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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.

Editorial Office & Headquarters
12, Sudder Street, Kolkata-700 016
Phone : (033) 2252-1031/34/35,
Fax : (033) 2252-1602/1492
Website : www.icwai.org
Delhi Office
ICWAI Bhawan
3, Institutional Area, Lodi Road
New Delhi-110003
Phone : (011) 24622156, 24618645,
Fax : (011) 24622156, 24631532, 24618645

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VISION STATEMENT

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

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The subject of behavioural finance is not of very recent origin. Some of the concepts of this subject, in a rudimentary form though, saw the light of the day during late seventies when the academic journal 'Econometrica' was published which perhaps for the first time described the terms 'risk' and 'uncertainty' and gave an idea of how people managed it. It was also for the first time that psychological approach was merged with economics and financial theory which gave birth to a new field of Finance commonly known as 'Behavioural Finance'. This branch of Finance, as a rapidly growing field, gained popularity since early nineties which is not a standalone financial concept but emanate from psychology, sociology and even anthropology. The uniqueness of this subject is its integration of different schools of thought and the multi disciplinary relationships between psychology, sociology, economics and finance.

Behavioural Finance deals with the study of psychological influence on the behaviour of financial practitioners (could be even common people dealing in finance) and the effect that it has on markets. The subject basically, attempts to explain why and how people who are otherwise intelligent and sensible sometimes make irrational and illogical decisions when it comes to spending / investing / saving / borrowing money. These decisions made by them are often triggered by their emotions and the state of their mind prevailing at the time of making such decisions. While traditional finance presupposes that every investor is expected to take a rational decision objectively after due consideration of risk and return, behavioural finance is based on the premise that emotions and 'herd' instincts play an important role in influencing decisions and their perceptions of risk and return are also significantly influenced by the way they take decisions.

While traditional finance presupposes that every investor is expected to take a rational decision objectively after due consideration of risk and return, behavioural finance is based on the premise that emotions and 'herd' instincts play an important role in influencing decisions and their perceptions of risk and return are also significantly influenced by the way they take decisions.

Some of the principles on which the edifice of behavioural finance is built are prospect theory, regret and cognitive dissonance, over confidence, over-and-under reaction, herd behavior etc. In 'herd' behavior, for instance, most individuals tend to emulate the actions (rational or irrational) of a large group though individually everyone may not necessarily make the same choice. It is interesting to note that the heard behavior is not restricted to individuals only; a group of people collectively living in one country may even mimic the actions of a group of people living in some other country. Consequently, the behavior of financial market in a particular country may have an impact on the behavior of markets in another country. On 22nd September, for example, the BSE SENSEX tanked 700 points based on 'weak global cues' while it bounced back and soared close to 500 points on 27th September based on 'firm global cues'.

Although every individual is expected to act rationally, while making an investment decision, more often than not, there happens to be a departure from this thought process as people have a tendency to 'anchor' their thoughts to a particular point albeit that may not be logical or prudent from financial stand point. For instance, a person may feel that the price of a particular stock may increase (or decrease) over a period of time and may buy (or sell) the same purely based on his individual perception. Again, an investor may take an investment decision based on certain preconceived notions even though the decision could nowhere be near logic or rationality from financial stand point. This is what is known as 'confirmation bias'. A case in point is the tendency among the Indian older generation (mostly senior citizens) to confine their investments only to post offices or FD's in nationalized banks.

Another important principle of behavioural finance is the 'over reaction' or 'under reaction' where either too much or too less weightage is attached on recent news. A person, for example, may decide to buy or sell shares of a particular company based on news about merger / demerger of that company and thereby either over reacting or under reacting in the process. The 'regret' theory speaks about people's emotional reactions regarding an error in judgement which they might have made at some point of time. An investor may avoid selling stocks that have decreased in value to avoid the regret of having made a bad investment decision or embarrassment of incurring loss. Thus, instead of looking for an opportunity to minimize the loss, he would rather prefer to hold them justifying the 'regret' theory.

To conclude, I deem it appropriate to admit that the cover theme of this issue is mainly of academic interest not having much bearing on the accounting profession in general and cost accounting profession in particular. Yet we decided to go ahead with this theme in view of the rapidly growing importance of the subject as an important branch of finance and the major research work that is being carried out in this area by the researchers and the academic fraternity across the globe. The articles published in this issue may have more of a theoretical perspective, nonetheless I am sure, they will make a good reading and will enhance the knowledge base of the esteemed readers.

We wish you a happy reading!

M. Gopalakrishnan, President

Action may not always bring happiness...but there is no happiness without action.
– Benjamin Disraeli

Dear Professional Colleagues,

We are approaching the festive season, which brings joy to the millions of lives in our country. Celebrated in all parts of the country under different names, Durga Puja in the East, Navrathiri in the South, West and North, Dussera in the North and South and Diwali for the entire country. The celebrations are a moment for the humanity to pause, taking stock of the good tidings and offer our gratefulness to the God in own manner. The forthcoming month is an opportunity also to pay respects to the Father of the Nation, Mahatma Gandhi, whose principles continue to be relevant even today.

The past month has been a very active in the terms of professional activities in the Institute starting right from day one till the last day of the month, by a series of programmes held through the country and abroad.

ICWAI is scaling up its International Activities by making a meaningful contribution to the regional and international groupings of accountants. ICWAI delegation to CAPA Conference at Brisbane led by Shri. Rakesh Singh, Vice President comprising Shri. B M Sharma, immediate past President and Shri. Sanjay Gupta, CCM. Shri. A N Raman, President, SAFA made a presentation on "Adopting an Integrated Framework in Embedding Sustainability And Driving Business Value" at CAPA Conference at Brisbane, Australia on 8th September 2011.

The series of seminars on CARR and CAR continued during the month also, starting from Mysore Chapter on 4th September 2011 and followed by WIRC programme in Mumbai on 16th and 17th September. The XBRL meeting was kick started during the month with Hyderabad hosting the first meeting on 6th September 2011, which was also webcast (witnessed in India and abroad). This was followed by meetings at Delhi on 9th September 2011, followed by SIRC programme on 10th September 2011. The Institute has started a new initiative of bringing the industry and the profession together, by organising CEO & CFO meets at various centres across the country. Two such meetings were held on the same day i.e. 16th September 2011 at Mumbai and Kolkata. I participated at the CEO meet at Kolkata and I thank the former Presidents Shri B. D. Bose, Shri Harijiban Banerjee and Shri Amal Kumar Das, apart from the Central Council members from the region. The CFO meet at Mumbai was highly successful with National Task Force on CARR & CAR Chairman, Shri J.K.Puri, guiding it ably assisted by Shri. V. Kalyanaraman and Shri Dhananjay Joshi (former Presidents) along with the Central Council Members of the region. The meetings gave a unique opportunity for interacting with the industry leaders and get their views on improving the profession.

I participated in the meeting of Government Accounting Standards Advisory Board (GASAB) held at New Delhi on 7th September 2011, in which significant progress was made in the discussion on Govt. Accounting Standards to be adopted. Based on the inputs of ICWAI during this meeting, GASAB Secretariat requested ICWAI for a resource person for their conference on "Road Map to Accrual Accounting" held on 26th September 2011.

The All India Student's Conference "Yuvanmosha 2011" was held in Chennai on 20th and 21st September 2011, graced by the presence of Honourable Union Minister of Corporate Affairs, Dr M.Veerappa Moilyji. I am sure the enthusiasm for contributing to the National progress by two thousand students of our Institute present during the Conference may have impressed the Hon'ble Minister. The Minister announced a slew of measures in the offing for greater transparency and governance starting with Public Procurement Policy and Competition Bill (Amendment) and Companies Bill which are expected to be discussed in the winter session of the Parliament. The inauguration of the event was also webcast and can be viewed in the "Archives" section of the Institute website throughout the month. Hon'ble Minister also presented the prizes for rank holders from the Southern Region, passing the Institute examination. During the function, I also impressed upon Hon'ble Minister to favourably consider the pending issues related to the institute.

The week immediately following the conference was one of intense professional activity starting with Cost Accounting Standards Board meeting on 22nd September 2011; Cost Audit and Assurance Standards Board meeting on 23rd September and Council meeting on 24th September 2011. I would like to share some of the key decisions taken in the 271st meeting of the Council viz.

- Approval of the Generally Accepted Cost Accounting Principles
- Approval of the Revised Preface to the Cost Accounting Standards
- Approval of the Preface to Cost Audit and Assurance Standards
- Approval of the Guidance Manual for Audit Quality of Quality Review Board
- Approval of the formation of the "National Advisory Board" consisting of eminent members from industry and profession.
- Approval of guidelines for formation of CEP Study Circles by Regional Councils and Chapters
- Formation of "Toronto Overseas Center of Cost Accountants" to serve the members from Canada.
- Formation of 'Extension Centres of the Technical Directorate" at Chennai and Mumbai under the Technical Directorate to be followed by other major centres in due course.

These initiatives will pave way for accelerating the pace of professional development in future. I am sure that these will be welcomed by the members.

The Council meeting was followed by the SAFA Board meeting at Kathmandu, Nepal on 25th September 2011 which adopted a number of initiatives such as MOU with GRI, adoption of SAFA bye laws and the alliance of SAFA-EFAA (European Federation of Accountants and Auditors). On the sidelines of the SAFA Board meeting, the member bodies led by Shri. A. N. Raman, President SAFA, held significant discussions with Mr. Aziz Ahmazada and Shri. Amrit Lugun, Directors, SAARC Secretariat, on aligning with the objectives of SAARC on 26th September 2011. Central Council Members, Shri. A. Om Prakash and Mr. Amit Apte held informal discussions with member bodies on the roadmap to develop common curriculum among the member bodies during the meetings of SAFA.

Professional Development Directorate

Professional Development Committee in association with e-Governance of Ministry of Corporate Affairs organized an Interactive Session for the members in practice on 9th September 2011 to familiarize the members about the various initiatives taken Ministry of Corporate Affairs and suggestions for improvements in MCA 21 portal and future expected services from the Ministry of Corporate Affairs. I had the opportunity to address the members and am sure the interactive session with MCA officials helped in resolving various difficulties faced in e-filing, during the programme.

Directorate of Advanced Studies

The Advanced Studies Directorate is finalizing the course content and other specifications for its two post qualification courses, namely,

(i) Certificate Course on Business Valuation Management, and

(ii) Certificate Course on Foreign Exchange, Treasury and Risk Management

The Directorate is also exploring the strategic partnerships with esteemed educational/ industrial set ups to add more value and weight to the announced courses by imparting their domain expertise to the programmes of similar nature.

CEP Directorate

I am happy to note that CEP Directorate organised three programmes on eXtensible Business Reporting Language (XBRL) at Bangalore, Hyderabad and Mumbai during 3rd September, 4th September and 12th September 2011 respectively. Self-run programmes were held at Port Blair on the topics 'Internal Auditing' & 'Recent Trends in Financial Management' and programmes on Proposed DTC and GST at Chennai. Our in-house programmes for ONGC Limited on 'IFRS Convergence' which were organized at Kolkata and Ahmedabad were highly appreciated. In addition, in the series of Certificate Course on IFRS Convergence, a course was organized at Bangalore. I am pleased to inform you that for the first time a three Month module was introduced specially for Indian Navy on the topic 'Finance Accounting, Costing, Project and Contract Management' during 4th July to 23rd September, 2011. While addressing the valediction function of the programme, I shared the proposed initiative of the Government on the Public Procurement Policy and the support Institute is planning, which will also be useful for the defence forces.

Directorate of CAT

I am very happy to inform that additional Examination centres in Srinagar and Palampur (Himachal Pradesh) for CAT have been opened. Palampur will be the first centre of the Institute in the State of Himachal Pradesh. This will go a long way in benefiting the students from Kashmir Valley and Himachal Pradesh.

Directorate of Training and Placement

I am elated to inform that the Campus Placement for June 2011 Final qualified students is scheduled in the 3rd and 4th week of October 2011 in 4 (four) regions. The initiative for connecting experienced members to enhance their career opportunities, as a regular scheme is also on the anvil. Placement Directorate will be coming out with a suitable mechanism shortly.

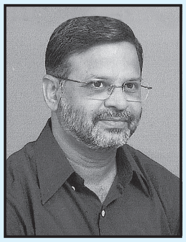
In the end I share with you the news of sad demise of Mr. Pramod D. Parkhi on 24th September, 2011. He was President of the Institute during 1988-89 and did yeoman service to the profession. I join you in paying homage to the departed soul and express our deep condolences to his family.

