and compliance with debt covenants etc. may experience substantial change. Besides, IFRS may also affect on the financial statements, loan loss provisioning, impairment charges, financial instruments and, thereby on capital adequacy ratios of financial institutions.

Suggestions :

On the basis of above analysis, the following suggestions are drawn —

I. The government and other regulators like SEBI, RBI, accounting standard setting bodies should act in consensus to achieve high level of integration with IFRS without any bias.
II. SMEs should be enabled to adopt simplified version of IFRS so that the financial statements of all entities irrespective of listed / unlisted, public / private and large / small can be synchronized across national borders.
III. The curriculum of universities and other professional accounting bodies should be reformulated to include IFRS principles and adequate training should be provided to faculty members to facilitate them in teaching.

Conclusion

International Financial Reporting Standards (IFRS) are emerging as the primary accounting language of the world. India is joining a league of 100 plus countries by announcing the convergence of Indian GAAP with IFRS with effect from April 2011. The use of IFRS in India would have signi-ficant impact on key stakeholders by presenting both benefits as well as costs. The costs of implementing IFRS should be taken up as challenges or opportunities in order to encounter them in the right spirit to ensure smooth con-vergence with IFRS. India can derive maximum benefit of IFRS adoption at minimum cost by learning from the experi-ence of other countries, by building adequate pool IFRS skills, knowledge, as well as by securing the co-operation of government and other regulatory mechanisms. ❑

International Accounting Standards and India's Preparedness

Dr. Akash S.B.*

Globalization promotes many countries to expand their business across the borders and it also opens their doors to foreign investment. In addition to this many changes also took place like integration of international capital market; allow various countries to compete on the same economic platform, many countries open their business in different countries, accessing the global markets to fulfil their capital needs by getting their securities listed on the stock exchanges outside their country, etc., this environment generally expected and forces business community to adopt uniform accounting standards all over the world because of different accounting frameworks in different countries, which leads to inconsistent accounting treatment as well as it creates confusion for users of financial statements; and inconsistent accounting treatment leads to inefficiency in capital markets across the world.

Introduction

Accounting is a key factor in business because it facilitates to provide quantitative information—primarily financial in nature—about economic activities of business that is intended to be useful in making economic decisions, in making reasoned choice among alternative courses of action. The accounting discipline performed their function properly and it attains the requirement of the stakeholders without fail when there is an acceptable accounting standard. However, accounting standards are used all over the world as one of the main compulsory regulatory mechanisms for preparation of financial statements because accounting standard are guidelines to specific issues in financial accounting and reporting.

In other words, accounting standard are written statements issued from time to time according to changing business environment by professional bodies of particular country and International Accounting Standard Board with view to provide a proper accounting guidelines and uniform rules for preparations of financial reporting applicable to either to all or to a certain class of business organization. And it also played different role in business viz., improve the credibility and reliability of financial statements, accounting guidelines attain the requirements of different parties like investors, management, auditors, creditors, government, accountants; and other parties who directly or indirectly get the benefits of organization, helps the accounting professionals to discharge their obligations up to mark, it helps management to take rational decisions about economic activities of organization etc. However, due to globalization many changes took place in business in recent past like rapid growth of international trade, internationalization of firms, the developments of new communication technologies, the emergence of international competitive forces, capital movements between countries, international investment etc. This environment generally forces business communities to use common accounting standards for common accounting language; because the financial statements prepared using accounting standards of one country may not be understood in the same sense in another country—in view of this harmonization of accounting standard is needed.

Selected Review of Literature

International Accounting Standards were first developed in the late 1960s but they have reached their zenith of importance in today's economic and business environment. The main aim of international accounting standards is to provide norms and policies of accounting in order to guide the accounting authorities in respect of treatment of economic activities of organizations in financial statement.

Here an attempt is made to briefly review the earlier studies conducted by the different scholars. **Harvey Pitt (2002)** opined that high quality global accounting standards are needed to improve the ability of investors to make appropriate financial decisions as well as to protect their business credibility in the international market place. **Anderson, A. (1993)** argues that adoption of common accounting standards all over the world

* Dept. of Studies and Research in Commerce, Kuvempu University, Shankarghatta, Shimoga District

is good in order to creation of value and global decision making about economic activities of organization. **K. S. Vikamsey (2001)** pointed out that those who invest overseas in any international business naturally want financial health of the securities issuers and objectives only fulfill when the business communities have uniform accounting standards. A. G. Piper (1985), pointed out that if implemented the international accounting standards all over the world would benefit and improve the financial markets. Belkaoui and Jones (1996) argue that determining the best mechanism to employ in establishment of uniform accounting standards may be essential to the acceptability and usefulness of accounting standards. Appa Rao (2006) opined that adoption of international accounting standards is very much essential because variations in practice are very large. Hossain (2000) opined that unless and until the adoption of lASs for the preparation of financial statements, it is not possible to provide desired information to international communities. Thus it is clear that from the above discussion the uniform accounting standard is needed in international business in order to ensure uniform and consistent accounting information about economic activities of organizations to create stability of world economy.

Statement of the Research Problems

International trade in recent past is getting better position-ing due to globalization because globalization promotes many countries to expand their business across borders and it also open their doors to foreign investment. In addition to this many changes also took place like integration of international capital market; allow various countries to compete on the same economic platform, many countries open their business in different countries, accessing the global markets to fulfil their capital needs by getting their securities listed on the stock exchanges outside their country Capital markets are, thus, becoming integrated consistent with this worldwide trend etc. This environment generally expected and forces business community to adopt uniform accounting standards all over the world to provide desire accounting information about organization activities to stakeholders, because accounting information, a reflection and description of the overall status of the organization, directly influences the decision of stakeholders, it is the important foundation of financial stabilization, it facilitates to keep away from the risk of financial crisis, the transparency of accounting information protect the interest of stakeholders etc. This is only possible when business community adopt uniform and proper accounting standards.

United Nations' report (2006) pointed out that most of the countries in Asia are under financial crisis, due to improper accounting standards and not adoption of international accounting standard. ICAI (2007) opined that sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. However, many studies pointed out that different accounting frameworks in different countries, which leads inconsistent accounting treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world, therefore, this environment forces to adopt uniform and globally accepted accounting standards. Due to these reasons many countries came forward and are preparing themselves about convergence of national accounting standards with IFRS. With this backdrop the study assumed great importance to study on International Accounting Standards and India's preparedness.

Objectives of the Study

Against the above backdrop the study have plan to study the objectives like to study the status of accounting standards in India, to find out the possible reasons that are responsible for single accounting standard for global enterprise, to analyze the regulatory framework and effort of regulatory authorities of India towards convergence of accounting standards, to analyze the perceptions of chartered accountants and auditors about convergence of national accounting standards with IFSR, to analyze the challenges of regulatory authorities of India in the process of harmonization of accounting standards and suggest proper ways for harmonization of accounting standards.

Sources of Data

The study is based on both primary and secondary data— the primary data collected from sample chartered accountant and auditors. The secondary data were collected from the reports of professional bodies like 1CAI and other professional bodies in the world and the study also referred to professional national and international journals.

Sample design

The size of chartered accountant and auditors are very large in India, since detailed study of opinions of all chartered accountant and auditors is very difficult and time consuming about usefulness of international accounting standards and India's preparedness level for convergence of national standards with IFRS. In view of this the study has selected 150 sample chartered accountants including auditors in different places in India like Bangalore Hubli, Karwar Belgaum, Bijapur, Kolapur, Goa and some other places in India by adopting convenient sampling method.

Reasons Responsible for increase in the Role of International Accounting Standards

Globalization, liberalization, privatization and advent of new technologies have dramatically changed and a number of multinational companies are establishing their businesses in emerging economies, and vice versa. The entities in emerging economies are increasingly accessing the global markets to fulfil their capital needs by getting their securities listed on the stock exchanges outside their country. This environment generally expected uniform accounting and acceptable accounting standards for global business. However, main reasons that are responsible for increase in the role of International accounting standards such as ensures quality governance, uniform standards for global business, high and acceptable standards for world business communities, proper regulatory frame- work for economic development, encourages the foreign business communities to invest money across the border, contributing a lot towards economic development of a developed as well as underdeveloped countries, provides proper platform to business community to effectively face the globalization problems, it is needed to evaluate the performance of multinational organization having its own subsidiarie's, to make a proper comparison of a company's financial performance with international organizations, to protect the stakeholders' interest and minimize the international variations in accounting practice etc.

Brief History of Accounting Standard in India

The Council of the Institute of Chartered Accountant of India (ICAI) constituted the Accounting Standard Board in 1977 with the aim of issuing accounting guidelines according to changing business environment to support the meaningful accounting practices. The ASB issued preface to the statement of accounting standard in 1979. The preface statement includes its scope and functions, scope of accounting standards, the procedure to be followed in formulating the accounting standards etc.

Status of Indian Accounting Standards under Changing Business Environment

The main aim of accounting is recording, measuring and communicating economic information for decision making to stakeholders. The accounting authorities are only to do and discharge their obligations without fail when acceptable accounting standards are available to business community, because the accounting standards provide uniform rules for preparation of financial statement either to all or to a certain class of business enterprise. However, the Institute of Chartered Accountants of India (ICAI) as the accounting standards-formulating body in the country—has always made efforts to formulate high quality accounting standards and has successfuly issued 132 accounting standards on par with International Accounting Standards. However, the globalization provided many opportunities to many countries to open their doors to foreign investment across the borders and also it encourages the business communities to expand their business in different countries at different angles. This environment generally expected commonly accepted uniform accounting standards for international business, because commonly accepted accounting standard ensures to protect the business as well as stakeholders of business.

India is positively responding towards changing business environment in respect of accounting rules and regulations because, so far as the accounting professional body like ICAI and the Governmental authorities viz., the National Advisory Committee on Accounting Standards established under the Companies Act, 1956, and various regulators such as Securities and Exchange Board of India and Reserve Bank of India are concerned, the aim has always been to comply with the IFRS to the extent possible with the objective to formulate sound financial reporting standards. Moreover, accounting professional body of India always concentrate on formulating very high quality standards resulting in transparent and comparable financial statements, however, if any deviations from IFRS were made it was where it was considered that these were not consistent with laws and business environment in India. Now, as the world globalizes, it has become imperative for India also to make a formal strategy for convergence with IFRS with the objective to harmonize with globally accepted accounting standards.

India's Effort towards Improvement of Accounting Practices at International Level

Globalization of business expected a universally accepted accounting language and it is gaining momentum across the globe in recent past. Due to this reason the government of India took many measures to improve the status of accounting practices. The following explanations clearly reveal the effort of the government towards improvement of accounting practices :

1. Government of India amended the Companies Act by introducing Section 211(3C) through the Companies (Amendment) Act, 1999, whereby it is required that the companies shall follow the Accounting Standards notified by the Central Government on a recommendation made by the National Advisory Committee on Accounting Standards (NACAS) constituted under Section 21OA of the said Act.

2. Further, the government's Ministry of Corporate Affairs issued notification on December 2006, which prescribed Accounting Standards 1 to 29 as recommended by the accounting professional body of India (ICAI) and which came into effect in respect of the accounting periods commencing on or after the aforesaid date with the publication of these Accounting Standards in the Official Gazette. In addition to that Government of India had taken many steps to improve the status of accounting practice.

3. The Reserve Bank of India is the banker of banks and it issued guidelines to banks to follow the accounting standards in preparing and disclosing economic information of organizations.

4. The Securities and Exchange Board of India (SEBI), through the listing agreement with stock exchanges, requires all listed entities to follow the existing accounting standards.

5. According to Insurance Regulatory and Development Authority Regulations Act, 2002, every insurance company has to comply with the accounting standards issued by the Institute of Chartered Accountants of India for preparing and presenting their financial statements.

6. Institute of Chartered Accountants of India is a full fledged member of International Federation of Accountants Committee (IFAC) and it has formulated accounting standards on the basis of International Accounting Standards. However, where departure from IFRS is warranted keeping in view the Indian conditions, the Indian Accounting Standards have been modified to that extent.

7. Institute of Chartered Accountants of India attempted in different angles to bridge the gap between Indian accounting standards and IFRS, through formulating many new accounting standards but also attempted to ensure that the existing accounting standards are in line with globalized business environment.

8. Indian accounting body announced in 2007 about adoption of international accounting standards from accounting period commencing on or after 1st April 2011, and it is applicable to listed entities; banks, financial institutions, mutual funds and insurance entities; entities with turnover exceeding 1 billion rupees, entities having public deposits and / or borrowings from banks and financial institutions in excess of 250 million rupees and holding or subsidiary companies of any of the above entities.

Harmonization of Accounting Standards

International Financial Reporting Standards ensures universal financial reporting language. In view of this it is gaining momentum across the globe, in recent past and more than 100 countries are ready to adopt international accounting standards on or before 2011. In view of this many countries took interest in harmonization of accounting standards. However the harmonization means formulation of accounting regulations which, in material respect, are similar to those of other countries.

Benefits of Harmonization of Accounting Standards

The global business environment changes lot in world trade like increase in the international trade, and many domestic organizations expand their business at international level, rapid development of technology etc. This environment generally forces business communities to adopt common accounting standards worldwide, because it protects the interest of large number of people and it is a prerequisite for attracting foreign investors as well as it is a tool to motivate the domestic investors to invest their fund across the border. However, the harmonization of accounting has many benefits it increases the financial health of the securities; protects—the interest of stakeholders, minimizing exchange costs through correct and fair information, increases the international transactions and flow of funds, ensures standardized accounting information for policy formulation to world business communities, improving financial markets information; increases the accoun-tability of government and business comparability of international financial information, eliminate the misleading of financial information to investors, uniformity in financial reporting and it also ensures adequate and acceptable accounting information to management to take right decisions about international business activities.

Challenges of Harmonization of Accounting Standards

Harmonization of accounting standards provides useful information to international communities— those who directly or indirectly get the benefits of multinational organizations and guiding them to take appropriate decisions, however, harmonization of accounting standards is not a easy task, because it has many challenges, these are as follows :

1. Accounting standards generally formulated by specific country based on their legal, economic, social and cultural environments this environment differs from country to country and region to region. Therefore, it is a challenging job before a respective country to harmonize the accounting standards and adoption of international accounting standard.

2. There is a lot of gap between accounting standard of India and International accounting standards and every country has its own financial reporting philosophy and would find it extremely difficult to harmonize its domestic standards with International financial reporting standards.

3. Harmonization of accounting standard is dangerous to the companies as the standards could cut profits and inject volatility into the balance sheets of the companies; hence the organization provide adequate education to the investors about consequences of harmonization of accounting standards.

4. Many studies pointed out that accounting is flexible in nature and it helps to adopt different accounting polices for different accounting issues, but once harmonization of accounting standards take place they won't be flexible enough, and cannot fit the wide range of national circumstances, legal systems, economic and cultural differences of countries.

5. Government and the regulatory authorities of India needed to establish legal and regulatory environments that provide for compliance with all the IFRS.

6. Business organization has to pay tax on their annual earnings and it is generally commuted tax on business income on the basis of provisions of the Indian Income Tax Act, 1961, however there is a needed clarification from the tax authorities on treatment of various accounting transactions.

7. Reserve Bank of India and Insurance Regulatory Authority of India issued the set of guidelines for the financial reporting for banks, financial institutions and insurance companies, respectively, including the presentation format and accounting treatment for certain types of transactions etc., these guidelines currently are not consistent with the requirements of International Financial Reporting

8. Security and Exchange Board of India has also issued set of guidelines for listed companies regarding disclosure of financial information some of which are not consistent with the requirements of International Financial Reporting.

9. Adoption of IFRS is unlikely to improve accounting information unless there is a corresponding strengthening of laws and enforcement.

10. The extension of International accounting standards to small and medium-sized enterprise is also challenging.

11. There are differences of certain Indian Accounting Standards as compared to International accounting standards viz., inventories, cash flow statements, accounting for government grants and disclosure of government assistance, earnings per share, impairment of assets and intangible assets.

Major Findings of the Study

Here an attempt is made to highlight the major findings of the study; the findings of the study are based on primary information which is collected from the sample accounting professions, these are as follows :

1. More than 90% of sampled chartered accountants and auditors felt that harmonization of International accounting standard is good in order to protect the interest of those who directly or indirectly get the benefit of organization as well as to ensures prosperity of world economy.

2. Among sample respondents 112 (75%) respondents opined that ICAI formulated accounting standards based on IFSR but there is a much gap between accounting standards of India and International accounting standards due to legal, economic, social and cultural environments and 38 respondents (25%) not expressed any opinions about gap between Indian accounting standards and International accounting standards.

3. More than 90% of the sample respondents opined that different countries have different accounting standards which lead to inconsistent treatment and presentation of accounting information which creates confusion for users of financial statements as well as it creates inefficient capital markets and economic crises.

4. More than 87% (131) of sample respondents argue that convergence have many benefits like growth of its international business, ensures efficient capital market, encourages investors to invest money abroad, more foreign capital flow, ensures investors better understanding investment opportunity, facilitates industry, raises capital from foreign marketed., remaining 19 sample respondents constituting 12.6% not expressing their opinions about benefits of convergence of national accounting standards with IFRS.

5. Nearly 75% of the sample respondents opined that convergence of national accounting standards increases the relevance of accounting profession and it also facilitates to sell their services in domestic country as well as foreign country. And 37 sample respondents amounting 25% argue that convergence of accounting standards will not help accounting profession to sell their services abroad easily.

6. Around 80% (119) of the sample respondents argue that ICAI already announced the date of adoption of International accounting standards and it also prepared most of things what India needs for convergence of national accounting standards with IFSR. 20% (31) of the respondents opined that ICAI is needed to prepared many things to convergence of national accounting standards with IFSR in order to protect the interest of stakeholders.

7. More than 90% of sample respondents argue that the process of convergence is a great challenging job and its success depends upon proper compromise between the accounting standard board of India and International accounting standard board and remaining 14 sample respondents constituting 9.3% percent not expressing their opinions about challenges of India about convergence of national accounting standards with IFSR.

Conclusions

Under globalized scenario the world has become an economic village; due to this reason many changes took place in international business like rapid growth of international trade, internationalization of organizations, fast development in communication technologies, emergence of international competition and integration of international capital market etc. This environment generally expected common accounting language all over the world because different countries in the world uses different accounting polices which lead to inconsistent treatment, inconsistent disclosure, different methods followed for measurement of assets and liabilities and other aspects as relating to accounting etc., it creates confusion for users of financial statements and it is also not fully guiding the business authorities to take proper economic decisions as well as it leads to inefficiency in capital markets across the world. In view of this many countries in the world globally accepted accounting standards and implemented them, and some countries have announced the globally accepted accounting standards are to be implemented in near future India also announced public interest entities and listed entities should be adopted from accounting periods beginning on or after 1st April 2011. However, India had many challenges about convergence national standards with IFSR, such as legal problems, cultural problems; conceptual difference of Indian accounting standards as compared to International accounting standards etc. India is successfully converging national standards with IFSR with proper com-promise and understanding between the accounting standard board of India and International accounting standard board. ❑

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IFRS—The New Era of Accounting

S.K. Mishra*

Financial statements are prepared and presented for both internal and external users and for statutory requirement by many entities around the world. Although such financial statements may appear similar from country to country, they apply different criteria for the recognition of items in the financial statements. With a view to harmonise regulations, account-ing standards and procedure relating to the preparation and presentation of financial statements, International Accounting Standard Board (IASB) has formulate the Global Accounting Standard called IFRSs.

International Financial Reporting Standards(IFRS) is the latest and hottest topic among accounting professional and business community across the globe. With the opening up of economy due to globalisation and business expanding rapidly beyond geography, multiple reporting system has become time consuming, require extra efforts and skill and costly. It has also been identified as hindrance for corporate growth. The International Accounting Standard Committee(IASC) is committed to eliminate these problems by developing one set standards for reporting financial statements, i.e. IFRS.

IFRSs issued by International Accounting Standard Board(IASB) are increasingly being recognised as global reporting standards. More than 100 countries including all European Union countries and Pakistan, Bangladesh, Sri Lanka have already adopted IFRS. Barring UK and USA, by 2011 all developed and developing economies including India will be converging to IFRS.

Though US has deferred its plan to implement IFRS, a major breakthrough has been achieved in US as the Securities & Exchange Commission (SEC) has allowed Non-US companies listed in US Stock exchanges to prepare their financial statements under IFRS and have given exemption to prepare financial statements under US GAAP.

What is IFRS

International Financial Reporting Standards (IFRS) are standards and interpretations adopted by the International Accounting Standards Board (IASB).

They comprise :

(a) International Financial Reporting Standard

(b) International Accounting Standards; and

(c) Interpretation developed by the International Financial Reporting Interpretation Committee (IFRIC) or the former Standing Interpretation Committee (SIC).

Why IFRS

Accounting bodies all over the world and the various accounting standard setting bodies are looking to eliminate the differences persisting in various countries as to the treatment in the accounts in respect of assets, liabilities, Income & expenses etc. The main purpose is to create a condition in which the financial statements of any entity can be easily read and understood by the various users of the statement residing in different parts of the world. IFRSs are the solutions to this problem.

IFRS Compliants

As per IAS 1, an entity is said to have complied with IFRS if it has complied with

(1) All IAS and IFRS

(2) All IFRIC and SICs

(3) Apply all the pronouncements of National standard setter to the extent they are consistent with other IFRS, SICs, IFRICs & IASB frame work.

Benefits of convergence/adoption of IFRS

(1) Only one set of Financial Statement will be prepared under IFRS as against multiple set of financial statement as per requirement of different regulators.

(2) Universal financial reporting language.

(3) Easy comparison of Financial Statement.

(4) Due to preparation of only one

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* The author is an Associate Member of ICWAI & ICAI. He is a MBA (Fin), M.Com (Gold Medallist) and Investment Analyst and Portfolio Management. Presently working in NHPC Ltd. He can be reached at surucan@rediffmail.com.

Role of CMAs in IFRS Era

CMA Dr. T. P.Ghosh*

Analysed from the perspective of the integration of Financial Accounting System (FAS) and Management Accounting System (MAS) , this paper critically reviews four issues :

- *Fair value measurement framework*
- *Cost plus pricing and fair value based risk premium*
- *Componentisation of Assets*
- *Critical Estimation*

and concludes that MAS would be the basis of FAS in the IFRS era. The paper also highlights the role of management accountants in different phases of IFRS implementation.

As IFRS influence and improve the decision making system in the process of delivering an improved financial reporting system, there is a need for developing International Management Accounting Standards in the form of best practices in the key decision making areas like fair value measurement, cost plus pricing, and componentisation and principles of estimation which would act as an accounting support system to IFRS.

Based on the limited review of four issues, this paper suggests to develop seven standards in the first phase.

Introduction :

International Financial Reporting Standards (IFRS) penetrate into the managerial decision making process and management control system to improve the quality of the financial reporting system. Whether the pervasive influence of IFRS would change the decision making process and management would lean towards fair value information rather than cost based information are the critical issues . In any case, the generation of IFRS based financial statements depends upon a supporting Management Accounting System (MAS). Neither the IFRS information can be generated exclusively through voucher accounting system nor is it expected that fair value based accounting could be achieved through voucher recording. Convergence to IFRS is widely perceived as role enhancement of the management accountants on many counts.

The fallacy that the IFRS implementation project is finance specific rather than business initiative is now conclusively resolved with a general consensus that the implementation of the IFRS affects most of the processes and functions within an entity, e.g. finance, accounting, information systems, and human resources. MAS researchers like Juergen Daum viewed a missing link that "there are no analytical / management accounting concepts based on the IFRS performance philosophy to support management in detailed day-to-day decision making" and argued for developing International Management Accounting Standards (IMAS).

Researchers like Hemmer & Labro (2008) and Taipaleenmäki & Ikäheimo (2009) suggest that the financial accounting and managerial accounting are more integrated in the post-IFRS era than evidenced in the earlier literature. Hemmer and Labro (2008) further argued that management and financial accounting systems are not independent. Their study suggests that the managerial decision making role of a Management Accounting System (MAS) does not seem to be a concern in a Financial Accounting System (FAS). However, the MAS is directly linked to properties of the FAS.

In view of the above, this paper intends to review linkage of MAS and FAS in the context of IFRS becoming the basis of FAS and that specific issues wherein FAS would penetrate MAS are fair value measurement, cost principles, performance evaluation , asset management and disposal, operating segment, risk and capital management, assessment of uncertainty and impairment of assets including financial assets.