On an aside, I would like to share with the members an interesting book "The Tipping Point" which talks about the three rules of the Tipping Point viz. the Law of the Few, the Stickiness Factor and the Power of Context. The Law of the Few, explains how a few well connected individuals can make a concept spread like wild fire. The Stickiness Factor talks about making a concept continue to get the eyeball, after the initial launch. The Power of Context shows how a group of persons connected with a common objective can make a big impact. With the advent of the success of e-groups, which are quite active in our profession also, any positive approach by them will make a big impact on the image of the profession. Let us Tip the Point to a positive flavour for our Institute and profession, which will be of great help and encouragement to the new Council, to serve you with the best of their abilities. Taking advantage of this concept, we have started a discussion forum in our institute on management accounting related matters, which is available at our website.

With best wishes and greetings for the festival season once again,

With regards,

(M Gopalakrishnan)
President, ICWAI
1st October, 2011



Dear Professional Colleagues,

At the outset, I am very grateful to the President of ICWAI and my colleagues in the council for the confidence they have shown in me by entrusting the responsibility of the Professional Development (PD) Committee. The role of the PD Committee is very crucial in the present scenario particularly keeping in view the reforms and initiatives taken by the MCA in the recent times, viz. modification of procedure for appointment of cost auditor, Cost Audit Orders, Notifications for Cost Accounting Records Rules (CARR), Cost Audit Report Rules (CAR), revision of e-filing forms, XBRL filing etc.

As you may be aware that Expert Group constituted by the Ministry of Corporate Affairs made various recommendations including maintenance of principle based cost accounting records and also based on uniform cost accounting records rules. The notifications issued by the Ministry of Corporate Affairs on the Companies (Cost Accounting Records) Rules 2011 and the Companies (Cost Audit Report) Rules 2011 require reporting of cost data in different forms than the previous reporting pattern relating to maintenance of Cost Accounting Records and Cost Audit Report Rules.

The PD Committee is currently working on the preparation of the following Guidance Notes to guide the professionals and industries:

1. Guidance Note on Product Group

Both the Companies (Cost Accounting Records) Rules 2011 and the Companies (Cost Audit Report) Rules have introduced the concept of "Product Group". The Working Group has already finalized its recommendations on classification of Product Groups and Service Groups based on the Central Excise Tariff Act and Service Tax Rules respectively. The Institute is in the process of finalizing the draft on this.

2. Guidance Note on Cost Accounting Records Rules

Prior to introduction of the concept of Product Group, the companies have been preparing cost statements unit-wise and within a unit for each product separately, and within a product for each type/variety/description individually. There were 44 industries/products to which specific industry/product Cost Accounting Records Rules were made applicable. However, the Companies (Cost Accounting Records) Rules 2011 has superseded 36 then prevailing cost accounting records rules retaining **eight** specific product/industry cost accounting records rules relating to Bulk Drugs, Formulations, Fertilizers, Sugar, Industrial Alcohol, Electricity Industry, Petroleum Industry and Telecommunications. The PD Committee in view of commonality in maintenance of cost records, thought to bring out Guidance Note on Cost Accounting Records Rules to guide the professionals and industries to enable them to keep proper books of account containing particulars relating to the utilization of materials, labour and other items of cost in terms of Companies (Cost Accounting Records) Rules.

3. Guidance Note on Cost Audit

The revised structure of the cost audit report, as notified by the Central Government vide Companies (Cost Audit Report) Rules, 2011 require submission of cost audit reports based Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards issued by the ICWAI. The PD Committee is bringing the revised edition of Guidance Note on Cost Audit incorporating the revised structure of cost audit report rules and other changes having taken place since 2002. The revised draft on this also will be shortly exposed to the members and public for their comments.

The PD Committee has been taking various initiatives for professional development of members. Following are the few endeavours taken in the professional field :

(a) Development of XBRL Taxonomy for Cost Audit Report and Compliance Report
(b) National Seminar on XBRL at Chennai
(c) Hosting of Frequently Asked Questions
(d) Certified Facilitation Centre under ACES Scheme of CBEC
(e) Certified Filing Centre under MCA21 Scheme
(f) IFRS E-Learning Course
(g) E-Governance Initiatives an Interactive sessions

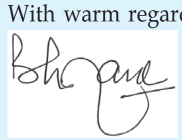
The Ministry of Corporate Affairs (MCA) re-launched renewed Scheme for Certified Filing Centres (CFCs) to be operated by professionally qualified persons/Bodies to facilitate e-filing of documents under MCA-21, e-Governance Programme of the Ministry of Corporate Affairs. The Scheme was closed on 30th November, 2010. At the request of three Institutes, the MCA has re-opened the CFC Scheme w.e.f 1st October, 2011 for a period of 2 months i.e. till 30th November, 2011 to allow enrolment of more CFCs so that the involvement of professionals in XBRL and peak filing can be expanded to a large extent. A Cost Accountant in practice, who fulfills the eligibility and qualifications criteria, may apply to the Institute on line at http://members.icwai.org/members/mca21/ for a certificate to act as CFC Manager. Detail in this regard has been hosted on Institute website and provided in the Management Accountant elsewhere.

The PD Committee in association with e-Governance Cell of MCA organized an interactive Session for the members in practice on 9th September, 2011 to familiarize the members in practice for initiatives taken by e-governance cell of Ministry of Corporate Affairs regarding MCA21 portal especially meant for e-filing related issues and suggestions for further improvement to MCA 21 portal and future expected services from the Ministry. Interactive session was very useful and officials from MCA solved the problems put forward by members present there.

I once again thank to all my colleagues in the council and staff for their wholehearted support to the PD Committee in its endeavors in the growth of our noble profession.

Wishing you all a very happy and prosperous Durgapuja, Vijay Dashmi and Diwali.

With warm regards.



Sanjay Bhargave.
Chairman, PD Committee 2011-12.
1st October 2011.

Understanding Behavioural Finance

Dr. Swapan Kumar Roy

M.Com, Ph.D., Assistant Professor in Commerce,
Bethuadahari College, Bethuadahari, Nadia

Behavioural finance has been gaining importance today. Humans become puzzled when the uncertainty regarding investment decisions engulfs them. Emotions of the investors influence the behavioural aspect of the investors. Very often it is said that investors are not perfectly rational. Behavioural finance provides explanations for why people make irrational financial decisions. It demonstrates how emotions and cognitive errors influence investors and the decision-making process.

Behavioural Finance : Meaning

'Behavioural Finance' is the offspring of psychology and economics. It is the study of the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets. It is a relatively new field that seeks to combine behavioural and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions. Behavioural finance seeks to find how investor's emotions and psychology affect investment decisions. It is the study of how people in general and investors in particular make common errors in their financial decisions due to their emotions. It is nothing but the study of why otherwise rational people take some really dumb investment decisions.

Traditional Finance vs Behavioural Finance

Traditional Finance	Behavioural Finance
It assumes that people process data appropriately and correctly.	It recognizes that people employ imperfect rules of thumb to process data that induces biases in their beliefs and predisposes them to commit errors.
It presupposes that people view all decision through the transparent and objective lens of risk and return.	It postulates that perceptions of risk and return are significantly influenced by how decision problems are framed.
It assumes that people are guided by reason and logic and independent judgment.	It recognizes that emotions and herd instincts play an important role in influencing decisions.
It argues that markets are efficient, implying that the price of each security is an unbiased estimate of its intrinsic value.	It contends that heuristic-driven biases and errors, frame dependence and effects of emotions and social influence often lead to discrepancy between market price and fundamental value.

Why is 'Behavioural Finance' necessary?

Capital Asset Pricing Model (CAPM) and the Efficient Market Hypothesis (EMH) are based on rational and logical theories. These theories assume that people, for the most part, behave rationally and predictably. For a while, theoretical and empirical evidence suggested that CAPM, EMH and other rational theories did a respectable and commendable job of predicting and explaining certain events. However, as time went on, academics in both finance and economics started to find anomalies and behaviours that could not be explained by the theories available at the time. While these theories could explain certain 'idealized' events, the real world proved to be a messy place in which market participants often behaved very unpredictably. People are not always rational and markets are not always efficient. Behavioural finance explains why individuals do not always make the decisions they are expected to make and why markets do not reliably behave as they are expected to behave. Recent research shows that the average investors make decisions based on emotion, not logic; most investors buy high on speculation and sell low in panic mode. Behavioural finance is a new academic discipline which seeks to apply the insights of the psychologists to understand the behaviour of both investors and financial markets. It helps us to avoid emotion-driven speculation leading to losses, and thus devises an appropriate wealth management strategy.

Some common irrational investment behaviours :

A. Herd Behaviour : It shows how individuals in a group can act together without planned direction. In other words, it represents the preference for individuals to mimic the behaviours or actions of a larger sized group.

B. Overconfidence : It is a human trait. It represents the tendency for an investor to overestimate his or her ability in performing some action/task. Overconfidence is a psychological investor charac-teristic that is well documented by the field of behavioural finance. According to Nofsinger (2001) : "People are confident. Psychologists have determined that overconfidence causes people to overestimate their knowledge, underestimate risks, and exaggerate their ability to control events". Psychological studies show that most people are overconfident about their own relative abilities, and unreasonably optimistic about their futures.

C. Anchoring : It shows how individuals tend to focus on recent behaviour and give less weight to longer time trends.

D. Loss Aversion : It means that investor is risk seeker when faced with prospect of losses, but becomes risk averse when faced with the prospects of enjoying gains. According to Khaneman, investors are 'loss aversion'. This 'loss aversion' means that people are willing to take more risks to avoid losses than to realize gains.

E. Overreaction : Disproportionate reaction to news, both good and bad, has been oft-seen in the financial markets. Poised investors should desist from being swept away by tides of irrational optimism and unjustified pessimism, given that the overreaction effect tends to wear off with time. If anything, such overreactions may provide good opportunities to realize profits or go in for good "value-buys".

F. Gambler's fallacy : It arises when the investors inappropriately predict that trend will reverse.

G. Mental Accounting : It deals with the set of cognitive operations used by the investors to organize, evaluate and keep track of investment activities. It violates the economic principle of fungibility.

Theories of Behavioural Finance

A. Prospect Theory **:** This theory discusses that people respond differently to equivalent situations depending on whether it is presented in the context of a loss or a gain. Most investors are risk averse when chasing gains but become risk lovers when trying to avoid a loss. Tversky and Kahneman originally described "Prospect Theory" in 1979. They found that contrary to expected utility theory, people placed different weights on gains and losses and on different ranges of probability. They found that people are much more distressed by losses than they are happy about gains.

B. Regret Theory **:** It is about people's emotional reactions to having made an error of judgment. Investors may avoid selling stocks that have decreased in value to avoid the regret of having made a bad investment or embarrassment of reporting the loss. The embarrassment may also contribute to the tendency not to sell losing investments.

C. Anchoring **:** It is a phenomenon in which—in the absence of better information—investors assume current prices are about right. The concept of anchoring draws on the tendency to attach or anchor our thoughts to a reference point—even though it may have no logical relevance to the decision at hand. It can also be a source of frustration in the financial world, as investors base their decisions on irrelevant figures and statistics.

D. Over - and under-reaction : The consequences of investors putting too-much weight on recent news at the expense of other data are market over - or under-reaction. People show overconfidence. They tend to become more optimistic when the market goes up and more pessimistic when the market goes down.

Conclusion

Behavioural finance is a new and evolving field in economics that has become a much talked about subject today. It offers many useful insights for investment professionals. Behavioural finance explains that individuals do not always act rationally in their financial decisions and that their behaviours cause them to make different choices about their financial decisions. It centers on the ability to control emotions, think rationally and not be fearful when you should be greedy or greedy when you should be fearful. In essence, behavioural finance approach investigates the behavioural patterns of investors and tries to unders-tand how these patterns guide investment decisions. It also investigates the influence of emotions on investment decisions. But the modern finance theories have almost completely ignored the role of the complex motivational and cognitive factors that influence investor's decision-making. As a result, behavioural finance has been gaining importance today. ❐

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Behavioural Finance : Explaining Irrational Investment Strategies

Swapan Sarkar
M. Com., M. Phil, CWA, CFA
Asst. Prof of Commerce, Harimohan Ghosh College, Kolkata

Introduction

For over a number of decades, successful researches in the field of finance centred around CAPM, Efficient Market Hypothesis and other theories based on the assumption of rational expectations. However, in recent times, a considerable number of research findings has spotted a few anomalies in these theories under the real world situations. The effort of researchers to provide explanations to these anomalies has paved the way for a new field in finance, namely, Behavioural Finance. The assumptions underlying Behavioural Finance state that people are more often irrational than rational as claimed by the above theories of traditional finance, and, therefore, are prone to make illogical decisions. Behavioural Finance attempts to explain such irrational decisions with the application of psychology and other behavioural theories. Following are a complete list of Behavioural Finance theories explaining commonly found irrationalities by the investor public.