This paper critically reviews important issues like :

- *Fair value measurement* of financial and non-financial assets would essentially demand *collecting , recording and managing non-accounting information systematically*. Accordingly, there shall be a need for robust management accounting system.
- *Fair value based expenses and cost plus pricing* : All elements of historical cost like employee costs, spares and consumables, borrowing costs, depreciation, etc. are affected by fair value measurement resulting in a challenge to cost plus pricing

*Professor, Institute of Management Technology, Dubai. Email : tpghosh@imt-dubai.ac.ae

methodology vis-à-vis target return.

- *Controlling assets by components* as standardised in IAS 16. Property, Plant and Equipment links financial reporting to asset management strategies. Assets are managed by components not as a whole.
- Present value accounting of IFRS (like the case of IFRIC 12—Service Concession Arrangements) reflects a new performance evaluation base. MAS has to review how the management would use such information as performance evaluation criteria. In general, fair value based profitability parameters would essentially be different from the historical cost based profitability—posing challenge to shift the decision making parameters.
- Neither the traditional financial accounting concepts support *identification and valuation of many intangible assets* nor the management accounting system bridges the gap. This can be linked to IFRS 3—Business Combinations—wherein the traditional concept of goodwill is broken into marketing related, customer related , contract based, technology based and artistic based intangible assets. IFRS 3 demands reflection of boardroom decisions in the financial assets. Presently corporate financial statements mostly reflect physical assets and unreconciled goodwill.
- Linking the managerial decision making process to accounting and disclosures as reflected in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 8 Operating Segment and IFRS 9 Financial Instruments, IAS 19 Leases would require *interlinking management information system to financial reporting system.*
- *Risk management issues* (like vertical domain risk, geographic channel risk, and much talked about financial risk like credit risk, liquidity risk, market risk) have so far lacked transparency that could be linked to weak corporate governance in many jurisdictions. IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments : Disclosures sought to bring the much desired transparency in the field of risk management. Disclosures of sources of estimation uncertainty, financial risk disclosures or capital disclosures would necessitate a management accounting system to capture risks and uncertainties and reflect in the financial statements.
- *Impairment of financial assets* and application of accrued loss model rather than estimated loss model demands detailed impairment analysis of troubled debt.
- *Cost to company principle* of employee cost assessment in IFRS era is another aspect that modern cost accounting system shall capture. Valuation of concessional loans to employees as a financial instrument in accordance with IAS 39 Financial Instruments : Recognition and Measurement would capture better cost information. In particular, it would impact the cost plus pricing.

Although this is not an exhaustive list of issues that would require improvement in MAS, an attempt has been made in this paper to detail out four highly critical issues (e.g. fair value measurement, cost plus pricing and risk premium, asset management and estimation uncertainty) leading to a conclusion that there shall be a need for management accounting standards to uphold and strengthen the IFRS based financial reporting system. This paper intends to review in details the MAS issues that would support IFRS and in specific, the role of the management accountants in the IFRS era.

Fair Value Measurement Parameters

Determination of fair value as an important measurement base is not adequately clarified in the existing IFRS and in the forthcoming standard on fair value measurement whereas various assets and liabilities shall be measured applying fair value (Table 1). The Exposure Draft on Fair Value Measurement has suggested three principal methods :

- Market approach
- Income approach
- Cost approach

Market approach : Under this approach, prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business) are used. Other than direct market quotation, valuation using multiples (like P/E multiples of similar companies) fall within this approach.

Income approach : Under this approach future amounts (eg cash flows or income and expenses) to a single present (discounted) amount. Present value technique falls under this category. Option pricing models like Black Scholes model (for valuation of European stock option) or Binomial model (lattice model), present value accounting discounting and categorized under this approach. Similar valuation approaches are

Table 1 : IFRS Measurement Bases of Assets and Liabilities

Items of assets and liabilities	Initial measurement	Subsequent measurement	IFRS guidance on Parameters
Property, Plant and Equipment	Cost	Cost or revaluation model	Earnings or depreciated replacement cost
Intangible Asets	Cost	Cost or revaluation model	No guidance
Financial Assets designated as at fair value	Fair value	Fair value	Level I , Level II, and Level III inputs
Financial Assets designated as at amortised cost	Fair value	Amortised cost	Amortised cost computation has been illustrated
Derivative Financial Instruments	Fair value	Fair value	Valuation methodology not explained
Investment Property	Cost	Cost or revaluation model	Level I , Level II, and Level III inputs
Biological Assets	Cost	Cost or fair value less costs to sell	Market price and nature of market explained
Non-current Assets Held for Sale and Discontinued Operations	Fair value less costs to sell		Level I , Level II, and Level III inputs
Held for Trading Financial Liabilities	Fair value	Fair value	Level I , Level II, and Level III inputs
Other Financial Liabilities	Fair value	Amortised cost	Amortised cost computation has been illustrated

Note : Fair value at the initial measurement has been adequately clarified in the respective IFRS / IAS

adopted for valuation of currency option (Garman Kohlhagen model), interest rate swap, cap, color, floor, FRA, etc.

Cost approach : The cost approach is based on the current replacement of the asset. It reflects the amount that would currently be required to replace the service capacity of an asset . From the perspective of a market participant (seller), the price that would be received for the asset is based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence . It is broader than depreciation for financial reporting purposes which is just an allocation of historical cost. The current replacement cost approach is generally appropriate for measuring the fair value of tangible assets using an in-use valuation premise because a market participant would not pay more for an asset than the amount for which it could replace the service capacity of that asset. One variant of replacement cost approach is *optimised current replacement cost method* [Ghosh 2010] that takes into account the principle of exit price, and optimized the current replacement cost taking into account capacity difference and other factors.

Inputs to the valuation techniques — Inputs refer broadly to the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, eg the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) or the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable :

(a) *Observable inputs* are inputs that are developed on the basis of available market data and reflect the assumptions that market participants would use when pricing the asset or liability.

(b) *Unobservable inputs* are inputs for which market data are not available and that are developed on the basis of the best information available about the assumptions that market participants would use when pricing the asset or liability.

Fair value hierarchy — The proposed standard has also set out three levels of fair hierarchy :

Level 1 Inputs : They are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 Inputs : They are quoted prices of similar assets—

i. quoted prices for similar assets or liabilities in active markets;

ii. quoted prices for identical or similar assets or liabilities in markets that are not active;

iii. inputs other than quoted prices that are observable for the asset or liability (eg interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates);

iv. inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 Inputs : They are inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, e.g. when market activity for the asset or liability at the measurement date is little or nil.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy. The fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

International Valuation Standards add further to these valuation principles.

The missing link is the practical application manual for various methods guiding data collection, model building, filtering the output and selection of the appropriate output from the range of outcomes. For example, application of de-preciated replacement cost method or an optimised version [Ghosh 2010] would essentially require critical and subjective estimations leading to audit controversies.

Accounting literature has already captured the gap and IFRS valuation guidance books attempted to fill the missing links [like Catty, James P 2010].

In this context , a management accounting standard (or best practices) may guide :

— Selection of methodologies for valuation of various kinds of assets and liabilities including specific guidance to specialised industries;
— Selection of input;
— Discounting, choice of discount rates and sourcing discount rates;
— Filtering range of outcomes;
— Supportive of MAS for maintaining audit trails; and
— Linking the fair value to management decision making.

It is possible to have a separate classified standards for specialised intangible assets like brand, customer lists, artistic based intangible assets, and derivative instruments like swaps, options, forwards, etc.

Cost Plus Pricing and Target Return

Cost plus pricing is a popular pricing methodology in the regulatory pricing of goods or services like fertiliser pricing or pricing of electricity generation, transmission and distribution. This is also a popular pricing method in free market pricing and widely used in tendering for job contracts.

Pre-IFRS historical costs of materials, labour and overhead are affected by fair value measurement principles and other IFRS requirements on many counts :

— Componentisation of property, plant and equipment alters concept of revenue and capital expenditure;
— Change in the IFRS based depreciation and asset maintenance costs;
— Fair value of employee costs covering concessional loans and similar other financial benefits;
— Amortised cost based borrowing costs;
— Effect of cash flow hedge reserve on non-financial assets.

On the other hand, the target return on the enhanced asset base valued at replacement cost would essentially be higher. Eventually the fair value based cost plus pricing will set a new pricing dimension. Perhaps an older asset base would lean back to a legitimate a fair value basis to claim a comparative return.

However, the recent development shows that the Canadian energy regulator has already settled down to historical cost depreciation in cost plus energy pricing mechanism rather than fair value depreciation.

Fair value measurement would require compensating risk premium by way of return on assets such that impairment is prevented in the regulatory pricing mechanism. Impairment analysis under IAS 36 and fair value basis will be major decision making factors in regulatory pricing in the context of public-private partnership. The forthcoming standard on rate regulated activities adds further concern about the expanded asset base. Return on asset should compensate adequately such that deferred expenses which are to be recovered through rates (and classified as rate regulated asset) are justified and are not impaired. Otherwise the very purpose of rate regulated assets will be defeated.

The best practice guidance on appropriate cost plus pricing framework is emergent to protect shareholders' value in the listed public sector companies governed by the regulatory pricing mechanism. Similarly, this will provide a guidance on effective job cost tendering.

Componentisation of Assets

4. Componentisation of assets in accordance with IAS 16 Property, Plant and Equipment is driven by asset management and maintenance requirements. Refer to Fig. 1 for componentisation principle outlined in Asset Accounting Framework published by the Treasury Department of the Government of South Australia. An *asset register* normally reflects how assets are structured from asset category to asset classes to asset components (Refer to Table 2). It facilitates data processing and reporting needs, namely :

a. to perform valuations of assets (from the component level) as required by fair value assessments;
b. to provide structural layout of assets and link assets / asset components to their location;
c. to deliver works orders on an asset or asset component;
d. to enter condition (and calculate condition rating) at component level and roll this up to an aggregate at the asset level;
e. to generate inspection (inspection orders) and work activities (works orders) against an assets (at component level);
f. rollup costs for maintenance and capital works for asset components to account for costs at the asset class or category level.

Generally, the asset management best practices have the following steps :

Step 1 : Use inventory and maintenance practice to determine components and groupings;

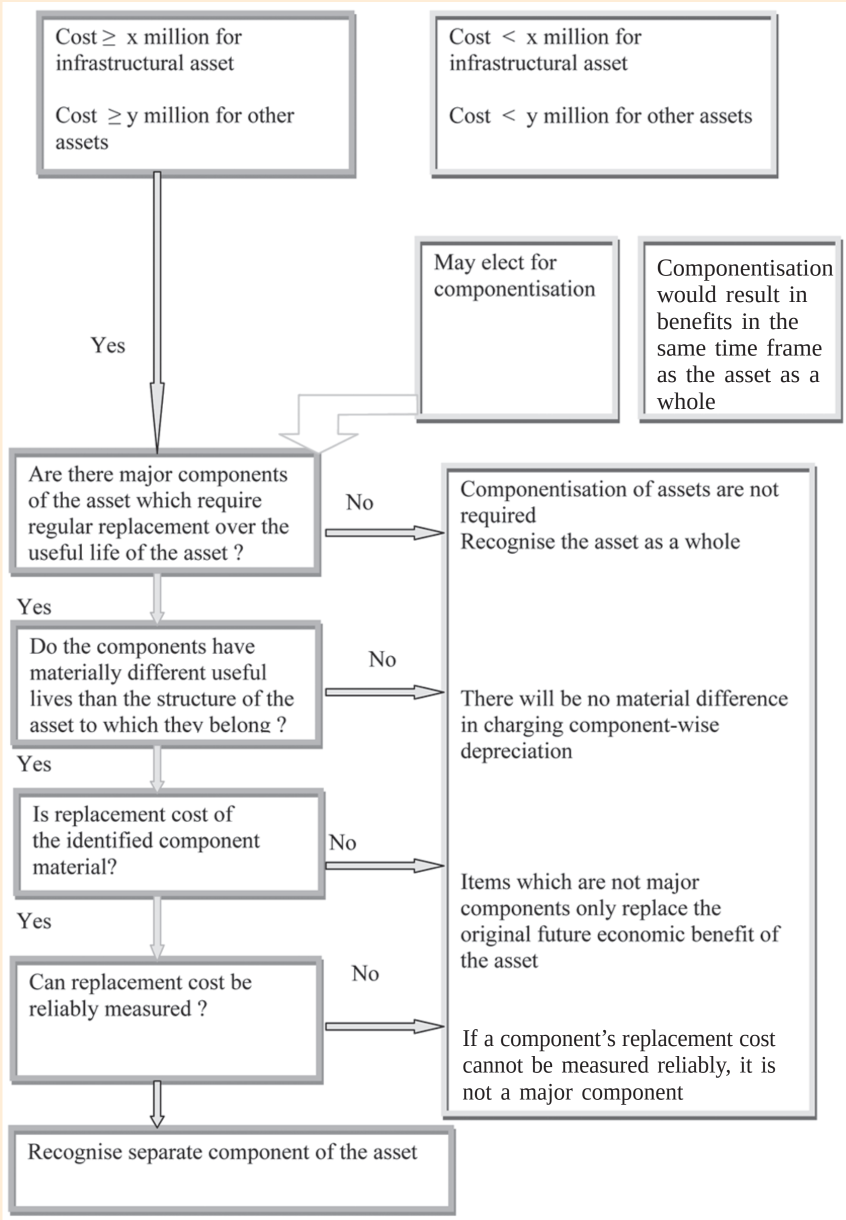
Step 2 : Decide whether they have finite or indefinite lives and whether indefinite life assets need capital treatments to keep them in use.

Step 3 : For each asset / component / group, develop a life cycle plan which includes:

- the expected life (finite life assets) or the expected treatment cycle (for indefinite life assets that need treatment)
- timing, nature and cost of all capital treatments (in-life maintenance and end-life replacement) needed to maintain service potential of the asset over its useful life.

Life cycle plan is designed to optimise value (not just lowest economic cost) over the cycle and reflects good engineering practice. Plans should include revenue as well as capital costs, though the two should be separately identified. Revenue costs are not used for valuation, but are needed for ex-penditure planning and whole life cost optimisation.

For example, Major Buildings are componentised into key components like ***a.*** Roof ***b.*** External Walls ***c.*** Internal walls ***d.*** Floors ***e.*** Ceilings ***f.*** Mechanical Equipment ***g.*** Elec-



trical Equipment ***h.*** Internal fittings Any lower levels are generally not significant and should be avoided.

Fig. 1 Principles of Componentisation

Table 2 CSS/TAG Classification of Highway Assets

(This is not an exhaustive list of asset types / asset group / asset components)

Level 1 : Asset Type	**Level 2 : Asset Group**	**Level 3 : Components that Level 2 implicitly covers in valuation**
Road	Flexible pavements Flexible composite pavements pavements Rigid composite pavements	• Pavement layers (formation, road-base, binder course, surface course) • Other surface types e.g. paved • Hard strip / shoulder • Footway / cycleway attached to Rigid concrete road • Central reservation, round-about, lay-by etc. • Markings • Kerbs • Earthworks (embankments & cuttings) • Vegetation • Drainage • Safety fences • Boundary fences and hedges • Verges
Segregated	Footpath	• Binder course and surface course
footpaths and cycle routes	Bridleways Off road cycle routes Pedestrian areas	• Formation
Highway lighting and high mast lighting nal	Lighting columns Lighting unit attached to wall High mast lighting	• Column and foundations • Bracket • Luminaire (or other fixtures, e.g. CCTV) • Control gear, switching and inter-wiring cabling (may depend on ownership)

Three levels discussed in Table 2 are hierarchical :

Level 1 : Asset Types — Broad categories based on the general function of the assets. Similar assets are aggregated into asset types that is suitable for repor-ting in the financial statements and provide an appropriate basis for high level management information.

Level 2 : Assets Groups — Used to distinguish between assets that have a similar function and form. The asset groups should distinguish between assets that are likely to require different Unit Rates and Gross Replacement Cost models. Each asset group may need to be further divided into sub-groups if the Unit Rates are likely to vary significantly between assets in a group.

Level 3 : Components —Distinguishes between components that are likely to require different depreciation and impairment models, e.g. different service lives and / or rates of deterioration.

CSS / TAG Classification of High-way Assets presented above is a classic example of decomposition of assets into asset-groups and then carrying out componentisation. There are varied practices and internal guidelines for componentisation of assets.

Asset Revaluation : It is carried applying cost approach like depreciated replacement cost (DRC) approach or another variant optimised depreciated replacement cost (ODRC)**.** This involves calculating the DRC by reducing the gross replacement cost to reflect the current age, condition and performance of assets.

To calculate the initial DRC it is necessary to know the current condition and performance of the assets. The condition and performance data are then used to assess the cost of work required to restore the assets to the full performance or as new condition. Such information is an essential component of asset management; but without asset management to provide consistent data covering all the asset types the calculation cannot be done.

Therefore, componentisation of assets and application of revaluation model in accordance with IAS 16 depends upon appropriate Asset Management System.

IAS 16 Property, Plant and Equipment would require :

— Depreciation charge based on component of assets is expected to be higher than the average depreciation on the asset as whole;

— Capitalisation of decommissioning , site restoration and other liabilities would increase the depreciation charge;

— Replacement cost depreciation is essentially higher than historical cost depreciation;

— Value of major spares and inspection costs are capitalised

— Repairs and maintenance overhead charge are expected to reduce.

Case Example 1. This case example explains that componentisation of assets, capitalisation of major components on replacement, and component-wise depreciation has the effect of smoothing asset utilisation effect over the useful life of the asset.

Table 3 Comparative position of component-wise depreciation and Indian GAAP depreciation

An asset is segregated into components and depreciated applying straight line method whereas traditional system requires depreciation over the useful life of the asset as a whole :

Amount in Rs. Million		Components			
	Structure	1	2	Others	Total
Carrying amount	600	100	100	50	850.0
Useful life (in years)	20	10	5	20	
Residual value	30	5	5	0	40.0
Traditional Depreciation				40.50	
IFRS Depreciation	28.50	9.50	19.00	2.50	59.50

Table 3A Neutralisation of expense shock of component replace-ment cost

Amount in Rs. Million	Years						
Cost Impact	4	5	6	7	8	9	10
Analysis							
Traditional							
Depreciation	40.50	40.50	40.50	40.50	40.50	40.50	40.50
Routine Repairs and maintenance	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Special repairs		100					200
Traditional Cost	**60.50**	**160.50**	**60.50**	**60.50**	**60.50**	**60.50**	**260.50**
IFRS							
Depreciation	59.50	59.50	59.50	59.50	59.50	59.50	59.50
Routine Repairs and maintenance	20.00	20.00	20.00	20.00	20.00	20.00	20.00
IFRS Cost	**79.50**	**79.50**	**79.50**	**79.50**	**79.50**	**79.50**	**79.50**

Traditional accounting would charge repairs and maintenance costs including special repairs to profit or loss unless future economic benefit arising out of repairs has increased from the past level. IAS requires componen-tisation of asset; and replacement of a component is treated as a capital expenditure.

Performance Measurement—Evaluation of Service Concession Arrangement

A *service concession arrangement* contractually obliges the operator to provide the services to the public on behalf of the public sector entity. Common features of this arrangement are :

(a) Grantor of the service arrangement is a public sector entity, including a governmental body, or a private sector entity to which the responsibility for the service has been devolved.

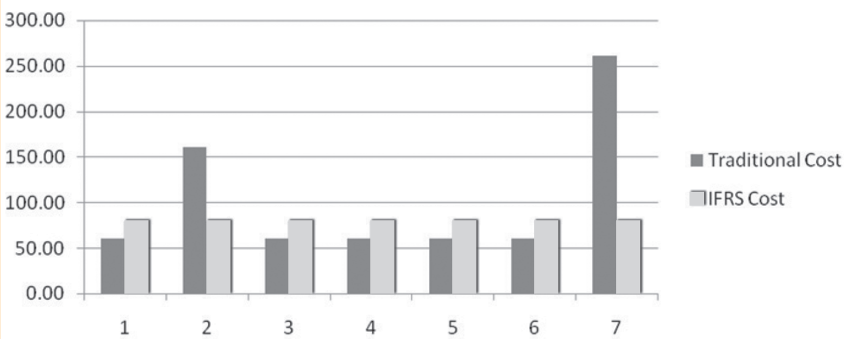
(b) The operator is responsible for at least some of the management of the infrastructure and related services and does not merely act as an agent on behalf of the grantor.

(c) The contract sets the initial prices to be levied by the operator and regulates price revisions over the period of the service arrangement.

(d) The operator is obliged to hand over the infrastructure to the grantor in a specified condition at the end of the period of the arrangement. For handing over either little or no incremental consideration is charged irrespective of which party initially financed it.

In 'Built, Operate, Transfer' (BOT) type arrangement, a service provider develops the infrastructural facilities, operates such facilities for the agreed period of time at a price to recover the cost of facilities including profit, and then transfers to the government or governmental agency a private sector entity to which the responsibility for the service has been devolved.

Figure 2 : Cost Smoothing Effect of Componentization of Assets



IFRIC 12 *Service Concession Arrangements* offers a fair value based revenue recognition criteria which has been described through Case Example 2.

Case Example 2 An operator was engaged by the Public Works Department to construct a road under 'Build, Operate and Transfer' mechanism. As per terms, the operator has to complete construction within two years, and maintain and operate the road to a specified standard for eight years (i.e. years 3 –10). The terms of the arrangement also require the operator to resurface the road at the end of year 8 —the resurfacing activity is revenue-generating. At the end of year 10, the arrangement will end.

The operator provides the following cost estimates :

Contract Costs (Rs. in million)

Year 1 :

Construction costs 400

Year 2 :

Construction costs 200

Years 3-10 :

Operating service cost @ 10 million per year

Year 8 :

Road resurfacing 150

In year 8 the operator will be reimbursed by the grantor for resurfacing the road.

Assumed that all cash flows take place at the end of the year.

The terms of the arrangement require the grantor to pay the operator Rs. 150 million per year in years 3–10 for making the road available to the public.

Suppose that the following forecast is made for fair value measurement (which are critical estimation) :

Construction services + 10%
Operating services + 25%
Resurfacing + 10%

Accounting for this service concession arrangement under IFRIC12 applying fair value principle is explained below.

Analysis : As per IFRIC 12 , the operator recognises contract revenue and costs in accordance with IAS 11 *Construction Contracts* and IAS 18 *Revenue*. The costs of each activity—construction, operation and resurfacing—are recognised as expenses by reference to the stage of completion of that activity. Contract revenue as measured by the fair value of the amount due from the grantor for the activity undertaken, and is recognised simultaneously. The obligation to resurface the road is measured at zero in the statement of financial position and the revenue and expense are not recognised in profit or loss until the resurfacing work is performed.

Year 1 :

Construction costs Rs. 400 million
Construction revenue Rs. 440 million

So construction profit of Rs. 40 million is recognised.

The amounts due from the grantor meet the definition of a receivable in IAS 39 *Financial Instruments: Recognition and Measurement*. The receivable is measured initially at fair value. It is subsequently measured at amortised cost, i.e. the amount initially recognised plus the cumulative interest on that amount calculated using the effective interest method minus repayments.

The effective interest rate is IRR of cash flow as shown in Table 4 below :

Table 4 Computation of Effective Interest Rate in Service Concession Arrangements (Rs. in Million)

Year	Contract Services	Operating Services	Resurfacing Services	Payment by Grantor	Net Cash flow
0					0
1	-440				-440
2	-220				-220
3		-12.5		150	137.5
4		-12.5		150	137.5
5		-12.5		150	137.5
6		-12.5		150	137.5
7		-12.5		150	137.5
8		-12.5	-165	150	-27.5=
9		-12.5		150	137.5
10		-12.5		150	137.5
			IRR	7.69%	

Receivables Accounting including computation of finance income as is explained in Tables below:

Table 4 A Receivables Accounting in Service Concession Arrangements (Rs. in Million)

Year	Opening Balance of Receivables	Interest	Due for Construction Services	Due for Operating Services	Due for Resurfacing Services	Cash Receipt	Closing Balance
1						440.00	
2	440.00	33.82	220	0	0	0	693.82
3	693.82	53.34	0	12.5		-150	609.66
4	609.66	46.87	0	12.5		-150	519.03
5	519.03	39.90	0	12.5		-150	421.43
6	421.43	32.40	0	12.5		-150	316.32
7	316.32	25.32	0	12.5		-150	203.14
8	203.14	15.62	0	12.5	165	-150	246.25
9	246.25	115.93	0	12.5		-150	127.68
10	127.68	9.82	0	12.5		-150	0.00

Table 4 B. Reconciliation of Cash Flow – Profit, Cost and Cash Payments Received (Rs. in Million)

Profit					
Year	Construction Services	Operating Services	Resurfacin Facing	Interest Income	Total
1	40				40.00
2	20			33.82	53.82
3		2.5		53.34	55.84
4		2.5		46.87	49.37
5		2.5		39.90	42.40
6		2.5		32.40	35.90
7		2.5		25.32	26.82
8		2.5	15	15.62	33.12
9		2.5		115.93	21.43
10		2.5		9.82	12.32
	60	20	15	275	370.00
Cost of construction				600.00	
Cost of operations				80.00	
Cost of resurfacing				150.00	
Total Cost (a)				830.00	
Total Receipt (b)				1200.00	
Total Profit (b)—(a)				370.00	

Accordingly, the company will recognise profit and interest income in different years and charge costs.