Anchoring

The assumption of rationality says that our thoughts and opinions should always be based upon relevant and appropriate facts in order to be considered valid. In reality, however, this is not always so, rather, people have a tendency to attach or "anchor" their thoughts to a reference point—even though that may hardly have any logical association with the decision at hand. Although it may sound unusual, anchoring is fairly prevalent in real world, particularly in situations where people are dealing with concepts that are new and novel.

In the financial world, investors sometimes base their decisions on irrelevant figures and statistics. E.g. some investors may invest in the stocks that have witnessed considerable fall after a continuous growth in recent past. Here the investor is anchoring upon the recent peak attained by the script and, accordingly, believe that such fall in the price is only due to short term market movements, creating an opportunity to buy the stock cheap. However, in reality, stocks do quite often also decline in value due to changes in their underlying fundamentals.

Mental Accounting

Mental accounting is the tendency for people to separate their assets into separate groups and assign different functions to each group, which may often have irrational and detrimental effect on their decisions and behaviours.

The mental accounting bias may also affect investment decisions. Some investors divide their investments between a safe investment portfolio (say for retirement) and a speculative portfolio (say for foreign trip) to prevent the negative returns of speculative investments from affecting the safe portfolio. The problem with such a practice is that, despite all the effort and money that the investor spends to separate the portfolios, his net wealth will be no different than if he had held a single larger portfolio.

Confirmation Bias

In real world, it is difficult to find anyone without having any preconceived opinion. This first impression may sometimes be very difficult to change because people tend to selectively filter and pay more attention to information that supports their opinions, while ignoring anything against it.

In investing, the confirmation bias suggests that an investor would be more interested in information that supports his or her original idea about an investment rather than what contradicts it, leading to faulty decisions being based on one-sided incomplete information.

Hindsight Bias

Psychologists attribute hindsight bias to our innate need to find order in the world by creating explanations that allow us to believe that events are predictable. Thus a person may believe (after the fact) that the occurrence of some past event was predictable and completely obvious, though in fact, the event could not have been reasonably predicted.

For investors and other participants in the financial world, the hindsight bias may cause potentially dangerous mindset called overconfidence, an unsupported belief that they possess superior stock-picking abilities.

Gambler's Fallacy

In Gambler's Fallacy a person may think that a random event is more (or less) likely following a single event or a series of events. This type of thinking is, however, illogical, as past events do not change the probability of future events.

In the finance world, investors are very often found falling prey to the gambler's fallacy. Some investors believe that they should liquidate their holdings (or hold the same) after it has gone up (or down) following a series of subsequent trading sessions, because they think that the momentum would surely revert in the next time. However, outcome of the next session is purely unpredictable and may go in either way.

Herd Behaviour

It is the tendency for individuals to mimic the actions (rational or irrational) of a larger group, though, individually, everyone is not necessarily to make the same choice. This herd mentality is the result of two reasons. Firstly, there may be a social pressure of conformity. Most people do not want to be outcast from the group they belong. Secondly, there is a common rationale that a large group is unlikely to be wrong.

In the finance world this herd mentality often causes faulty decisions. In the late 1990s venture capitalists and private investors were frantically investing huge amounts of money into internet-related companies, even though most of them did not have financially sound business models.

Overconfidence

People sometimes become overconfident in their attitude and believe themselves to be the winner irrespective of the situation or the number of competitors. This eventually restricts their rational way of thinking and analyzing for alternatives to tackle the adverse situations—if they arise.

In finance world also, some investors and fund managers are found to be exceptionally overconfident in their stock picking ability. In a 2006 study James Montier found that 74% of the 300 professional fund managers surveyed believed that they had delivered above-average job performance, whereas, 26% viewed themselves as average, suggesting an irrationally high level of overconfidence on the part of these fund managers. Terrence Odean found that overconfident investors generally conduct more trades as they believe they are better than others at choosing the best stocks and best times to enter or exit a position. Unfortunately, they were also found to earn significantly lower yields than the market.

Overreaction

The finance world is not a place of emotion but rational reaction. However, often participants of the financial domain tend to overreact to some new information, thereby creating a larger than appropriate effect on a security's price on a temporary basis. In stock market, often, a good news or a bad news receive more than expected importance from investors creating a sudden surge or dip in the stock price. Over time, however, investor rationalizes his expectation, thereby causing the market to move in the opposite direction. The result is nothing but a sizable loss.

Availability Bias

According to the availability bias, people tend to base their decisions more on recent information rather than any detailed study of past events and thereby become biased to that latest news.

In the finance world also these are not uncommon. People more than often make decisions based on the information readily available and do not take pain to go for any detailed analysis.

Prospect Theory

Traditionally, it is believed that people make decisions based on the expected profit or loss of any choice—weighing the gains and losses associated with each alternative included therein. However—research indicates that we do not always process information in such a rational way. In 1979, Kahneman and Tversky presented an idea called prospect theory, which contends that people value gains and losses differently, and, as such, will base decisions on perceived gains rather than perceived losses. This illogical risk aversion often leads to erroneous decisions.

The prospect theory can be used to explain quite a few illogical financial behaviours. There are people who do not want to put money in the bank account just to avoid paying additional tax on the amount of interest to be earned on that fund. Prospect theory suggests that the benefit (or utility gained) from the extra money is not enough to overcome the feeling of loss incurred by paying taxes. Prospect theory also explains the occurrence of the disposition effect, which is the tendency for investors to hold on to losing stocks for too long and sell winning stocks too soon because of such prospective loss which may not materialise at all.

Conclusion

The supporters of traditional finance are always been on the search for some order in the finance world right from its origin. However, the real world seems to be more complicated and investors are also irrational on occasions. Whether it's mental accounting, irrelevant anchoring or just following the herd, chances are we've all been guilty of at least some of the biases and irrational behaviours. Though this irrationality is the innate attitude of the investors, knowledge of the behavioural finance theories can at least make them cautious, if not do more. ❒

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Attention Members

Institute invites queries from members on The Companies (Cost Accounting Records) Rules, 2011 (CARR) & The Companies (Cost Audit Report) Rules, 2011 (CAR)

National Task Force on CARR and CAR constituted by the Council, in its 1st Meeting held on 25th August 2011, has established a "Technical Cell" at ICWAI, to go into all the queries and seek clarifications from the Cost Audit Branch (CAB), Ministry of Corporate Affairs and provide the same on receipt of official clarification from CAB by way of updated FAQs through the Institute website : http://www.icwai.org

Members may send the queries in this regard through email to Shri J. K. Budhiraja, Director (Professional Development) and Secretary to the National Task Force on CARR & CAR at pd.budhiraja@icwai.org or by post at the following address :
Shri J. K. Budhiraja

Shri J. K. Budhiraja
Director (Professional Development)
& Secretary to National
Task Force on CARR & CAR
The Institute of Cost and Works Accountants of India
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It is also requested that the respondents to the email groups do not provide any new interpretation other than that provided by the Institute in FAQs as it will lead to wrong interpretation of the notifications.

Application of Behavioural Finance in Investment Decisions : An Overview

Arindam Banerjee

M.COM, FICWA, Faculty Member,
United Institute of Management, Allahabad.

Introduction

Behavioural finance is the study of the influence of psychology on the behaviour of financial practitioners and the subsequent effect on market. According to behavioural finance, investors' market behaviour derives from psychological principles of decision making to explain why people buy or sell stock. Behavioural finance focuses upon how investor interprets and acts on information to take various investment decisions. In addition behavioural finance also places emphasis on investor's behaviour leading to various market anomalies.

Some of the definitions of Behavioural finance can be summarized :

- Lintner G. (1998) has defined behavioural finance as being study of human interprets and acts on information to make informed investment decisions.
- Olsen R. (1998) asserts that behavioural finance seeks to understand and predict systematic financial market implications of psychological decision process.
- Shefrin (1999), " Behavioural finance is a rapidly growing area that deals with the influence of Psychology on the behaviour of financial practitioner."
- Belsky and Gilovich (1999) have referred to behavioural finance as behavioural economics and further defined behavioural economics as combining the twin discipline of psychology and economics to explain why and how people make seemingly irrational or illogical decisions when they save, invest, spend and borrow money.
- W. Forbes (2009) defined behavioural finance as a science regarding how psychology influences financial market. This view emphasizes that the individuals are affected by psychological factors like cognitive biases in their decision making, rather than being rational and wealth maximizing.
- M. Sewell (2007) has stated that Behavioural Finance challenges the theory of Market efficiency by providing insights into why and how market can be inefficient due to irrationality in human behavior.
- M. Schindler (2007) has given certain examples while defining behavioral finance :

1. Investors' biases when making decisions and thus letting their choices to be influenced by optimism, overconfidence, conservatism.
2. Experience and heuristics help in making complex decisions.
3. The mind processes available information, matching it with the decision's maker own frame of reference, thus letting the framing by the decision the maker impact the decision.

Thus behavioural finance is defined as the field of finance that proposes psychological based theories to explain stock market anomalies. Within the behavioural finance it is assumed that the information structure and the characteristics of market participants systematically influence individual's investment decisions as well as market outcomes.

Origin of Behavioural Finance

The principal objective of Investment is to make money. Earlier, investment was based on performance, forecasting, market timing etc. But, contrary to the expectations, it provided very ordinary results and there was a huge gap between available returns and actually received returns. The reason was attributed to the fundamental mistake in decision-making process and making irrational investment decisions. In process of recognizing the mistakes and to avoid making such mistakes and to transform the quality of decision-making process, slowly a realization was felt regarding the impact of psychology in investment decisions.

Several years ago, the researchers began to study the field of behavioural finance to understand the psychological process resulting in such mistakes. There were a number of books published linking the science of psychology to finance during the first half of the 20th century. In 1979, the academic journal ***Econometrica*** published the work of psychologists Amos Tversky and Daniel Kahneman. They criticized the " Expected Utility Theory" model and developed their own model known as "Prospect Theory" which showed how the people manage risk and uncertainty. Tversky and Daniel Kahneman are being recognized as the Fathers of Behavioural Finance along with economist Richard Thaler. After reading "Prospect Theory", Thaler linked the psychological approach to what he believed were the shortcomings of economic theory—especially regarding the explanation of irrational behaviour given present economic model.

Tversky, Daniel Kahneman and Thaler started to cooperate, resulting in merging of psychology and economic and financial theory (M. Sewell, 2007).

Among the other leading researchers who have utilized the theory of psychology and other social science to shed light on the efficiency of financial markets as well as explain many stock market anomalies and crashes were Shefrin and Statman (1994), Shiller (1995), Shliefer (2000). Behavioural Finance is not a new subject in the field of finance and is very popular in stock market across the world in investment decisions.

Application of Behavioural Finance In Investment Decisions

Behavioral Finance and Investment Decisions

Given the run up in stock prices in 2004 to the end of 2007 and the subsequent melt down of financial market understanding, irrational investor behaviour is as important as it had ever been. It is true for the market in general but most especially for individual investors in general.

Decision-making is a very complex activity. Decision-making can be defined as a process of choosing a particular alternative among a number of alternatives. It is an activity that follows after a proper evaluation of all the alternatives. The most crucial challenge faced by the investors is perhaps in the area of taking investment decisions. Every investor differs from the others in all aspects due to various factors like demographic factors, socio-economic background, educational attainment level, age, sex, and race. An optimum investment decisions plays an active role and is a significant consideration.

In designing an investment portfolio the investors should consider their financial goals, risk tolerance level, and other constraints.

In the present scenario, Behavioural Finance is becoming an integral part of decision-making process because it heavily influences the investor's performance. Understanding behavioural finance will help the investor to select a better investment instrument and they can avoid repeating the expensive error in future. They can improve their performance by recognizing their biases and errors of judgment to which we are all prone. The main issue of studying behavioral finance is how to minimize or eliminate the psychological biases in investment decisions of the investors.

The key idea of behavioural finance is that the market participant does not always make decisions rationally. Behavioural Finance recognizes several deviations from rationality such as heuristics or rules of thumb; that framing or the way a problem is stated can affect the decision made and that the biases exists.

Behavioural finance theorists point to various instances, which can be best explained by behavioural finance perspective. For example, 1987 Black Monday Stock Crash.

Behavioural Finance combines psychology and economics to explain why and how investors act and to analyze how that behaviour affects the market.