How would IFRIC 12 affect the MAS of an infra company? It requires to develop a target profit measurement basis appropriate to the circumstance for measuring the fair value of revenue. The MAS should be able to support not only fair value measurement of revenue but it has to support the criticalities of estimation of future cash flows and assessment of inherent uncertainties to minimize the variance between expected profit and earned profit. Otherwise fair value based IFRS profit would be essentially a hypothetical profit measurement approach detrimental to the shareholders' value.

IFRS Implementation

IFRS implementation is essentially carried out through four phases as shown in Figure 3.

Impact Analysis

- Evaluation of the definitions of cost, revenue, asset and liabilities as per IFRS and its contradiction with the existing Cost Accounting System (CAS).
- Evaluate managerial requirements of the existing CAS based information and need for generating such information in post-IFRS periods. This can be achieved by mapping information requirements for management accounting purposes.
- Listing non-accounting information requirements to carry out IFRS based measurement and linking them with Management Information System (MIS).
- Assessing the relevance of non-accounting information (eg. fair value information) in the managerial decision making.
- Evaluating whether parallel historical cost records are essential wherever fair value basis are applied.
- Perform a cost benefit analysis to compare the feasibility of maintaining traditional cost records which were used for decision making process in the pre-IFRS era, decision impact on application of IFRS information and need for continuation of old CAS based information (if any) in the post-IFRS era.

Case Example 3 : IAS 16 Property, Plant and Equipment requires componentisation of assets. Currently certain components are recognised as inventories of spares and expensed on consumption. In post—IFRS era those spares shall be classified as assets and to be depreciated. Since uneven nature of the cost as per existing MAS is smoo-thed under IFRS system (refer to Case Example 1 and Figure 2), it would alter risk and return analysis.

Case Example 4: Concessional loans to employees are measured at fair value at initial recognition applying IAS 39 / IFRS 9. There shall be fair value loss at initial recognition as the interest charged to employees is lower than the benchmark yield. This will impact employee costs derived as per existing MAS which does not apply cost to company model. The additional employee cost shall impact the marginal cost, product profitability and even regulatory pricing of goods and services wherever applicable. To avoid the far—reaching consequences, the management / regulator may require to continue with the existing CAS based employee costs. Even the IFRS record keeping would be different from the historical cost based record keeping.

2. Planning

- Identification of changes required in the MIS
- Define changes required to management accounting policies
- Develop plan for integration with the financial reporting system
- Develop a detailed conversion project plan including resource requirements, key milestones and deliverable due dates.

3. Implementation

- Map the conversion adjustments required; for example, determining what information the IT system would now be required to capture, such as credit risk by customer pool.
- Finalize management accounting policies.
- Staff training.

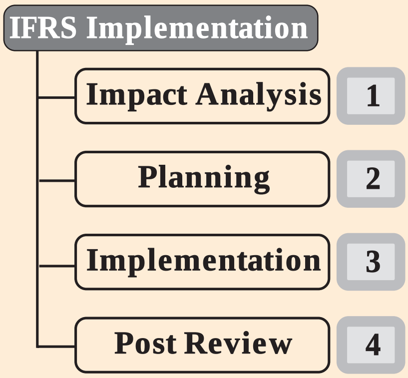
4. Post-Review

- Assess quality of analytical data delivered.
- Determine changes needed to meet best practice requirements.
- Finalize management accounting requirements for information systems.

Increasingly, management team will need policies and practices that support daily decision-making within the IFRS framework based on the principle of fair value.

Case Example 5: Management has taken currency forward for hedging currency risk. Forwards eliminates the upside advantage but cover downside risk. A company having foreign currency revenue or expenses often uses forwards for hedging that caps the upside advantages. They do not use options to avoid upfront payment. IAS 39 / IFRS 9 require fair value measurement of derivatives and creation cash flow hedge reserve. A cumulative negative fair value of the currency forwards would reflect the inherent risk in the hedging strategy and influence the management to look for alternative financial products. The management accountants shall have to design the data base for alternative performance evaluation system.

Figure 3 Phases of IFRS Implementation



Concluding Remarks

Fair value based accounting has opened new vistas for managerial decision making resulting in a critical shift in the MAS as well as the role of management accountants. A pre-requisite of IFRS implementation is captur-ing non-accounting information into financial reporting system. This enhanced data requirement demands and dictates the re-positioning of the management accounting professionals and also pushes them to assume a key role in the financial reporting function. In India, it is the responsibility of the cost and management accounting institute to lead the process of designing IFRS based decision making system.

Management accounting cannot be standardised in the same way as financial accounting. In this context, standards refer to a common approach rather than fixed, mandatory rules. Common best practices need to be shared, and international management accounting standards (IMAS) should represent best-practice standards for managerial decision making. Some select areas for the first instalment should cover :

Standard 1 Management Accounting System for Fair value Measurement
Standard 2 Fair Value of Intangible Assets
Standard 3 Fair Value Measurement of Derivative Financial Instruments
Standard 4 Cost Plus Pricing Framework
Standard 5 Asset Management System
Standard 6 Componentisation of Assets
Standard 7 Basis of Estimation

Keywords :
Asset Management System, Componen-tisation of Assets, Fair Value Measurement, Financial Accounting System, International Financial Reporting Standards, Service Concession Arrangement, Management Accounting System, Optimised Depreciated Replacement Cost.

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set of financial statement under IFRS, it will be cost effective and time saving.

(5) Cost of raising funds from abroad will be cheaper.

Applicability of IFRS in India

IFRS will be implemented in India in three different phases :

Phase I :
Effective from 1st April 2011
(1) Sensex 30 Companies
(2) Nifty 50 Companies
(3) Listed & Non-listed Companies having Net Worth of more than Rs.1000 Crore as on 1st April 2009.

Phase II :
Effective from 1st April 2012
(1) Listed & Non-listed companies with net worth of more than Rs.500 Crores
(2) Insurance Companies.

Phase III :
Effective from 1st April 2013
(1) All listed Companies with Net worth of less than Rs.500 Crore
(2) Banking Companies.

Non-Applicability of IFRS in India

IFRS standards will not apply to non-listed companies with a net worth of less than Rs.500 crore & to SMEs, though they can voluntarily prepare their financial statements under IFRSs.

Earlier adoption of IFRS

Earlier adoption of IFRSs in India and preparation of financial statements accordingly is not permitted as it does not have legal backing as of now.

Challenges for India

As the Government of India has set the dateline for adoption of IFRS in India for financial year commencing on or after 1st April 2011, it is imperative to make changes in the following Acts :
(1) Companies Act
(2) SEBI Act
(3) Banking Regulation Act
(4) Insurance Act
(5) Income Tax Act.

Fate of Accounting Standards issued by ICAI

As of date, there are about 8,50,000 companies registered in India under the Companies Act, 1956. Out of this, around 6,000 companies are listed in different exchanges in India and few blue chip companies are listed in exchanges outside India i.e in NASDAQ , LSE , Luxemburg etc. A vast majority of the companies in India are not listed and having net worth of less than Rs. 500 crore, are given exemption from adoption of IFRS. These companies are required to prepare their financial statements under Indian GAAP. Therefore, Companies Act need to be amended suitably to accommodate both the Indian GAAP & IFRS.

Conclusion

In the changing economic environment, India cannot afford to isolate itself from global accounting practices. Not shout it. Irrespective of changes required in our legislation and resources needed for convergence to IFRS, sooner the better for economic prosperity. There are huge challenges ahead—yet there are immense opportunities for Indian accounting professionals.

Implementation of IFRS in India

Puja Aggarwal*

IFRS, International Financial Reporting Standards, are issued by IASB, International Accounting Standard Board (IASB is the independent standard setting body of the IASC Foundation[1]). Earlier the issuing body was known as IASC, International Accounting Standard Committee, and the standards issued by IASC were known as IAS, International Accounting Standard. IASC worked from 1973 till March 2001. From April 1, 2001, IASB took over IASC. IASB adopted the existing IAS and continued developing the standards with the name IFRS. Interpretations of IAS and IFRS are developed by the IFRS Interpretations Committee[2]. The Interpretations Committee replaced the former Standing Interpretations Committee (SIC) in March 2002. The Interpretations Committee's mission (from the IASCF Constitution) is "to interpret the application of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and provide timely guidance on financial reporting issues not specifically addressed in IASs and IFRS, in the context of the IASB Framework, and undertake other tasks at the request of the IASB".

Presently there are in total 29 IAS, 11 SIC, 9 IFRS AND 19 IFRIC.

Accounting world in India is having lot of anxieties regarding the implementation of IFRS. Earlier things were not clear as to the procedure of implementation of IFRS in India but now the clouds are no more there as we have got the guidelines on the phased implementation of IFRS in India. India is all set to converge with IFRS, YES THE Buzz… word is convergence. India is not adopting IFRS, it is converging with IFRS. Although the guidelines for the convergence have been laid yet the possibilities of teething troubles cannot be overruled. For past many decades we have followed certain system and now to shift to new accounting practices would not be a cakewalk. But this entire exercise would help bring Indian accounting to an international platform.

This article aims to look at all the regulations set by the Department of Company Affairs till now, regarding the phased implementation of IFRS in India. The article would also throw some light on the areas of accounting which would see a major change after the implementation of IFRS.

The Road map to IFRS in India

The Core Group constituted by the Ministry of Corporate Affairs for convergence of Indian Accounting Standards with International Financial Reporting Standards (IFRS) from April, 2011 has agreed that there will be two separate sets of accounting standards under Section 211 (3C) of the Companies Act, 1956.

This was decided at a meeting of the Core Group held on January 11 in view of the roadmap for achieving convergence, an official press release said.

According to it, the first set would comprise the Indian Accounting Standards which are converged with the IFRS, which shall be applicable to the specified class of companies.

The second set would comprise the existing Indian Accounting Standards and would be applicable to other companies, including small and medium companies (SMC).

The first set of Accounting Standards (converged accounting standards) will be applied to specified class of companies in phases. The following scheme is for all companies other than Banking and Insurance Companies. For Banking and Insurance Companies a separate scheme has been chalked out.

(a) Phase I : The following categories of companies will convert their opening balance sheets as at April 1, 2011, if the financial year commences on or after April 1, 2011 in compliance with the notified accounting standards which are convergent with IFRS. These companies are :

a. Companies which are part of NSE—Nifty 50
b. Companies which are part of BSE—Sensex 30
c. Companies whose shares or other securities are listed on stock exchanges outside India
d. Companies, whether listed or not, which have a net worth in excess of Rs.1,000 crores.

(b) Phase II : The companies, whether listed or not, having a net worth exceeding Rs. 500 crores but not exceeding Rs. 1,000 crores will

*Faculty member, IMT Ghaziabad.

1. IASC Foundation has formally changed its name to IFRS Foundation wef July 1,2010
2. At their meeting in January 2010, the IASCF Trustees voted to rename the International Financial Reporting Interpretations Committee (IFRIC) to the IFRS Interpretations Committee. The name change is being implemented as of 31 March 2010.

convert their opening balance sheet as at April 1, 2013, if the financial year commences on or after April 1, 2013 in compliance with the notified accounting standards which are convergent with IFRS.

(c) Phase III : Listed companies which have a net worth of Rs. 500 crores or less will convert their opening balance sheet as at April 1, 2014, if the financial year commences on or after April 1, 2014, whichever is later, in compliance with the notified accounting standards which are convergent with IFRS.

When the accounting year ends on a date other than March 31, the conversion of the opening Balance Sheet will be made in relation to the first Balance Sheet which is made on a date after March 31.

Companies which fall in the following categories will not be required to follow the notified accounting standards which are converged with the IFRS (though they may voluntarily opt to do so) but need to follow only the notified accounting standards which are not converged with the IFRS. These companies are :

(a) Non-listed companies which have a net worth of Rs. 500 crores or less and whose shares or other securities are not listed on Stock Exchanges outside India.

(b) Small and Medium Companies (SMC).

The 'Core Group', has also published certain clarifications of earlier announcements about the changeover, as follows :

Companies covered in Phase I will prepare their financial statements for 2011-12 in accordance with converged accounting standards but will show previous years' figures as per non-converged accounting standards.

However, there will be an option to add an additional column to indicate converged accounting standards figures, had these been applied in that previous year. Companies which make this additional disclosure will, for this purpose, convert their opening balance sheet as at the date on which this previous year commences and, in that case, a further conversion of the opening balance sheet for the year for which the financial statements are prepared will not be necessary.

Companies covered in 2nd / 3rd phase will have an option to apply converged accounting standards only for the financial year commencing on April 1, 2011 or thereafter.

With regard to parent companies covered in any one of the three phases for the changeover to converged accounting standards, having subsidiaries, joint ventures or associates not covered under the same phasing plan, the consolidated financial statements are to be prepared with converged accounting standards in accordance with the same timetable as the parent company.

When one or more companies in a group fall in a phase other than the phase applicable to the parent company, they can continue to prepare stand-alone accounts according to the phase applicable to them, but the parent may need to make convergence amendments to these accounts for the purposes of consolidation. Such subsidiaries, joint ventures or associate companies may opt for early adoption of converged accounting standards.

Once a company starts following converged accounting standards on the basis of the eligibility criteria, it will be required to follow such accounting standards for all the subsequent financial statements even if any of the eligibility criteria does not subsequently apply to it.

For the purpose of calculation of qualifying net worth of companies, the following rules will apply :

- The net worth will be calculated as per the audited balance sheet of the company as at March 31, 2009 or the first balance sheet for accounting periods which end after that date;
- The net worth will be calculated as the Share Capital plus Reserves less Revaluation Reserve, Miscellaneous Expenditure and Debit Balance of the Profit and Loss Account;
- For companies which are not in existence on March 31, 2009, the net worth will be calculated on the basis of the first balance sheet ending after that date.

Banking and Insurance Companies

On 29th March 2010, a meeting of the Core Group was held under the Chairmanship of Shri R. Bandyopadhyay, Secretary, Ministry of Corporate Affairs. The meeting was attended by the officials from Ministry of Finance, SEBI, RBI, IRDA, C&AG, PFRDA, ICAI, Industry representatives and other experts.

In the meeting, the Core Group deliberated and approved the Roadmap recommended by Sub-Group I in respect of Insurance Companies, Banking Companies and Non-Banking Finance Companies. The Roadmap recommended by Sub-Group I for such classes of companies is as under :

Insurance Companies

All insurance companies will convert their opening balance sheet as at 1st April 2012 in compliance with the converged Indian Accounting Standards.

Banking Companies

(a) All scheduled commercial banks and those urban co-operative banks (UCBs) which have a net worth in excess of Rs. 300 crores, will convert their opening balance sheet as at 1st April 2013 in compliance with the first set of Accounting Standards (i.e. the converged Indian Accounting Standards).

(b) Urban co-operative banks which have a net worth in excess of Rs. 200 crores but not exceeding Rs. 300 crores will convert their opening balance sheets as at 1st April 2014 in compliance with the first set of Accounting Standards (i.e. the converged Indian Accounting Standards).

(c) Urban co-operative banks which have a net worth not exceeding Rs. 200 crores and Regional Rural Banks (RRBs) will not be required to apply the first set of Accounting Standards i.e. the converged Indian Accounting Standards (though they may voluntarily opt to do so) and need to follow only the existing notified Indian Accounting Standards which are not converged with IFRSs.

Non-Banking Financial Companies

(i) The following categories of non-banking financial companies (NBFCs) will convert their opening balance sheet as at 1st April 2013 if the financial year commences on 1st April (or if the financial year commences on any other date, then on the date immediately following 1st April 2013) in compliance with the first set of Accounting Standards (i.e the converged Indian Accounting Standards). These NBFCs are :

a. Companies which are part of NSE—Nifty 50

b. Companies which are part of BSE—Sensex 30

c. Companies, whether listed or not, which have a net worth in excess of Rs.1,000 crores.

(ii) All listed NBFCs and those unlisted NBFCs which do not fall in the above categories and which have a net worth in excess of Rs. 500 crores will convert their opening balance sheet as at 1st April 2014 if the financial year commences on 1st April (or if the financial year commences on any other date, then on that date following 1st April 2014) in compliance with the first set of Accounting Standards (i.e converged Indian Accounting Standards).

(iii) Unlisted NBFCs which have a net worth of Rs. 500 crores or less will not be required to follow the first set of accounting standards (i.e the converged Indian accounting standards), though they may voluntarily opt to do so, but need to follow only the notified Indian accounting standards which are not converged with the IFRSs.

The rules for calculation of qualifying net worth to be recommended to the scheduled commercial Banks / urban cooperative Banks / NBFCs are as follows :

- The net worth will be calculated as per the audited balance sheet of the scheduled commercial Banks / urban co-operative Bank / NBFC as at March 31, 2011 or the first balance sheet for accounting periods which ends after that date;
- The net worth will be calculated as the Share Capital plus Reserves less Revaluation Reserve, Miscellaneous Expenditure and Debit Balance of the Profit and Loss Account;
- For scheduled commercial Banks / urban co-operative Banks / NBFCs which are not in existence on March 31, 2011, the net worth will be calculated on the basis of the first balance sheet ending after that date.

Above are all the regulatory guidelines on the implementation of IFRS. As already discussed there are 29 IAS and 9 IFRS. Although, by and large, for every IFRS and IAS, there is a corresponding Accounting Standard in India, but the regulations of Indian Accounting standards are quite different from that IFRS. Below is the list of all the IFRS and IAS and the corresponding Indian AS :

IAS No.	Title	Corresponding Indian AS
IAS 1	Preparation of Financial Statements	AS-1
IAS 2	Inventories	AS-2
IAS 7	Cash Flow Statements	AS-3
IAS 8	Accounting policies, change in accounting estimates and errors	AS-5
IAS 10	Events occurring after the balance sheet date	AS-4
IAS 11	Construction contracts	AS-7
IAS 12	Income Tax	AS-22
IAS 16	Property Plant and equipment	AS-6 & 10
IAS 17	Leases	AS-19
IAS 18	Revenue	AS-9
IAS 19	Employee benefits	AS-15
IAS 20	Accounting for Govt. grants and disclosure of Govt. assistance	AS-12

(Contd.)

(Contd.)

IAS No.	Title	Corresponding Indian AS
IAS 21	The Effects of changes in foreign exchange rates	AS-11
IAS 23	Borrowing costs	AS-16
IAS 24	Related Party disclosures	AS-18
IAS 26	Accounting and reporting by retirement benefits plans	—
IAS 27	Consolidated and separate financial statements	AS-21
IAS 28	Investment in Associates	AS-23
IAS 29	Financial reporting in Hyper inflationary economies	—
IAS 31	Interest in Joint ventures	AS-27
IAS 32	Financial Instruments: Presentation	AS-31
IAS 33	Earning per Share	AS-22
IAS 34	Interim Financial Reporting	AS-25
IAS 36	Impairment Assets	AS-28
IAS 37	Provisions, Contingent Liabilities and Contingent assets	AS-29
IAS 38	Intangible Assets	AS- 26
IAS 39	Financial Instrument: Recognition and Measurement	AS- 30
IAS 40	Investment Property	AS- 13
IAS 41	Agriculture	—
IFRS 1	First time adoption of IFRS	—
IFRS 2	Share based payment	Guidance Note
IFRS 3	Business Combination	AS- 14
IFRS 4	Insurance Contracts	—
IFRS 5	Non Current Assets held for sale and discontinued operation	AS- 24
IFRS 6	Exploration for and evaluation of Mineral Resources	—
IFRS 7	Financial Instrument: Disclosures	AS- 32
IFRS 8	Operating Segment	AS- 17

Out of all the IFRS and IAS, there are some which can be adopted immediately, some have minor differences from the corresponding AS, some require technical preparations, some have even conceptual differences from the corresponding Indian Accounting Standard, and some are there whose adoption would require change in law or regulations.

IFRS that can be adopted immediately

- IAS 11 Construction Contracts
- IAS 23 Borrowing Costs

IFRSs having minor differences

- IAS 2 Inventories
- IAS 7, Cash Flow Payments
- IAS 17, Leases
- IAS 20, Accounting for Government Grants and Disclosure of Government Assistance
- IAS 33, Earning Per Share
- IAS 36, Impairment of Asset
- IAS 38, Intangible Assets

IFRSs require some time to reach a level of technical preparedness

- IAS 18, Revenue
- IAS 21, The Effects of Changes in Foreign Exchange Rates.
- IAS 26, Accounting and Reporting by Retirement Benefit Plans
- IAS 40, Investment Property
- IFRS 2, Share Based Payment
- IFRS 5, Non-current Assets Hold for Sales and Discontinued Operations

IFRSs—Adoption of Which Require Changes in Laws/Regulations

- IAS 1, Presentation of Financial Statements
- IAS 8, Accounting Policies, Changes in Accounting and Estimates Errors
- IAS 10, Events after the Balance Sheet Date
- IAS 16, Property, Plant and Equipment
- IAS 32, Financial Instrument : Presentation
- IAS 34, Interim Financial Reporting
- IFRS 39, Financial Instrument: Reorganization and Measurement
- IFRS 4, Insurance Contacts
- IFRS 7, Financial Instruments : Disclosures

Exposure drafts of many converged accounting standards have already been prepared by ICAI and is available on its website. Very soon the accounting standards would be notified for the companies which have to prepare their financial statements on that basis in the first phase. Efforts are already going on to converge Indian accounting with IFRS. Now when the date is set, time will come when all Indian companies would be preparing their financial statements as per the accounting standards converged with IFRS. ❑

Understanding IFRS 9

Shashikant Choubey*

IFRS 9 (Financial Instruments) declared by IASB in November 2009 with a view to simplify IAS 39 (Financial Instruments—Recognition and Measurement) and replace it with IFRS 9 by end of 2010 in full. As of now IFRS 9 reads with reference and within preview to IAS 39. In this course, IFRS 7 (Financial Instrument—Disclosure) and IFRS 9 (Financial Instruments) will be the accoun-ting guideline of all Financial Instruments (FI). The standard (IFRS 9) is applicable with effect from 1st January 2013, however, early adoption is recommended and permitted by the board. While adopting IFRS 9 before 2013, the entity must disclose the fact in the notes to account. Date of adoption is about four years from now. By this period, Phase II (Financial liabilities, and fair valuation part) of this standard will also be ready for adoption.

Chapters 4 and 5 of IFRS 9 is focused on classification and measurement of FI. In the first stage, IFRS 9 recommends to classify and measure all FIs, recognised and measured on the basis of:

1. Business objective and model of an entity for mana-ging FIs and the contractual cash flow characteristics of the FIs.
2. To be measured initially at fair value plus, in the case of FIs not at fair value through Profit and Loss (FVTPL) and, if not, then through transaction costs, and
3. Further measured at amortised cost or fair value.

* Assistant Finance Controller, Ford Motors, Riyadh

Under IAS 39, Financial Assets (FA) are classified under three categories, Held-to-Maturity Assets, Available-for-Sale Assets and Loans and receivables. In order to simplify the accounting, IFRS 9 has discarded such classification and recommended to classify under two models 'Business Model Testing' and 'Cash Flow Characteristics Model'.

Business Model Testing

An entity's business model is determined by its management and key managerial personnel (as per IAS 24). The same business model should be disclosed as notes to accounts. The business model test requires objective of business unit about FA is to collect the contractual cash flows of the assets rather than realise their fair value change from sale before their contractual maturity. This determination is made at a business unit level under asset portfolio and not an identical financial instrument level. The business model testing could be explained with a simple example. Housing Finance Company A with an objective, that advances extended to customer (loan assets in the books of A) will be to realise the value as per the contract after maturity of the agreement with principal and interest in cash. Where another Housing Finance Company B, whose objective is to realise the fair value of such advances before its maturity on call or option. Thus, FA held in the Company A, that give rise to cash flows that are payments of principal and interest qualify for amortised cost measurement. But the same FA in the Company B does not require such treatment. Temporary deviation in the activity from a prime business model by the entity does not affect business model. As in the above example, Company A, though have objective to keep the FA till maturity but some the FAs realised before the maturity with view to meet some business contingencies, does not deviate its business model and objective.