It points to the market phenomenon of hot stocks and bubbles, from the Dutch tulip bulb that caused a market crash in 17th century to more recent examples of junk bonds in 1980s and the internet stocks in the 1990s, to validate their positions that market prices can be affected by irrational behaviour of the investors.

Behavioural Finance is a paradigm shift away from Efficient Market Hypothesis, which maintains that the market prices are based on rational foundations like the fundamental financial health and performance of the company.

Review of Literature

Though the literature on Behavioral Finance is very large, it is proposed to present briefly some of the research studies conducted by various researchers, which gives an insight to Behavioural Finance and its application to investment decisions and society at large.

Perhaps the literatures consisting of behavioural finance can be best explained by the works of Tversky and Kahneman who were recognized as the Fathers of Behavioural Finance. Their literary works can be summarized as :

a. In 1973 they introduced availability heuristic : " A Judgmental heuristic in which a person evaluates the frequency of classes or the probability of events by availability i.e. by the ease with which relevant instances comes to mind." The reliance on the availability heuristic leads to systematic biases.

b. In 1974 they introduced three heuristics that are employed while making judgments under uncertainty

—representativeness, availability, anchoring and adjustment.

c. In 1979 they presented a critique of Expected Utility Theory in their paper that appeared in ***Econometrica***.

In this paper Tversky and Kahneman found out empirically that people underweight outcomes that are merely probable in comparison with outcomes that are obtained with certainty; also that the people generally discard components that are shared by all prospects under consideration. Under Prospect Theory, value is assigned to gains and losses rather than to final assets; also probabilities are replaced by decision weights. The theory which they confirmed by experiment predicts a distinctive fourfold pattern of risk attitudes: risk aversion for gains of moderate to high probability and losses of low probability, and risk seeking for gains of low probability and losses of moderate to high probability.

In another important paper, Tversky and Kahneman (1981) introduced the concept of Framing. They showed that the psychological principles that governs the perception of decision problems and the evaluation of probabilities and outcomes produced predictable shifts of preference when the same problem is framed in different ways.

Some of the other literary works are summarized as :

- De Bondt and Thaler (1985) in their article "Does the stock market overreact?" published in *Journal of Finance* has provided what has today become Behavioural Finance. They discovered that the people are systematically overreacting to unexpected and dramatic news results in substantially weak form inefficiencies in the stock market. Mental Accounting is a set of cognitive operations used by individuals and households to organize, evaluate and keep track of financial activities.

- Jay R. Ritter (2003) in his article on "Behaviour Finance" published in Pacific Basin Finance Journal Vol. 11 No. 4 has provided a brief introduction about behavioural finance.

As per the article, behavioural finance encompasses research that drops the traditional assumption of expected utility maximization with rational investors in efficient markets. The two building blocks of behavioural finance are cognitive psychology (How people think) and the limits to arbitrage (When market will be inefficient). The article further highlights that the growth of behavioural finance research has been fueled by the inability of traditional framework to explain many empirical patterns, including stock market bubbles in Japan, Taiwan and the US.

- Simon Gervais (2009) in "Behavioural Finance: Capital Budgeting and other Investment Decisions" has made a survey of literatures on the effects of behavioural biases on capital budgeting.

As per the study, a large body of psychology literature finds that the people tend to be overconfident and overly optimistic. Because of self-selection, firm mangers tend to be even more affected by these biases than the general population. Indeed, the literature find that the biased managers over-invest their firm's cash flows, initiate too many mergers, start more firms and more novel projects and tend to stick with unprofitable investment policies longer. Corrective measures to reduce the effect of manager biases include learning, inflated discount rates and contractual incentives but their effectiveness in curbing over investment appears to be limited.

- Rohit Kishore in his paper titled "Theory of Behavioural Finance and its application to property market: A change in Paradigm "—presented at 12th Annual Pacific Rim Real Estate Society Conference—defined Behavioural Finance asa part of finance that seeks to understand and explain the systematic financial and market implication of psychological decision process.

The study utilizes the knowledge of cognitive psychology, social science and anthropology to explain the irrational behaviour of investor that has not been captured by traditional rational based models.

The paper analyses the development of behavioural finance, reviews stock market and property market behavior literature and identifies issues in property market that can be better understood and explained using behavioural models.

- Johnsson Malena, Lindblom Henrik, Platan Peter (2002) in their thesis submitted to School of Eonomics and Management, Lund University on "Behavioural Finance—and the change of Investor's Behaviour during and after the speculative Bubbles at the end of 1990s stated that the apparent high valuations in the aggregate market and the high price earning ratios experienced by the equity market at the end of 1990s' can be characterized as so called speculative bubbles.

The study emphasized on finding out what factors lie behind the speculative bubbles and further investigates whether the investment objectives and the factors influencing investment decision-making are different today than during speculative bubble. The result obtained from the study suggests that the behaviour of the market participants during the speculative bubble was to some extent irrational and that the composition of investments has undergone a lot of changes as a consequence of speculative bubbles.

● Hussein A. Hassan AI-Tamimi (2005), in his article "Factors Influencing Individual Investors Behaviour : An Empirical Study of UAE Financial Market", aimed at identifying factors influencing the UAE Investor Behaviour by developing a modified questionnaire.

The study identified six factors found to be most influencing on the UAE Investor Behaviour. The factors in order of importance were : expected corporate earning, get rich quick, stock marketability, past performance of the firm's stock, government holding and the creation of organized financial markets.

The least factors influencing, in order of their importance, were : expected loss in their other local investments, minimizing risks, expected loss in international financial markets, family member opinion etc.

● Power David, Helliar Christine and Burton Bruce (2003) in their research paper " A Behavioural Finance Perspective on IPO and SEO", have detailed the findings of an extensive investigation into How and Why UK firms raise equity capital.

The study demonstrates that a negative interpretation of poor share prices performance is seen as having the potential to harm a firm's business as well as market prospects. The study highlights the difficulty in undertaking an IPO and the new 'mind set' is required to manage relationship with investors once the listing was obtained.

Above are some of the literatures reviewed in Behavioural Finance, which highlights the importance of the study in investment decisions and society at large.

Conclusion

Thus behavioural finance represents a revolutionary science for investment decision-making. The behavioural finance literature has grown by leaps and bounds during the recent years. One of the important issues which can be highlighted through behavioural finance is to predict corporate events like merger and acquisitions activities, splits, security offerings etc using CEO profiles and observable CEO characteristics.

Behavioural finance reflects how an investor makes their portfolio choices. Though the literature related to behavioral finance has increased, still a lot of work remains to be done in this field. ❐

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Behavioural Finance and Credit Rating : An Interplay

Mausumi Bhattacharyya
Sr. Lecturer in Commerce,
Serampore College, Hooghly, W.B.

Behavioural finance is the study of the influence of psychology on the behaviour of financial practitioners and its subsequent effect on markets. Behavioral finance combines the twin disciplines of psychology and finance to explain why and how people make seemingly irrational or illogical decisions when they spend, invest, save, and borrow money (Belsky and Gilovich, 1999). Behavioral finance argues that some financial phenomena can plausibly be understood using models in which some agents are not fully rational. Behavioural finance is a new approach to financial markets that has engaged, at least in part, in response to the difficulties faced by the traditional paradigm. It argues that some financial phenomena can be better understood using models in which some agents are not fully rational. Even if some agents in the economy are less than fully rational, rational agents prevent them from influencing security prices through a process called arbitrage. However, a series of papers on behavioural finance have shown that in an economy where rational and irrational traders interact, irrationality can have a substantial and long-lived impact on prices.

The early twentieth century had witnessed the financial market shrouded with uncertainty and volatility. To restore the confidence of the financial market the system of credit rating was first contemplated during the first decade of the last century. Credit rating blends both financial and psychological factors in assigning the grades. Credit rating further assumes that financial phenomena can be understood using models. Thus, credit rating bears some traits of behavioural finance. The way behavioural finance fails at times, so do credit ratings. The failure of rating agencies on several occasions has put a question mark on the authenticity of the rating process. Question arises as to whether rating is really amenable to modeling. The purpose of the present paper is to study the emergence of credit rating system as behavioural finance so as to counteract the uncertainty and irrationality of the market players.

The beginning

Since its beginning in the early twentieth century, the credit rating market was confined to the USA (Dittrich, 2007). Because of its grand railroad projects, a huge amount of finance was required. In most countries, governmental role in railroad development is pivotal, whereas, in the USA, such an infrastructure development was entrusted to corporate entrepreneurs. The requirement of funds under the private auspices necessitated the issue of bonds and, consequently, the emergence of credit rating. Two additional developments contributed significantly in this connection: (i) Firms in industries other than railroad sector, particularly the public utility and manufacturing sectors, sought to raise funds by issue of bonds around the same time, and (ii) Rising average level of income in the US expanded the number of actual and potential investors. Earlier, only a few wealthy people could afford to buy bonds and the investment and merchant banks could certify the quality of bonds for that minority on either side of the Atlantic. But when the volume rose to a huge proportion, these old-time investment banks could not perform the certification function satisfactorily. This led to the arrival of the rating agencies with this certification function for the enlarged investment market. "That was John Moody's entrepreneurial insight in 1909" (Sylla, 2002).

The credit rating market expanded with increasing speed between 1909 and 1930s. The Great War of 1914-1918 helped the CRAs emerge as an important financial market participant. Because of this war, United States replaced England as the financial centre of the world by becoming the banker of the victorious Allies. The following may be noted in this context: "US participation in the war led to massive amount of public debt creation and the mass marketing of bonds to the growing class of investors. A new central bank, the Federal Reserve System, created much of the money for investors to buy the government bonds and then went on after the war to increase investor confidence in the financial stability of the country" (Sylla, 2002).

Federal government paid off much of its debts during 1920s—thereby freeing up funds for investors to reinvest. The decade experienced a considerable growth in the volume of issues, domestic and foreign, sovereign and private. The investing classes felt the need of professional guidance in sorting out the best option from among the available issues. Rating agencies addressed this need, supplementing the investment bankers.

During the 1920s, credit rating industry resembled a competitive market. Early agencies were small and marginally profitable. There was a certain amount of "inflation" in the ratings of every agency. During the 1920s there was a mixed response among the users of credit ratings. Banks took it as a check against their own findings. Insurance companies placed less weight on ratings and relied mostly on their own analysis while industrial houses consulted ratings because of their 'recognized public value'. But following the crash of 1929, numerous ratings were abruptly lowered consequent to rating agencies' failure to anticipate the rapid decline in bond prices. Despite the large number of abrupt downgrades and considerable lag in responding to the change in risk profile of the issuer, credit ratings continued to be respected as an important institution in the bond market (Partnoy, 2002). Demand for credit ratings increased as investors became concerned about high bond default rates and credit risk. The increase in the importance of ratings during 1930s was a puzzling fact because CRAs were very cautious about taking any vital step. Partnoy (2002) argues:

"Most bond issues during the 1930s were not rated until after they were distributed, a sign that credit ratings were viewed as valuable only in the secondary market, not in the primary market for new issues (where the agencies' information arguably should have been of much greater value)".

While searching the logic behind the abrupt rating renaissance of 1930s, one may find that the rating-dependent regulations adopted by Federal Reserve Board and the Treasury Department of the US created regulatory licenses for rating agencies. This regulatory license generated profits for the CRAs not with-standing their reputational constraints (Partnoy, 2002). Moreover, CRAs claimed that their information was from unique source, but much of it was actually publicly available. Thus, on the face of declining informational value the boom in credit rating business could not last long. By the 1940s the demand for credit rating started to stagnate and the credit rating business started contracting. In the 1940s, '50s and '60s rating agencies faced weak demand in an environment of low volatility, a healthy economy and few defaults (Partnoy, 1999).

The second phase of growth in rating business which started in the mid 1970s is continuing till today. Till early 1970s, CRAs generated revenue by selling publications to investors. During 1970s, they changed their business model and started charging issuers for their ratings. The emergence of low cost copiers may be one of the probable reasons behind this structural change in business model. The second phase of rating agency development started with this strategic change in pricing model. At around the same time credit rating industry spread beyond the West and became a global phenomenon. It may be termed as globalization of credit rating service. The expansion of credit rating business took place in terms of both volume and geographical outreach. That is to say, the existing global giants experienced a surge in their rating assignments while plenty of local rating agencies started coming up in the developing nations. Partnoy (2002) offers an account of the gradual expansion of rating agencies' business:

"S & P had only 30 professionals working in its industrial group in 1980. This number grew to 40 in 1986. By 1995, S&P had 800 analysts and a total staff of 1200. Moody's has grown at a similar pace to 560 analysts and 1700 total staff by the same period … The number of rated issuers has increased by the same order of magnitude. In 1975, 600 new bonds were rated, increasing the number of outstanding rated corporate bonds to 5,500. Today Moody's rated 20,000 public and private issuers in the US, about 1,200 non-US issuers, both corporations and sovereign states; S&P rates slightly fewer in each category. Moody's rates $5 trillion worth of securities; S&P rates $2 trillion".