Cash Flow Characteristics Model

The instruments which meet the concept of principal and interest under the contract and realises after maturity fall under this model. The interest may be fixed or variable, or combination of both. The standard describes interest as consideration for the time value of money and credit risk associated with the principal outstanding during the period of contract. Thus, a quasi-debt instrument like convertible bond does classify under these categories.

Apart from above two classifications of FAs, all FAs are required to be measured at fair value including equity investments assets, derivative assets and other trading assets.

Key changes made in IFRS 9 which differentiate from IAS 39 about the FAs can be summarised as below :

Financial Assets	IFRS 9	IAS 39
Embedded derivatives	Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above	Embedded derivative acts as a component part of a 'hybrid' financial instrument which also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid instrument vary in a similar way to a stand-alone derivative. A 'hybrid' instrument is a combination of both the host contract and the embedded derivative
Recourse and / or Securitiza-tion Receivables	Measured through fair valuation tools	To be measured at amortised cost
Pure Debt Securities (listed / unlisted)	Measured at amortised cost if 'business model' and 'cash flow characteristics' tests are satisfied, otherwise mea-sured at fair value through profit or loss	Measured at fair value (unless in the held-to-maturity category)
Held-to-maturity investments	Same as above	Measured at amortised cost with a 'tainting' test
Quasi / Convertible Instruments	To be classified and measured at fair value with gains / losses in the profit or loss	Some underlying debt instrument may be measured at amortised cost
Liquid or available for sale debt instruments	Measured at amortised cost if the 'business model[1] and 'cash flow characteristics' tests are satisfied, otherwise measured at fair value through profit or loss	Recognised at fair value with gains / losses deferred in other comprehensive income.
Pure Equity instruments (listed / unlisted)	Initial recognition, to irrevocably elect to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income is ever reclassified to profit or loss at a later date	Gains and losses deferred in other comprehensive income. Impairment losses recognised in profit or loss. This is in line with IAS 18 'Revenue', provided that they do not represent recovery of the cost of the investment

Phase II of IFRS 9 continues to be amended and finalises its proposals on accounting for financial liabilities, hedging, impairment, de-recognition and fair valuation. These changes may be in line with US GAAP which to be seen in the near future. In order to make more clarity on accounting of Financial Liabilities (for debt to equity swap instruments), IFRC 19 has been issued in November 2009.

It sure that IFRS 9 emerges as a landmark standard, particularly for financial and banking industry in terms of simplicity and easy to adopt the accounting practices. Full impact of this standard could be assessed only after completion of Phase II. ❑

Reference :

- IFRS 9 (issued by IASB) IFRC 19

Transition to Future Indian GAAP-IFRS

Anupam Karmakar*

IFRS stands for International Financial Reporting Standards and Interpretations issued by IASB. IFRS is a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are considered a "principles based" set of standards in that they establish broad rules as well as dictating specific treatments. Convergence is aimed to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS.For convergence ICAI has adopted once at all approach. More than 113 countries around the world, including all of Europe, currently require or permit IFRS reporting. Global standards do not recognize override by non-standard setters. Moreover the difference between IFRS and Indian GAAP need to be understood, which is discussed in this paper. This paper also highlights the progress so far in convergence, the impact, grey areas of IFRS 1 and challenges of IFRS.

Introduction

International Financial Reporting Standards (IFRS) are Standards, Interpretations and the Framework adopted by the International Accounting Standards Board (IASB). IFRS are considered a "principles based" set of standards in that they establish broad rules as well as dictating specific treatments. India is one of over 100 countries that have or are moving towards IFRS convergence with a view to bringing about uniformity in reporting systems globally, enabling businesses, finances and funds to access more opportunities.

Indian companies are listed on overseas stock exchanges and have to recast their accounts to be compliant with GAAP requirements of those countries. Foreign companies having subsidiaries in India are having to recast their accounts to meet Indian and overseas reporting requirements which are different. Foreign Direct Investors (FDI), overseas Financial Institutional Investors (FII) are more comfortable with compatible accounting standards and companies accessing overseas funds feel the need for recast of accounts in keeping with globally accepted standards. ICAI has decided to implement IFRS in India. The Ministry of Corporate Affairs has also announced its commitment to convergence to IFRS by 2011.

* Assistant Professor, New Alipore College, Kolkata.

IFRS—On Whom Applicable?

Compliance with IFRS in India is restricted to 'Public Entities' which include those companies and entities listed on any stock exchange or have raised money from the public, or have a substantial public interest, or public sector companies. IFRS in India would cover the following public interest entities in the first phase :

- ➢ Listed companies
- ➢ Banks, insurance companies, mutual funds, and financial institutions
- ➢ Turnover in preceding year > INR 1 billion
- ➢ Borrowing in preceding year > INR 250 million
- ➢ Holding or subsidiary of the above
- ➢ IFRS is not applicable to SMEs as of now.

IAS vs IFRS

Prior to IFRS, International Accounting Standards were used. The term International Financial Reporting Standards (IFRS) has both a narrow and a broad meaning. Broadly, IFRS refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB.

However the IAS is still in use until they are superseded by IFRS. Currently 29 IAS and 8 IFRS are effective.

What is convergence?

Convergence means to achieve harmony with IFRS; in precise terms convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS", i.e., when the national accounting standards will comply with all the requirements of IFRS. But convergence doesn't mean that IFRS should be adopted word by word, e.g., replacing the term 'true & fair' for 'present fairly', in IAS1 'Presentation of Financial Statements'. Such changes do not lead to non-convergence with IFRS.

Convergence of AS with IFRS

The ICAI has proposed two options for convergence

1 — All at once

2 — Stagewise Approach.

But since the stagewise approach leads to non-compliance with either of IFRS or AS, hence the **"all at once approach"** has been adopted.

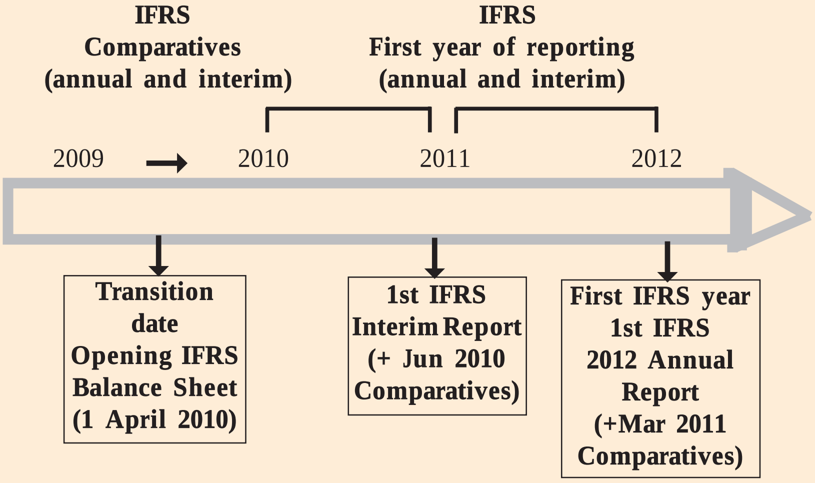
Timeline for IFRS Conversion Project — Required 2011

First Time adoption

For first time adoption, two key terms need to be understood :

Reporting date — It is the end of latest period covered by financial statements. Transition date—It is beginning of earliest period for which an entity presents first full IFRS compliant financial statements.

For an Indian company, the first reporting date will be 31-03-2012 and transition date will be 01-04-2010. Hence, first set of financials shall be for 01-04-2011 to 31-03-2012 with IFRS comparables also to be provided for 01-04-2010 to 31-03-2011.



WHY IFRS?

Single set of accounting standards would enable internationally to standardize and assure better quality on a global screen, it would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems. It would be beneficial to regulators too, as a complexity associated with needing to understand various reporting regimes would be reduced.

For investors, it gives a better understanding to the financial statements and assess the investment opportunities other than Home Country. It also benefits the accounting professionals in a way that they will be able to sell their services in different parts of world.

IFRS Compliant Nations

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey. As of January 2010, more than 113 countries around the world, including all of Europe, currently require or permit IFRS reporting. A brief picture of adoption of IFRS is given below :

India	Converging to IFRS
Australia	IFRS (adapted)
Switzerland	IFRS or US GAAP
Spain	IFRS for listed
Japan	Converging to IFRS
Germany	IFRS for listed
Canada	Converging to IFRS
US	Converging to IFRS
UK	IFRS for listed
France	IFRS for listed

Source:www.WorldGAAPInfo.com

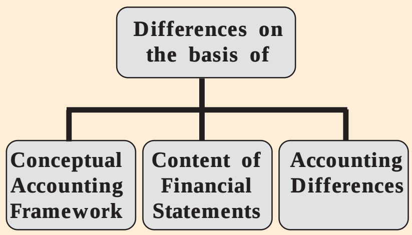
Issues Need to be Addressed

Right now accounting standards and other reporting requirements are governed by various regulators e.g. RBI, SEBI, tax authorities, Companies Act, High Courts (for amalgamation etc). Global standards do not recognize such override by non-standard setters. If the 2011 deadline is to be met then all these hurdles will have to be addressed by corresponding amendments in respective laws. IFRS are largely fair value driven which result in unrealized gain / loss. How are these to be dealt in Income Tax?

Further, in Fair Value accounting, fair values can bring a lot of volatility and subjectivity to the financial statements besides requiring a lot of hard work and use of valuation experts.

Differences Between IFRS vs Indian GAAP

The differences between IFRS and Indian GAAP are discussed below :



Subject	IFRS	IndianGAAP
First time adoption	Full retrospective application of IFRS to PL and BS. Reconciliation of PL and BS in respect of last year reported numbers under previous GAAP	No needs to prepare reconciliation on first time adoption.
Components of Financial Statements	Comprises of Balance Sheet, Profit and Loss A/c, Cash flow statement, changes in equity and accounting policy and notes to Accounts	Comprises of Balance sheet, Profit and Loss A/c. Cash Flow Statement (if applicable), and Notes to Accounts
Balance Sheet	No particular format, a current/non-current presentation of assets and liabilities is used	As per Format Prescribed in Schedule VI for Companies, adherence to Banking Regulation for Banks, etc.
Income Statement	No particular format prescribed (IAS-1)	As per Format Prescribed in Schedule VI (AS-1)
Cash Flow Statements	Mandatory for all entities (IAS-7)	Level 3 entities are exempted (AS-3)
Depreciation	Over the useful life of the asset (IAS-16)	Over the useful life of the asset, or Schedule XIV rates whichever is higher (AS-10)
Dividends	Liability to be recognized in the period when dividend is declared (IAS-10)	Recognized as an appropriation against the profit, and recorded as liability at BS date even if declared subsequent to reporting period but before the approval of Financial Statements (AS-4)
Cost of major repairs and overhaul expenditure on fixed assets	Recognized in carrying amount of the assets (IAS-16)	Expensed off. Only expenses which increase the FEB are to be capitalized (AS-10)
Revaluation	Revaluation (if done) to be updated periodically so that carrying amount does not differ from fair value at the end period. Revaluation to be done for entire class of assets (IAS-16)	No specific requirement for revaluation. Revaluation can be done on systematic basis like for one location leaving aside the assets of other location (AS-10)
Change in the method of depreciation	Considered as a change in accounting estimate. To be applied prospec-tively. (IAS-16 and IAS-8).	Considered as change in accounting policy, retrospective computation and excess or deficit is adjusted in same period. Required to be disclosed (AS-6)
Earnings Per Share	Disclosure to be made in only consolidated finan-cials of the parent co. (IAS-33)	Disclosure of EPS in both consolidated and separate financials (AS-20)
Component Accounting	Required each major part of PPE with a cost that is significant in relation to total cost, should be depreciated separately (IAS-16)	No such requirement (AS-10)
Intangible Assets	Intangible assets can have indefinite useful life and hence such assets are tested for impairment and not amortized	There is no concept of Indefinite useful life. Assets have definite life. (usually 10years)
Reporting Currency	Requires the measurement of profit using the functional currency. Entities may, however, present financial statements in a different currency	Schedule VI to the Companies Act, 1956 specifies Indian Rupees as the reporting currency (AS-11)
Key Management Personnel (KMP)	Includes executive as well as non executive directors (IAS-24)	Excludes non executive directors (AS-18)
Compensation to KMP	Disclosure to be made for total compensation such as short term employee benefits and post-employment benefits	AS-18 does not require the break up of compensation cost
Fringe Benefits Tax	Included as part of related expense (fringe benefit) which gives rise to incurrence of the tax	Disclosed as a separate item after profit before tax on the face of the income statement
Uniform Accounting Policies	Prepared using uniform accounting policies across all entities in a group (IAS-27)	Policies may differ due to Impracticability. (AS-21)
Disclosure of extra-ordinary items	Prohibits such disclosure (IAS-1). No such term in IFRS	Disclosure to be in notes (AS-5)

Areas Involving Choices

Subject	IFRS	Indian GAAP
Cash Flow Statements	Using direct or indirect methods	Only indirect method
Borrowing Costs	Expenses or capitalized	To be capitalized
Depreciation Methods	SLM, WDB, Units of Production method	SLM, WDB

Current Status of Convergence

ICAI is under the process of issuing IFRS equivalent AS (the current status is given in next slides). Constitution of a Core Group to liaison with various Govt and re-gulatory authorities to identify the inconsistencies in various laws and regulations and to make necessary amendments/modifications to remove the differences.