Gras (2003) points out five factors as driving industry growth particularly since 1970s. According to him there have been structural changes in the financial markets. The number of participants and their anonymity has increased while the investment strategies have become more complex and diversified. Secondly, plenty of new and complex credit products have been created through securitisation and the capital market has largely replaced the banks so far intermediation is concerned. Thirdly, individual countries started going global in search of capital and sovereign rating became the basis for local companies to be scrutinized in that respect. Thus, rating agencies became the *de facto* licensing authority for cross-border capital flow. Fourthly, American approaches in capital market have become a standard for the globe. And lastly, rating based regulations have become a common phenomenon in the US and in other developed and developing countries.

Behind all the factors stated above is increasing information asymmetry. Information asymmetries in the financial market play a crucial role in making credit rating service assume so much importance. State dependence on credit rating ascribe it further significance. Regulation induced demand for credit rating is perhaps the most vital source of credit rating supremacy all over the globe.

Emergence of CRA in the Indian economy

The period between 1988 and 1991 was marked by an uncertain political situation which adversely affected the government's capacity to control burgeoning fiscal and current account deficits. There had been perceptible decline in the financial viability and operational efficiency of the entire system at the start of 1990s. In 1991 the fourth government in the past two years took office. The Finance Minister, in his budget speech for 1991-92, described the economic crisis as being acute and deep and observed that 'we have not experienced anything similar in the history of independent India' (Jalan, 1992). At the beginning of 1992, the perception about India's economy was sombre with balance of payment situation worsening sharply. The real economy was, however, doing well. Print media portrayed the failure of India's development strategy. Meanwhile, the financial crisis became deeper and more intractable. Jalan (1992) noted that : "It became also clear that fundamental changes were needed in economic policy and strategy of centralized planning in view of the changing pattern of India's polity and the widespread inefficiencies associated with the administrative and the bureaucratic system of control."

The opening up of the economy led to enhanced cross-border movement of capital. The economy shifted its thrust from manufacturing capital to finance capital. Explosion of finance capital in the borderless economy brought with it huge potential of vulnerability. Thus, safe, secure and closed economy of India became an emerging economy with hardly any safeguard put in place. As an obvious outcome, market became volatile. Many have argued that globalization is at the heart of this volatility, with highly diversified investors not paying much attention to economic fundamentals and following the herd in the presence of asymmetric information (Calvo & Mendoza, 2000). Joshi and Little (1996) warned about the 'continued growth of pervasive corruption' in the deregulated economy. It may be recalled that, in March 1992, Indian economy witnessed the Harshad Mehta scam, a shocking capital market fiasco. Volatility, uncertainty and unscrupulous market behaviour paved the way for identifying a new business opportunity with the potential of infusing confidence and mutual trust among the market players. Thus, came the dawn of the credit rating agency service in the Indian financial system as a dominant supplier of information and advisory services. Emergence of CRISIL in the late 1980s and that of ICRA in the early 1990s may well be explained as a response to the market volatility and associated risks in the wake of liberalisation process in India.

Market psychology, scams and CRAs

Credit ratings seem to provide investors with valuable information that they need for making informed investment decisions. In doing so, CRAs incorporate various financial and non-financial and market sensitive information into their models, the outcome of which is represented through an alpha-numeric rating grade. Rating grades impact the psychological make-up of a potential investor for his investment decisions. Thus, credit rating agencies play a major role in shaping investment behaviour in the market. However, CRAs in India and abroad have been accused in a number of occasions for their failure to make timely prediction of defaults. Even though ratings have inadequate informational value, it has a constant demand and the CRAs enjoy a huge market capitalisation. This continuing prosperity of CRAs on the face of declining informational value poses a paradox and has become an issue of debate the world over. The happening of East Asian crisis is still fresh in our memories. Rating agencies badly failed to predict the impending crisis in the East Asian economies. But, once the credit crisis had set in, rating agencies reacted dramatically by downgrading the currency ratings which spread severe contagion effects over the neighbouring economies. The East Asian financial crisis may be understood as a "crisis of success", caused by boom of international lending followed by a sudden withdrawal of funds. At the core of East Asian crisis were large-scale foreign capital inflows into the financial systems that became vulnerable to panic. The crisis is a testament to the shortcomings of the international capital markets and their vulnerability to sudden reversal of market confidence. The CRAs, such as Standard and Poor's and Moody's, provide an ongoing assessment of credit risk in the emerging markets. Surprisingly, these rating giants could not signal the increased risks until after the onset of the crisis. Long-term sovereign debt ratings remained unchanged throughout 1996 and the first half of 1997 for each of the Asian economies except Philippines where debt was upgraded in early 1997. In each country the outlook was described as "stable or "positive" through June 1997. On December 22, 1997, weeks after the crisis had begun, Moody's downgraded the sovereign debt of all of these countries, putting them below investment grade. This "junk bond" status of these countries immediately applied to the banking and non-bank corporate sectors as well, by virtue of the "sovereign ceiling", according to which no domestic enterprise can have credit rating higher than the sovereign's. There were two major implications of the downgrade. First, most of the commercial banks of those countries could no longer issue internationally recognized *letter of credit* for domestic exports or imports because of their non-investment grade status. Two, the downgrading immediately prompted a further round of debt liquidation, since many portfolio managers are required by law to maintain investments only in 'investment grade' securities (Radelet and Sachs, 1998). Moreover, the downgrade triggered liquidation of various put-options linked to credit ratings, enabling borrowers to call in loans immediately upon the downgrade. In effect, currency crisis resulted in credit crisis and downgrades simply pushed interest rates higher adding further to panic.

The rating agencies involved in the ratings of Enron, namely, Moody's, Standard and Poor's and Fitch were aware that Enron had made financial commitments which were tied up in part with Enron's stock price. They had sufficient knowledge about what's going to happen with Enron. Rating agencies began to warn investors of Enron's deteriorating health only in mid-October, 2001 when its stock price had already fallen massively. Surprising enough, CRAs did not lower its rating below 'investment grade' until days before Enron filed for bankruptcy protection. Ronald M Barone of S&P confessed: "There were debt ratings on top deliberately so (that) it would not be caught up in any overall market downfall". He also added that Enron's credit was the '*ultimate trigger*" (Watt, 2002).

In the sub-prime mortgage crisis also, rating agencies are to share the same blame. As Robert Rosenkranz (2009) observes : "Sub-prime mortgages held directly by financial institutions are questionable assets with high associated capital charges. Each one alone would deserve a "junk" rating. Structured finance simply piles such risky assets into bundles and slices the bundles into tranches. The rating agencies deemed some 85% of the tranches by value as 'AAA' and nearly 99% as 'investment grade'—thus turning dross into gold by a sort of rating alchemy". The rating alchemy created enormous demand for dodgy mortgages. Thus, credit was extended to countless dubiously qualified purchasers of homes, which, in turn, drove dramatic increase in housing prices. When the housing bubble burst, average house price saw a sharp fall which ultimately led to the global financial crisis. The rest has become history.

Satyam, a sunrise sector giant of India, tarnished the corporate image of the country. As per the Companies Act, a listed company is required to send its financial statements to a lot of regulators. It is really amazing to note that the fraud in Satyam accounts had taken place in cash and bank balances. It is hard to believe that everyone missed it. Both CRISIL and ICRA had maintained 'AAA' rating of Satyam till a few days before the fiasco broke out. None of the regulators could detect the fraud that Satyam perpetrated for several years. A company honoured with Golden Peacock Global Award for Corporate Governance under Risk Management and Compliance Issues can befool its investors in such a big way, was perhaps beyond imagination of the market watchdogs. Ramlinga Raju also won the Ernst & Young 2007 Entrepreneur of the Year award. Thus, Satyam seemed in safe hands. Rating agencies, like all other gatekeepers, had judged the company by the people who run it, not by the path they are following.

A vital issue and perhaps the most critical issue concerning CRA malfunctions is the pressure on the CRAs owing to the devastating impact of rating downgrades on the market. For instance, in November 2001, Moody's was approached by certain prominent persons who warned it that downgrading of Enron below 'investment grade' would plunge it into bankruptcy and would disrupt the US capital market (Coffee, John C Jr., 2006) Thus, because of the risk of triggering bankruptcy and consequent threat of being sued for awarding unjust rating, CRAs shy away from pro-acting at right moments.

Conclusion

The system of credit rating involves a considerable amount of subjectivity. For the assessment of a borrower's credibility and repayability, rating agencies are to rely on various financial, non-financial, internal and exogenous parameters. These parameters may not show a linear relationship with the repayability of the borrowers. Therefore, rating models may turn out to have failed to justify borrower's credibility. The rationale for selecting a parameter and assigning of weight on the same rests upon the judgmental efficacy of the raters. Moreover, the dynamics of market may upset the anticipated outcome of a rating in a significant manner. That is why no modelling for rating, however rational, can capture fully the behavioural unpredictability of both the borrower and the market and, therefore, ratings cannot guarantee the immunity from corporate wrongdoings or collapses. Thus, credit rating itself bears the features of behavioural finance while its genesis lies at the heart of uncertain behaviour of the market. ❐

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Behavioral Finance-The art of value investing

Dr. Rajesh. S. P.

MBA, M.Phil, M.Com, Ph.D.,
Associate Professor-MBA VJIM, Kannur, Kerala

What is behavioral finance?

Behavioral finance is an emerging field that combines the understanding of behavioral and cognitive psychology with financial decision – making process. The traditional economic theory we understands talk about efficient markets and people making rational decisions to maximize profits. However this new emerging school of behavioral economists argues based on their active studies that, markets are not efficient, especially in the short run, and people do not make rational decisions to maximize profits. Human beings are susceptible to numerous behavioral anomalies, which become counterproductive to the wealth–maximization principle leading to irrational behavior.

Critical role of behavioral finance in investing?

Just recollect the type of our own investment decisions and mistake we made in past would highlight the essence of behavioral finance. The frequent mistakes can be selling winners soon and holding onto loosers, buying expensive stocks, just creating an attachment to a company and holding their stock without selling it even in the event of profit, getting anxious on seeing our investment quote at a discount to our purchase price translating into quotational losses, buying when others are buying and throwing stocks irrationally due to panic in the market. These behaviors of investors are to be taken seriously, as it erodes their profits drastically due to this action. Just as any game involves overcoming the opponents, here the larger question is overcoming own emotional indiscipline to comes out succesful, and make wise decisions. As the legendary investor, Warren Buffet has observed "It is only when you combine sound intellect with emotional discipline that you get rational behavior."

An understanding of how our emotions result in irrational behavior is indispensable for any investor. The study of behavioral anomalies helps in this regard. It helps in disciplined investing, which is critical and relevant especially in this type of markets which is highly volatile and unpredictable.

It is not that the great investors do not suffer from these behavioral anomalies; it is just that they understand the importance of emotions while investing and train themselves out of acting emotionally. Intelligence and brilliance carries the day, but it is the wisdom that endures. This wisdom can be a product of various factors :

1. Discipline and ability to stay in the course in spite of all the temptations.

2. Learning from one's own experiences and mistakes.

3. More than intelligence, it is common sense.

4. Wisdom gained from the literature of past successful investors like Benjamin Graham, Warren Buffet, Peter Lynch, to name a few.

5. One's ability to control ones emotions and understand the emotions of others.

Value investing strategies and an understanding of the basics of behavioral finance, form the basic pillars for a successful long term investor.

Value investing

What is value investing? In the words of Benjamin Graham-"price is what you pay, value is what you get." The value of a stock depends on the expectations of the people in the market. In bullish times people will pay more and buy more and bearish time there are very few takers compared to sellers. It is a common phenomenon that there are quite number of value stocks coming below the book value during market correction, with huge inherent value and good business models but because of the inherent fear, very few investors take contrarian view and invest in these stocks. During bullish time, people tend to buy stocks at any price, without even looking at the company or business. They make totally irrational decisions, and burn their fingers.

When one buys a stock, one is buying a business. It is necessary to understand that the business is good and sustainable. There are many ways of valuing a business, the preliminary work will confine to, looking at business models, the track record of the promoters, product viability, margin, visibility of the sector, and long term sustainability, corporate governance and transparency are some of the important factors.

The value investing process requires the hard work of estimating future cash inflows and outflows, discounting them at an appropriate rate that can be expected to occur during the remaining life of the asset. There are two hard sticks in valuation. Value in use and value in Exchange. Software sectors are value in use whereas gold is value in exchange.

Behavioral Obstacles for following value investing :

Loss aversion

The famous psychologist, Daniel Kahneman and Amos Tversky, who are referred as the father of behavioral finance, postulated the prospect theory, which explains that people tend to take more risks simply to avoid acknowledging a certain loss and will take extra risk even if it entails a higher profit potential.

What are the chances of one to sell and booking losses? Very few. Most of us have been in this position and we believe that it is better to hold on till the price appreciates. Or even buying more and repeating the same mistake under the pretext of averaging. This is due to loss aversion. The pain of a loss is three times more than an equal amount of of pleasure. So acknowledging a loss becomes difficult. This is a bottle neck in value investing. To successfully implement a value strategy, one has to learn to deal with such impulses because the volatility in markets can test one more often than one bear to handle.

Valuation Heuristics

Herustics are the short cut the brain takes when processing information. It does not process the full information. This leads to cognitive bias.

"Heururistics are simple efficient rules of the thumb, which have been proposed to explain how people make decisions, come to judgments and solve problems, typically when facing complex problems or incomplete information. These rules work well under most circumstances, but in certain cases lead to systematic cognitive biases-Daniel Kahneman.

Discounted cash flows analysis is the appropriate way of valuing a company. However this requires a lot of hard work in understanding the business dynamics and making the relevant assumption to come to fair valuation.

The stock markets move very fast and the lure of making a fast buck before the neighbour does is so great that short cuts or the rules of the thumb have become the innovations of the valuation game. These are so widely used that they have become the bench mark of the industry.

Some common valuation heuristics :

1. Price/Book value Heuristics

Another common misconception is that low p/Bv ratio represents cheap stock. But this is only of looking one way. There are many other variables, rather than follow it blindly. For example, a business whose assets earns around 6% on its equity and is also expected to do so in the future with interest rates at 10% deserves to sell at a discount to the book value and in no way can be called a cheap stock. Alternatively, a business earning 24% return on equity and expected to do so in the future with interest rate with interest rate around 10% level deserves to sell at a premium to its book value. Moreover, a business selling at close to its book value, with business expected to maintain its return on equity and grow in the future would beat many other investment opportunities in businesses selling at lower p/BV ratio.

2. Price/Earning Heuristics

PE ratios are the most commonly used valuation metric. Here either trailing earnings or historical value will be considered. One noticeable misconception often make is that a low PE stock is cheap and high PE stock are expensive. But PE alone should not be the sole criteria, instead one have to look other variables like, return on equity and future growth expectations.

Instant Gratification :

Human being natural tendency is immediate gratification. When market starts moving everyone wants a stock which will double in a week. Nobody thinks that by taking a position in a stock, we are effectively taking ownership in business, and it calls for lot of patience and longer horizon to fetch a decent return. Value buying is more of a philosophy of buying what is out of favor.

Follow the Herd

This availability heuristics creates such a huge following that we have all sorts of investors joining the bandwagon. This creates a herd mentality amongst the investors and they all buy what others are buying. Since this buying fancy dose not arises out of some firm conviction, it is subject to fear and doubt. So if, a few investors are noticed to be selling, all will follow and would want to sell faster than other. This herd behavior is one of the reasons that growth stocks go up very fast and attract investor attraction. They also fall faster than rise due the herd comes to sell.

Chasing Fads and Fancies

Investors see growth stocks as dream stocks. It is the value of mystery that excites investors. It is the lure of the new and the unknown that fascinates investors. Hence when such opportunities arise in the market, a set of buyers will emerge, chasing these fads and fancies.

Novelty over familiarity

People in their pursuit to grab a piece of something novel forget the inherent conventional wisdom of time-tested principles of investing. This fascination with something new is as old as the stock markets. Every time fascinating a novel stocks will emerge. Earlier it was IT, later infrastructure, reality etc. This trend will continue and when the fancy losses, the stock will come down. The sector will lose interest and attention.

Rationalization Trap

BENJAMIN Franklin, a famous known analyst once said "So convenient a thing it is to be a reasonable creature, since it enable one to find or make a reason for everything one has a mind to do".Inspite of realizing severe losses by chasing a fancy by paying a fancy price, a growth investor continues to chase more emerging fancies and keeps on losing money by buying at ridiculous valuations. What explains this behaviour? The answer lies in understanding a behavioral tendency known as Rationalization Trap. It says that when one is faced with an unexpected outcome or failure, one attributes ones failure to external factors and not to oneself, which might not be the case, and continues to keep on repeating the mistake. This is what happens in growth investing. Instead of realizing the consequences of ones behavior of ignoring price commanded by a company in a fancy while making a buy decision, one will blame the promoters or market experts or business news channel for having misled him.

Conclusion

In spite of such strong evidence, why do most individual and professional investors not change their behavior to embrace value-investing strategies? It is amply evident that growth investing is risky although majority follows it.

Another reason is that individuals tend not to change courses if they are happy. Individuals can be happy with suboptimal performance, so long as it is not painful. Greed and envy seems to be the biggest sins for investors getting trapped in growth trap. It is evident that no rationality works in the stock market, as they are inefficient especially in the short run. What works in the stock market is one's ability to understand ones emotional and psychological weakness. This is first and foremost step.Therfore, understanding the irrational behavior of others and benefiting from their mistakes is second step. And the third step is to have the courage and conviction to stand away from the crowd. That is why value investing works. It's a contrarian approach and follows it. Value investing is knowledge and growth investing is mystery. A thumb rule is that buy stocks when everybody is in panic and sell if everyone starts jumping into market. The progress of Behavioral fiancé helps in value investing and rational decisions, which is good for the markets and investors. ❒

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Notification

Re-opening of Certified Filing Centre Scheme under MCA21

The Institute is in receipt of letter no. HQ/79/2006-Computerisation dated 27th September, 2011 from Ministry of Corporate Affairs intimating that they have accepted the request of three Institutes to re-open the registration process of Certified Filing Centres (CFCs) and allow enrolment of more CFCs so that the involvement of Professionals in XBRL and peak filing can be expanded to a large extent. The Ministry has re-opened the scheme for a period of 2 months from 1st October, 2011 till 30th November, 2011.A Cost Accountant in practice, who fulfills the eligibility and qualifications criteria, may apply to the Institute on line at http://members.icwai.org/members/mca21/ for a certificate to act as CFC Manager by paying a fee of Rs. 1000/- (Rs. One thousand only). A Cost Accountant in practice who is already holding certificate under old CFC Scheme launched in 2006 is required to renew his/her certificate by paying renewal fee of Rs. 500/- (Rs. Five hundred only) and applying afresh. After filing the application on line at Institute website, the members are requested to take out the print out and sign the application, attach Demand Draft or Cheque in favour of Institute of Cost and Works Accountants of India, payable at New Delhi (only Delhi local clearing cheque are acceptable), of the requisite fee of Rs. 1000/- (Fresh Application)/ Rs. 500/-(for renewal) as the case may be and send it at the following address for approval of your application by the Institute to act as CFC Manager under MCA 21 e-Governance Programme:Mr. J.K. BUDHIRAJADirector (Professional Development)The Institute of Cost and Works Accountants of India"ICWAI Bhawan", 3, Institutional Area,Lodhi Road, New Delhi-110 003e-mail: pd.budhiraja@icwai.org Members may note that this scheme is extension of CFC Scheme re-launched by MCA on 1st July, 2010 that remained valid till 30th November, 2010. The cost accountants who are already acting as CFC under this scheme need not apply again.


Salient Features of the Appointment of Cost Auditor by Companies—Form 23C & Form 23D

V. R. Kedia & Dipti Kejriwal

Practicing Cost Accountants, Mumbai.

Ministry of Corporate Affairs (MCA), Cost Audit Branch vide General Circular No. 15/2011 dated 11th April, 2011 has introduced new procedure for Appointment of Cost Auditor by Companies :

1. This Circular is effective from the financial year commencing on or after 1st April, 2011.

2. Cost Auditor has to submit consent letter addressed to the Board of Directors of the Company (the appointing authority for Cost Auditor u/s 233B(2) of the Companies Act, 1956) as required u/s 224 (1-B) of the Companies Act, 1956. The Draft of the Consent letter is given in Appendix A.

3. The company has to pass a Board Resolution proposing the name of the Cost Auditor after obtaining his consent letter. Appointment of Cost Auditor shall be routed through Audit Committee, if applicable. The Draft of the Board Resolution is as per Appendix B.

4.The Company shall e-file Form 23C within 90 days from the commencement of each financial year with —

(i) certified copy of the Board resolution
(ii) consent letter as stated above from the proposed cost auditor, and
(iii) challan for the requisite fees.

Vide MCA Notification No. 52/26/CAB/-2010 dated 30-6-2011, para 2—The companies covered for the first time under the automatic Cost Audit Order (for 16 Industries) & wherein their financial year has already commenced, the period of 90 days for e-filing Form 23C shall be counted from the date of these Orders (i.e. 2-5-2011 or 3-5-2011 or 30-6-2011).

5. Information to be submitted by the Cost Auditor to the Company for e-filing Form 23C —

(i) Consent letter to be given by Cost Accountant u/s 224 (1–B)
(ii) Sr. 4(b) Income Tax PAN of Cost Auditor or Cost Auditors Firm
(iii) Sr. 4(d) Membership No. of Cost Auditor or in case of appointment of Cost Auditor in the name of partnership firm, registration no. of the firm
(iv) Sr. 4(f) email– ID of Cost Auditor or Cost Auditors Firm
(v) Sr. 4(i) Scope of audit: The company can mention the name of 'product', 'location' of the factory & 'period' covered for Cost Audit in this para
(vi) Sr. 8(d) Whether the previous Cost Auditor has been informed of the change (Applicable in case of change of Cost Auditor)

The company should email a copy of Form 23C & its SRN to Cost Auditor. These documents will be required by the Cost Auditor for subsequent e-filing of Form 23D.

6. Appointment is deemed to be approved by the Central Government, unless on the contrary is heard within 30 days from the date of e-filing of Form 23C.

7. Company has to re-submit Form 23C, if any additional information or explanation is asked for by the MCA.

8. Appointment is deemed to be approved by the MCA within 30 days from the date of filing fresh Form 23C, with additional information or explanation.

9. The Company shall issue appointment letter on its letterhead to the Cost Auditor after expiry of 30 days from filing of Form 23C as stated above. The Draft of the Appointment Letter is as per Appendix C.

10. The Cost Auditor has to file Form 23D online with MCA within 30 days of receiving appointment letter from the company, attaching a copy of the appointment letter with the Form.

11. Information required by Cost Auditor from company for e–filing of Form23D —

(i) A copy of Form 23C e-filed by the company.
(ii) A copy of SRN of Form 23C.
(iii) A copy of appointment letter issued by the company to the Cost Auditor, subsequent to receipt of approval from CAB for appointment of Cost Auditor or after expiry of 30 days of e-filing of Form 23C by the company (a copy of this letter shall be attached with Form 23D)
(iv) Under sr. 5(i) scope of audit : The Cost

Auditor can mention the name of 'product', 'location' of the factory, & 'period' covered for Cost Audit.

It is suggested that a copy of Form 23D may be emailed by the Cost Auditor to the company, as an acceptance of the Cost Audit assignment.

12. The Company shall disclose full particulars of the Cost Auditor along with the due date and actual date of filing of the Cost Audit Report in its Annual Report for each financial year.

It is opined that in case Annual Report is prepared much earlier than the finalization of the Cost Audit Report, the company should comply with this provision in the Annual Report published for the subsequent year, after the submission of the Cost Audit Report. This analogy is based on the requirements of Sec 233 B (10).

The Draft of the 'Disclosure about Cost Audit in the Annual Report' of the Company is given below :

"As per the requirement of the Central Govern-ment and pursuant to Section 233B of the Companies Act, 1956, your Company carries out an audit of cost records relating to (Product) every year. Subject to the approval of the Central Government, the Company has appointed M/s & Co., Cost Accountants, as Cost Auditors to audit the cost accounts of the Company for the Financial Year 2011–12. The cost audit report for the Financial year 2009–2010 which was due to be filed with the Ministry of Corporate Affairs on September 27, 2010 was filed on August 12, 2010."