Progress so far in Convergence Process

Sl. No.	Position of IFRS equivalent AS	No. of Standards
1.	ASs cleared by Council of ICAI and NACAS for notification	2
2.	Drafts considered by ASB and have been circulated among specified bodies for comments	20
3.	ASs, which are to be issued pending insignificant modifications	5
4.	Drafts which are under preparation	8
5.	Accounting Standards which are not being revised as corresponding IFRSs	2

Identification of Inconsistencies between various Laws and Regulation

Constitution of a Group to Liaison with Governmental and Regulatory Authorities. Group has constituted separate Core Groups to identify inconsistencies between IFRS and

- Companies Act
- SEBI Regulations
- Banking Laws & Regulations
- Insurance Laws & Regulations.

We can expect that this core group will find out the various inconsistencies and provide solution to resolve them.

What has been done so far by the Group?

The Group has identified inconsistencies between Companies Act and IFRS. They have recommended that Draft Schedule VI consistent with IFRS is to be formulated which should be made effective from 1-4-2011. Moreover, inconsistencies between SEBI Mutual Fund Regulations and IFRS has been identified and Group has recommended examantion of other SEBI Regulations in progress.

The Impact of IFRS

IFRS implementation affects several areas of the business entity, such as presentation of accounts, the accounting policies and procedures, the way legal documents are drafted, the way the entity looks at its assets and their usage, as well as its communications with its stake holders and also the way it conducts its business.

This fundamental and pervasive nature of impact of IFRS makes it imperative that sufficient planning and thought is given to this aspect and choices made at the transition stage itself, as they determine the effect on the company and its operations. A detailed analysis of all aspects of impact and change as well as all legal documentation and communication becomes necessary.

The Grey Areas of IFRS

While IFRS compliance date has been declared by the ICAI, there are several areas which are still not in consonance with such implementation and several accounting standards and statutes will need amendment. Full and unreserved compliance with IFRS is the objective. However, not many entities are aware about the significance or ramifications thereof, which may lead to a rush for compliance later with some undesirable consequences. The Government may at any point in time simply effect all requisite changes for the implementation by saying 'IFRS norms are applicable w.e.f. a certain date'. The onus will be on the management to comply with the requirements and the auditors will only have to comment on whether the management has properly complied with the norms or not.

First-Time Adoption of IFRS (IFRS-1)

The approach taken in IFRS1 is the "Opening IFRS Balance Sheet Approach". The main content of IFRS 1 is summarized in the following points :

1. In the first IFRS financial statements, an entity shall comply with all the versions of IFRS effective at the reporting date

(the balance sheet date) and, as a general principle, apply them retrospectively—subject to certain exemptions and exceptions in IFRS1.

2. An opening balance sheet shall be prepared in accordance with IFRS at the date of transition. The date of transition is the beginning of the earliest financial year for which full comparative information under IFRS is presented in its first IFRS financial statements.
3. The entity shall recognize all assets and liabilities in accordance with the provisions of IFRS, and derecognize assets or liabilities not in compliance with IFRS.
4. Assets and liabilities recognized in the opening IFRS balance sheet shall be measured in accordance with IFRS including IFRS1.
5. All accounting estimates shall be determined in accordance with the guidance provided under IFRS.
6. The effect of changes in accounting policies shall be recognized in equity in the opening IFRS balance sheet, except for reclassification between goodwill and intangible assets.
7. All the requirements in relation to presentation and disclosure under IFRS shall be fulfilled, including any reclassification to comply with IFRS.
8. Comparative Information for the prior period (e.g. 2004 for companies listed in the EU with a calendar financial year) shall be fully in accordance with IFRS (with certain exceptions e.g. on application of IAS 39 Financial Instruments : Recognition and Measurement).The IASB does not require more than one year of comparative information prepared under IFRS.
9. Reconciliation between previous GAAP and IFRS of
(a) equity at the date of transition and the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP, and (b) profit or loss for the latest period in the entity's most recent annual financial statements, with supplementary explanations necessary for the understanding of the transition shall be presented.
10. There are certain optional exemptions and mandatory exceptions to the general principles in IFRS1 of retrospective application. The exemptions have been granted in areas in which costs would be likely to exceed the benefits to the users of the financial instruments and where it has, in practice, proven difficult to make changes retrospectively, e.g. concerning business and pension liabilities.

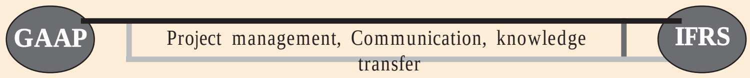
Challenges in the Adoption of IFRS

- IFRS is itself a moving target, with changes being introduced continually, refining the provisions and adding more areas for disclosures.
- The IFRS implementation requires a multi-disciplinary approach and is the responsibility of the management.
- There are not many trained resources to effect the requisite change.
- There is a lack of awareness and understanding of the requirements and implications of IFRS transition and compliance.
- Communicating the change and managing the transition properly attains importance in this regard.
- IFRS requires aligning business practices and policies to the reporting requirements (including retrospective ones).
- Training the organizational components will be a huge task.

Transition IFRS–GAPP Conversion Methodology

The conversion methodology suggested below puts a strong emphasis on planning, study, preparation for transition, evaluation, training and embedding the change :

Phase 1	Phase 2	Phase 3
Preliminary Study	– Project set-up – Component evaluation and issues resolution – Initial conversion	Integrate Change : Go-live and embedding



Assess impact and determine strategy	Establish IFRS policies and prepare initial IFRS financial results	Embed IFRS as the primary financial language

Conclusion

IFRS compliance would require changes right from the grassroots level, beginning with academic inputs and training. And this is not going to be an easy task—given the limited time frame before the new standards come into force. There is a need to give accounting staff appropriate training. Companies need to draw up detailed plans for migrating to IFRS as early as possible, to make the transition smooth and flawless. Institute of Chartered Accountants of India (ICAI) and the government will have to play a larger role in countering industry problems.

Adoption of IFRS is a necessary step for the orderly development of the global capital market. Adoption of IFRS will substantially reduce the administrative costs of accessing the different capital markets. IFRS will also enhance the ability of investors to make informed cross-border investment decisions. It is true that there are still some hurdles to overcome but the pressure of globalization is so strong that it should not take much time to identify methods to overcome the hurdles. ❑

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CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959

REGISTRATION NUMBERS CANCELLED
FOR DECEMBER 2010 EXAMINATION
UPTO

ERS/001320
NRS/001792, 1800-1803, 1851-1987, 2071-2200, 2411-2423, 2441-2447
SRS/004483, WRS/004079, RSW/076209, RAF/005837

RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered up to 30th June 2003) as above but desire to take the Institute's Examination in December 2010 must apply for **DE-NOVO** Registration and, on being Registered DE-NOVO, **Exemption** from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, shall remain valid as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to the Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs.5/-) along with a remittance of Rs. 2,000/- (Rupees Two Thousand) only as Registration Fee through Demand Draft drawn in favour of THE I C W A OF INDIA, payable at KOLKATA.

Arnab Chakraborty,
Date : 21st June 2010 **Director of Studies**

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We at ICWAI are committed to encourage sustainable development policies for the future. One such issue very dear to the Institute's heart is environmental preservation. Towards this end we propose to come out with a special edition of the Research Bulletin on 'Climate Change and Protection'. We request the active participation of all readers through sharing of news, views and opinions on the abovementioned topic. The articles may cover a wide canvas touching upon issues of the economic, social and physical impact of climate change; variants of urban pollution and rural environmental damage; and steps for controlling the damage with special emphasis on improvement of quality of human life, rehabilitation measures and costs of preservation. Write-ups containing case studies and live examples will be preferred. All interested can send their write-ups to Research & Journal Dept., ICWAI, 12 Sudder Street, Kolkata-700016 or email to research@icwai.org.

The **Continuing Education Programme Directorate is Organising Following Programmes. For Further Details** and on-line registration **visit our website** http://mdp.icwai.org/ OR www.icwai.org (click the link Management Development Programmes).

Contact Person

Mr. D Chandru
Additional Director (PD&P)
CEP Directorate,
ICWAI Bhawan, 3rd Floor
3 Institutional Area, Lodi Road
New Delhi-110 003
Tel – 011-2464 3273 (D), 24622156/157/158

Name of the Programme	Duration	Venue	Fee (Rs.)
Management of Taxation—Service Tax, VAT, Excise & Customs, TDS and Proposed GST	7-10 Sept. 2010	Thiruvananthapuram Mascot Hotel, Mascot Square, PMG Junction, Thiruva-nanthapuram695 003	30,000 (Residential Basis)
Finance for Jr. Finance and Accounts Officers and Non-Executives (F&A)	7-10 Sept. 2010 19-21 August 2010 25-27 August 2010 9-11 Sept. 2010	Thiruvananthapuram Mascot Hotel, Mascot Square, PMG Junction, Thiruva-nanthapuram- 695 003	30,000 (Residential Basis)
Converged Indian Accounting Standards & IFRS Convergence	19-21 August. 2010	Hyderabad Katriya Hotel and Towers, 8 Raj Bhawan Road, Somaji-guda, Hyd 500 082	15,000/-
Converged Indian Accounting Standards & IFRS Convergence	25-27 August. 2010	Mumbai Hotel Ambassador, VN Road, Churchgate, Mumbai 400 020.	15,000/-
Converged Indian Accounting Standards & IFRS Convergence	9-11 Sept. 2010	Chennai Hotel Courtyard by Marriott 564 Anna Salai, Teyna-mpet, Chennai 600 018.	15,000/-
Mergers & Acquisitions	15-17 Sept. 2010	Hyderabad	15,000/- 30,000/- (Residential Basis)
Corporate Tax-Planning, Compiance & Man-agement	05-08 Oct, 2010	Goa	30,000/- (Residential Basis)
Contract Management	10-12 Nov, 2010	New Delhi	15,000/-
International Programme on Emerging Trends in Financial Management	22 Nov-2 Dec, 2010	Singapore, Kuala Lumpur, Bangkok	2,25,000/- (Residential Basis)
Advance Tax, TDS and Tax Planning	21-24 Dec, 2010	Shirdi	30,000/- (Residential Basis)
Internal Auditing for Effective Management Control	21-24 Dec, 2010	Shirdi	30,000/- (Residential Basis)
Recent Trends in Financial Management including IFRS Convergence	03-09 Jan, 2011	Dubai & Muscat	1,50,000/- (Residential Basis)
Management of Taxation — Service Tax, VAT, Excise & Customs, TDS and proposed GST	18-21 Jan, 2011	Mahabaleswar	30,000/- (Residential Basis)
Finance for Jr. Finance and Accounts Officers and non Executives (F & A)	18-21 Jan, 2011	Mahabaleswar	30,000/- (Residential Basis)
Financial Risk Management	09-11 Feb, 2011	New Delhi	15,000/-
Valuation Management	16-18 Feb, 2011	New Delhi	15,000/-