13. Penalty provisions for contravention of the circular 15/2011 dated 11th April, 2011 are as per Sections 209(5), 209(6) 209(7), 233B (11), 642(5) and 642(7) of the Companies Act, 1956.

14. FAQ issued by ICWAI on Appointment of Cost Auditor by Companies can also be referred to (published in Management Accountant Journal pp. 537 – 540 of June 2011 issue). ❐

Appendix A

Consent Letter to be given by a Cost Accountants Firm u/s 224 (1–B)

(On the letterhead of Cost Accountants Firm)

Date :

The Board of Directors
………………
Mumbai 400 049

Dear Sirs

Re : Appointment of Cost Auditors for the year 2011-2012

We hereby certify that in case of our appointment as Cost Auditors for the audit of Cost Accounts maintained by the company relating to "_______(Product)" for the year ending 31st March, 2012, it will be in accordance with the limits specified in sub-section (1B) of Section 224, read with sub-section (2) of Section 233B of the Companies Act, 1956.

We hereby declare that —

(i) All our partners are in full time practice as a Cost Accountant within the meaning of the Cost & Works Accountants Act 1959 (23 of 1959) and holding a valid certificate of Practice.

(ii) We are not disqualified under any of the provisions specified u/s. 233B(5) read with Section 224 and sub–section (3) and sub–Section (4) of section 226 of the Companies Act, 1956.

(iii) We are independent firm of Cost Accountants and are maintaining an arm's length relationship with your company.

Thanking you

Yours faithfully,

For ………… & Co.
PARTNER
No. M /
PAN No. of Firm :

Appendix B
Draft of Resolution of Board of Directors – For Appointment of Cost Auditors

Extract from Minutes of the Board Meeting of M/s ………….. Ltd. held at the __________ office of the Company on ………

Secretary tabled the MCA Order No. __________ Dt. __________ ordering the Cost Audit of __________ (Product) for the year ……….

The Chairman informed the Board that M/s………… have given their consent to act as cost auditors and laid on the table the certificate received from them.

It was accordingly __________

"Resolved that, pursuant to Section 233B of the Companies Act, 1956, and subject to the approval of the Central Government M/s__________ be and are herby appointed as the cost auditors of the company to conduct audit of ……. (product) manufactured by the company at __________ (location of factory) for the year ending __________ at a remuneration of Rs. __________ plus out—of—pocket expenses.

Further resolved that the secretary of the company be and is herby directed to submit the necessary application in Form 23C to the Central Government and to do all such other acts as may be necessary."

Appendix C
Appointment letter to be issued by the Company for Appointment of Cost Auditors

ON THE LETTERHEAD OF THE COMPANY……………

Ref. No.
Date :
M/s ……………..
Cost Accountants
………..(Address)

Sub. : Appointment of Cost Auditors for the year ………..

Dear Sirs

We are pleased to inform you that the Board of Directors of the Company at their meeting held on ……………… have appointed your firm as the Cost Auditors of the Company to carry out the audit of the cost accounting records maintained by the Company for ……………………………. (Product) for the year ending March ……. at a remuneration of Rs. …………………….(Rupees …………………….. only) plus reimbursement of out—of—pocket expenses.

Thanking you,

Yours faithfully
For

(…………………..)
Company Secretary

Carnival of the Tax Gods : Service Tax Concept Paper ahead of the Goods and Services Tax — Wide menu at the long table

P. Ravindran
B.Sc, PGDM (Germany), M.L, (PhD),
Advocate—Indirect Taxes & IPRs

As we all know, the talk of a Goods and Services Tax (GST) has been in the air for the last two years. The road to the GST looms long and laborious, but the journey on that road has been stuck. Nevertheless the Central Government remains optimistic and has been taking steps to prepare the Central Board of Excise and Customs and its field administration for the inevitability of the game-changing GST. In the Budget for the year 2011-12, the Government brought into force a brand-new Point of Taxation Rules for Service Tax and has continued with it despite many misgivings expressed by the Trade and Industry regarding the Rules as well as their premature introduction well ahead of the new GST. The Point of Taxation Rules is the first major step in Service Tax Law in the direction of the GST. The new Rules have the effect of expediting dormant revenue streams and facilitating faster inflows of Service Tax into the tax treasury. The Government has already introduced the GST Constitution Amendment Bill in the Parliament. In the Statement of Objects and Reasons to the Bill, the intention of the Government was made clear in the following words:-

"The proposed Central and State goods and services tax would be levied on all transactions *involving supply of goods and services except those that are exempt or kept out of the purview of the goods and services tax".*

That the Government is inclined to transform the present Service Tax into its GST version even ahead of the formal introduction of GST in the country has been thus well evident. Crossing the Rubicon, the Government has put out a concept paper for public debate regarding Taxation of Services based on a negative list of Services which alone would remain outside the tax ambit. In this Article, we will discuss the massive significance of this new proposal and analyze the pros and cons of the move for the various stakeholders.

The Negative List – A Hobson's Choice

The Government has clearly declared in the Constitution Amendment Bill that it intends to tax all service transactions in the economy barring a small negative list of services which alone would remain free from Service Tax. In the Concept Paper put out for public debate, the Department of Revenue apparently calls for a debate between retaining the current model of Service Tax premised on a positive list (wherein every service to be taxed is first defined in the Law) and a new negative list comprising services to remain exempt, making all other services taxable. Though the call for a debate looks evenhanded and appears to make no clear pre-judgment, behind the veil of debate neutrality the Government appears eager and well-resolved to opt for the taxation of the services based on the negative list. Having made known its intention explicitly in the Constitution Amendment Bill, the concept paper seems a token gesture and mainly for the sake of appearance of consultation in a democratic society. This Concept Paper should ideally have preceded the GST Constitution Amendment Bill. Will the Government find the will to modify the GST Constitution Amendment Bill if the public debate is seen to be well against the proposal for a taxation based on the negative list? Nevertheless, the Concept Paper and the call for public debate are opportunities for the tax payers and other stakeholders to put across their views and concerns in a way that the government will take into active cognizance. The negative list goes as follows :

Annexure
Possible Negative List of Services

Sector	S. No.	Negative List	Remarks
1. By specified persons	1.	Notified services provided by : Government* and Judiciary; b. RBI; and c. government regulatory bodies	List of these services or the principle for exclusions will be worked out based on the outcome of the debate

Sector	S. No.	Negative List	Remarks
	2.	Services provided by individuals to Government in relation to their representation on any council, commission or similar body set up by the Government	
	3.	Service by UN, international bodies, diplomatic missions under diplomatic and consular arrangements as per laid down conditions (details to be specified)	Services provided to such entities to remain exempt as at present.
2. Social welfare and public utilities	4.	Services provided by organizations registered as non-profit entities in matters relating to public and social welfare activities-excluding education and health (covered separately)-including charitable fund-raising events, sponsorships to charitable events and voluntary donations to charity Public and social welfare activities will be suitablydefined and may be restricted to specified fields only	Public and social welfare activities will be suitably defined and may be restricted to specified fields only
	5.	Funeral, burial, crematorium and mortuary services	
3. Agriculture & animal husbandry	6.	Services Directly used for growing, cultivation, harvesting of the agricultural produce, horticulture, animal husbandry, forestry, dairy, poultry farming and pisciculture (including renting of vacant land exclusively or predominantly for any such purpose)	Certain support services in relation to agriculture and allied activities may be separately exempted
4. Financial Sector	7.	Sale, purchase or acquisition of securities and debts on principal-to-principal basis	Acquisition of shares in lieu of services will be liable to tax
	8.	Interest	
	9.	Dividednd on investments	
	10.	Inter-bank sale and purchase of foreign currency	
5. Transport	11.	Transport of passengers by : (a) public transport buses on a point-to-point basis (except tourist buses) and stage-carriage basis; (b) public transport in ship or vessel of less than 15 net tonnage on a point-to-point basis; (d) by metered tasix or three-wheeler auto rickshaw playing within the precincts of a city	
	12.	Transport of goods to a destination outside India by any means of transport	
	13.	Supply of goods carriage to a person engaged in the business of transportation of goods	
6. Construction & Real Estate	14.	Construction, works-contract, repair, alteration, renovation or restoration of : (a) roads, airports, railways, transport terminals, bridges, tunnels, dams, canals, irrigation and flood control waterworksincluding watershed development and water-bodies, water treatment plants and water supply pipelines; (b) buildings owned by Government, other than meant predominantly for industrial or commercial use, including government hospitals and educational institutions (c) residential building comprising of a single dwelling unit; (d) homeless shelter, orphanage, old-age home, rehabilitation & de-addiction centre, child day-care home or place of worship	
	15.	Renting of personal dwelling for residential use of a person below a threshold (to be finalized after debate) and when used otherwise as a hotel, inn, guest house, club or campsite or similar accommodation	

Sector	S. No.	Negative List	Remarks
7. Education	16.	Pre-school, school and recognized education** and vocational training recognized by NCVT except as capitation fee, donations or similar charges in relation to admission	
8. Health	17.	Option 1: Services provided by a clinical establishment with a turnover below Rs 4 Crore in the previous year Option 2 : Hospital, medical care, diagnostic, Para-medical services except in relation to preventive health check-up within the precincts of a clinical establishment, cosmetic or plastic surgery	Services to specified sections and by public hospitals may be exempted under option 1.
	18.	Copyright services of original literary, dramatic, musical and artistic works.	
	19.	Services provided by independent journalists, PTI & UNI for providing news	
	20.	Services provided by sportspersons, as a player, coach or referee/umpire and performing artists in that capacity (excluding as brand ambassadors)	
	21.	Religious services provided by any person.	
	22.	Services provided by a political party recognized by Election Commission of India	
	23.	Services provided by a trade union to its members	
	24.	Representational services provided by an advocate to individuals	
	25.	National or international prize/award in recognition of achievement in the field of art, literature, science, sport, economics or public life	
	26.	Tolls except services in relation to collection of tolls	
	27.	Betting and gambling except services in relation to promoting, marketing or organizing games of chance, including lottery services	

*Government means the Union, State and local self government but shall not include any entity established under the Companies Act 1956 or any other law for the time being in force.

**Recognized education means education leading to the award of a certificate or degree recognized by a body established by an Indian law.

Reasons for the Government's enthusiasm for taxation founded on a negative list of services

When the Government becomes interested in a new tax or in a new model of the existing tax, there is every reason for the citizens to feel concerned, for the Government will not abstain from existing taxation model or go for a new tax paradigm if the move will result in lesser revenues for its treasury. The Government's interest in the GST is dictated *inter alia* by the prospect of phenomenal additional revenues. The same tasty prospect of tax earnings is behind the proposal to change the present Service Tax into a model based on the negative list. Though the revenue motive is obviously not brought out in the Concept Paper, the influence of such a consideration behind the new motivation cannot be missed. The taxation of services based on the negative list model would be an administrative night-mare for the Department of Revenue. It will bring hundreds of thousands of new tax payers into the tax net from all corners of the country. The administrative and regulatory burdens on the tax office and tax payers respectively can only be imagined. No research or study appears to have been undertaken regarding the burdens to come for all the stakeholders. The revenue rainbow from such an expanded arc of service tax seems too alluring a scenario for the government to miss.

The pros and cons of the present Service tax Model based on Tax Incrementalism:-

Ever since the Service Tax was introduced way back in 1994, the Government has followed a well-advised policy of enumerating the taxable services and augmenting the taxable scope every year by designating more and more services through the budget mechanism. The advantages of such tax incrementalism have been obvious and significant. Among the merits are the following :

- Generally clear-cut encapsulation of taxable services.
- Demarcation of statutory responsibility.
- Adequate time availability for statutory enforcement.
- Enumeration of taxable services makes tax evasion explicit.
- Opportunity for tax course-correction regarding taxed services, if need be.

On the other hand, the only disadvantage, if it could be called that, in this tax incrementalist model is that the tax expansion becomes limited by the range and scope of the taxable services, which also leaves other untaxed services at a comparative economic advantage in not having to suffer taxation. The counter argument against this claim will be that the costs and prices of untaxed services escape from value inflation brought on by the tax cost factor and relative unfair trade practices such as tax evasion by some tax payers.

This model of tax incrementalism has also served the country well by creating and sustaining relevant jurisprudential expertise in the hands of the tax administration and the judicial fora regarding the taxed services and has also had the effect of homogenizing increasingly assimilative tax experiences of the tax payers. All this experience and expertise gained over a period of seventeen long years will be of no avail if this efficient, well serving paradigm were to be abolished and substituted by the negative list model.

The Merits and Demerits of the Negative List Model of Service Taxation :

The obvious advantage in considering the negative list model of taxation of services is that it frees the Government from having to take year-on-year steps to expand the scope of taxable services and instead have the hammer fall on as wide a range of services as it pleases to tax. It also gives untrammeled and unencumbered power to the Government to pick and choose the services it wants to keep out of taxation. Another added advantage is the expected substantial inflow into the tax treasury. On the other hand, a whole gamut of services that have so far remained immune from service tax will be badly affected. Along with the creation of the negative list, the Government also proposes to define 'service' for tax purposes, as follows:-

A 'service' means anything which does not constitute supply of goods, money or immovable property.

And includes —

A. right to use an immovable property;

B. construction of a complex, building, civil structure or a part thereof, including a complex or building intended for sale to a buyer, wholly or partly, except where the entire consideration is received after issuance of certificate of completion by a competent authority.

C. temporary transfer or permitting the use or enjoyment of any intellectual property right;

D. obligation to refrain from an act, or to tolerate an act or a situation, or to do an act;

E. service in relation to lese or hire of goods; and

F. right to enter any premises —

but excludes a supply —

A. by an employee to an employer in the course of or in relation to the employment of the person;

B. by a constitutional authority under the Indian Constitution or a member of an Indian legislature or a local self-government in that capacity;

C. that amounts to manufacture of excisable goods or is chargeable as part of the value of goods to a duty in terms of the provisions of Central Excise Act, 1944;

The implications of the proposed new definition are obvious as well as to be conjectured. A wide variety of transactions will enter the tax stream for the first time. A potential few may be stated as follows :

- Non-compete fees.
- Compensation.
- Foreclosure charges.

— Entry into art shows, fairs, exhibitions, music halls, dance halls, lecture halls, sports stadia, cinema theatres and multiplexes.

— Railway platform tickets.

— Stay in Service apartments.

— Prepayment charges.

— Penalties in commercial transactions.

— Liquidated damages.

— Services in securities & debts with consideration in the form of shares.

The New Double Whammy in the Concept Paper:

The study of Concept Paper shows that the government intends to considerably expand its service tax collections by defining 'service' in a novel way as well as by taxing all services except a small negative range. The effect of the twin blow will be felt all across the sectors. Confusion and litigation will start as an epidemic and may get entrenched as endemic in the tax system. The possible negative list of services is also far from being called as just and equitable. For

(contd. to page 889)

Tax Titbits

S. Rajaratnam

Advocate & Tax Consultant, Chennai

Human rights

Tax law and procedure involve not only provisions of tax statute, but may be subject to impact of other laws. Taxpayers in India apart from their rights under the income-tax law also have human rights guaranteed by our Constitution and is bound by the human rights recognised in U.N. Charter as a Member of the United Nations.

Can the persons subject to search be interrogated beyond midnight, as it happened in the case of one Rajendra Singh, who was interrogated continuously from the previous evening till 3.30 a.m. of the next day? If he had no objection, probably there could be no grievance. But where he questioned the same before Human Rights Commission, it was ruled that such interrogation, forcing the complainant and his family members to remain awake, when it was time to sleep, was a tortuous act "which cannot be countenanced in a civilised society". It was violative of their rights relating to dignity of the individual and, therefore, violative of human rights. Even die-hard criminals and offenders, it was observed, have certain human rights, which cannot be taken away. The Commission, therefore, recorded a finding of violation of human rights fixing a date to fix compensation. The Commission also directed the Income-tax Department to ensure due observations of human rights in June, 2011.

However, hardly two months later, there was report of two senior artistes being subjected to same treatment apparently without any objection from the concerned persons, whether during search or otherwise. Taxpayers often suffer indignities, but probably they have to blame themselves for not asserting their rights, which are recognised under Taxpayers Charter listing the different rights and duties of a person during search, apart from violation of human rights.

Right to Information Act, 2005

Another law, meant for protection of public interest as against personal rights is the Right to Information Act, 2005, which *inter alia* covers the right to information from the income-tax file of a taxpayer. Section 137 of the Income-tax Act once provided for secrecy, but it was omitted by the Finance Act, 1964 with effect from 1.4.1964. But confidentiality was retained subject to public interest with disclosure to be approved only by a Commissioner. However, the law also provided for a number of exceptions generally for purposes of enabling offences under the other laws, which could be a good source of information for prosecution proceedings under various other enactments as under the Prevention of Corruption Act, 1988.

As regards the rights of third parties, there have been complaints against the Income-tax Department to the Central Information Commission (CIC), which has been generally critical of the Income-tax Department declining to share the information, except where confidentiality was necessary for protection of its source of information/ informers. In S.P. Goyal v. DIT CIT / AT/A/2007/00407 dated 25.9.2007, the CIC upheld the decision of the Income-tax Department not to part with information relating to matters of authorisation of search. But the High Court in a writ filed by a searched party, recognised his right to call for records and satisfy itself, whether the search was "revengeful and rancorous" as held in ACIT v. Jayanti Lal Patel (2000) 244 ITR 500 (Raj). Similar view was taken in Ajit Jain v. Union of India (2000) 242 ITR 302 (Del), where it was pointed out that a valid search being the foundation for jurisdiction for post-search assessments under Chapter XIV-B, the Court, though not the Tribunal, has the jurisdiction to go into the validity of search, though it will not go into the sufficiency of the reasons, but only where there is *prima facie* objection to the validity of search.

Corporate veil – Whether a mere gauze?

Ever since the classic English decision in Salomon v. Salomon and Co. (1 897) AC 22 (HL), a company has been treated as distinct from its members. This has been accepted for tax purposes from the inception of law to the advantage of revenue by taxing both the company and its shareholders on the same income. In view of the varying rates under different Double Tax Avoidance Agreements, it has not been unusual for what is known as treaty shopping by non-resident companies choosing to do business from countries, where the tax incidence is least. Mauritius being a friendly country has a Double Tax Avoidance Agreement with India on the principle of most favoured nation on par with Malaysia, Singapore and the UAE. Mauritius has been a favorite choice. But it has become a bad word for tax administration.

The Bombay High Court in Vodafone International Holdings B.V. v. Union of India (2010) 329 ITR 126 (Bom) held that though the transaction was in respect of shares of a holding company in Mauritius, it was treated as an arrangement by which there was an effective transfer of Indian shares, the underlying assets, by a scheme which was understood as tax avoidance. The issue is now being heard by the Supreme Court with the fiscal world awaiting its decision. The future flow of foreign investments may well depend upon the outcome of this decision.

Meanwhile, there is yet another decision of the Bombay High Court in Aditya Birla Nuvo Ltd. v. Dy. DIT (International Taxation) (2011) 12 taxmann.com 147 rendered on 14th July, 2011, where it was found, that though the equity shares held by AT & T Group (U.S.) was in the name of a Mauritius based company, the shareholder's agreement and the fact that the shares were held by the Mauritius company as a permitted transferee would rule out the application of Indo-Mauritius Agreement thereby inviting tax liability with reference to the Indo-U.S. Agreement. These judgements, though not solely on the basis of piercing the corporate veil have been decided in the light of inference of tax avoidance now proposed to be sanctified by General Anti Avoidance Rule (GAAR) in the Direct Taxes Code Bill, 2010. ❒

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example, the negative list exempts dividends on investments which already receives kid-glove treatment. Similarly the sale and purchase of foreign currency can hardly be categorized as a meritable exclusion warranting tax exemption. The exemption given to the construction of a single residential dwelling unit comes bereft of a value cap. It will not be seen as fair that while the expensive villas constructed for business tycoons each running into many crores of rupees in value escapes service tax because it may be a single residential dwelling unit, the small and medium apartments bought by the middle class with sweat savings and dear loans suffer heavy service tax because their builders may have constructed more than twelve such residential buildings in one complex. There is also no learning seen in taxing the so-called unrecognized education. The State has not been able to afford quality and cost-effective Government-established facilities for higher and vocational education and in such circumstances the private sector steps in. The educational vacuum is thus usefully filled in by the people themselves. Such self-help and suo motu enterprise on the part of people should not get taxed, when in the name of "recognized education" the astounding capitation fees collected by private colleges and universities offering "recognized education" go scot-free. There also appears to be no justification for taxing health services when government expenditure on health for its own people is abysmal to say the least.

Conclusion

While the anxiety and eagerness of the government to find in the new tax model a source of unending revenues is understandable, given the fact that the times we now live in are marked by unrelenting inflation and the threat of renewed global economic recession, and in the light of the fact the new GST is on the horizon, the government would do well to await the GST and even at the GST threshold, retain the present model of tax incrementalism that has served the service tax regime well so far, for some more time. Once the GST is well understood and coped with, the time for a new tax model in the taxation of services may come. Now for the present we may do well to concentrate on what we do best and do it better. ❒

Government Accounting and Financial Reporting

Dr. V. Gopalan

FCA, AICWA, ACS, Ph.D., Director,
Janhar Management Consultancy Pvt Ltd, Chennai.

Government Accounting Standards Board (GASB) in their 'White Paper' has identified several key differences between financial reporting for government entities and other non-government entities. It is stated therein that the users of financial reports of government entities require substantially different Information than others, mainly arising out of basic external and internal environmental differences between government business and other businesses.

According to the Paper, the primary purpose of governments is to enhance or maintain the well-being of citizens by providing services in accordance with public policy goals. In contrast, 'for-profit' business enterprises focus primarily on wealth creation, interacting principally with those segments of society that fulfill their mission of generating a financial return on investment for shareholders.

It is also to be noted that the stakeholders for government are different than others. Governments are required to protect the interests of taxpayers, citizens, elected representatives amongst others. Unlike in the case of a business transaction where the parties exchange values voluntarily, in the case of governments the revenues are sometimes raised through involuntary taxes. Taxes paid by an individual taxpayer often bear little direct relationship to the services received by that taxpayer. Overall, taxpayers collectively focus on assessing the value received by the society from the resources they provide to government.

Governments receive substantial revenues from non-exchange transactions (for example, taxes and grants), also referred to as non-reciprocal transactions which are different from exchange transactions, such as sales revenue and debt or equity financing. In a non-exchange transaction, a government either receives value from another party without directly giving equal value in exchange or gives value to another without receiving equal value. The involuntary nature of tax collection creates a responsibility on the part of the government to be accountable to stakeholders for the use of those taxes.

Government entities do not suffer bankruptcy and dissolution and the monitoring of actual compliance with budgeted public policy priorities is crucial to government accounting. The longevity of government bodies and their responsibility to maintain and enhance the well-being of citizens through the provision of public services also result in need for different set of information compared to other business entities.

As Government entities do not face competition as they do not operate in a competitive marketplace and, therefore, enjoy status of 'monopoly' most of the times, their 'pricing formula' is different and 'the cost plus concepts of costing' may not apply for pricing decisions. Measurement of 'net income', 'Earnings per share' and other 'ratios' have much lesser significance. The principle of 'Cost Benefit' does not apply to government entities. As, the cost of a service or good is met by the government whereas the benefit is enjoyed by the society at large.

The users of government entity information wish to only judge the government's stewardship of public resources and the costs of providing those services. Also, more importance is given to 'compliance' aspects.

With respect to ability to repay debt in respect of government entities, there is no perceptible concept of debt as the issue may be about the ongoing ability to raise taxes, both direct and indirect, rather than the earnings, unlike the case of other non-government business entities.

Some of the most significant GASB standards that address differences in governmental and business financial reporting include : (1) the measurement and recognition of certain types of revenues (for example, taxes and grants), (2) the view that capital assets provide services to citizens rather than contribute to future cash flows, (3) the use of fund accounting and budgetary reporting to meet public accountability needs, (4) the use of accountability principles rather than equity control to define the financial reporting entity, and (5) the treatment of pensions and other post-employment benefits to allocate cost of services equitably to applicable periods.

Although the GASB has made progress, the need to develop and improve accounting standards for governments still exists. Many important types of transactions, in such as those associated with **derivatives and intangible assets**, the existing standards are not comprehensive and provide more scope for the accountants world over to address the gap.

The single most aspect of governmental financial reporting is accountability to citizens and taxpayers, legislative and oversight bodies and holders of government debt. For example, when deciding where to live, citizens wish to compare the range of services provided and the cost of those services. Business people compare the cost of local governments and the services provided in competing jurisdictions when assessing where to locate a new business or relocate an existing business. Legislative and governmental oversight bodies are more interested in the government complying with budgetary and contractual provisions. The interest of holders of governmental debt is to determine whether a government is able to repay its debt in both the short and the long term. Governmental financial reports provide all this information and more.

The financial statements of governments present **operational accountability** information from a long term perspective in the form of statements of financial position, changes in financial position and cash flows. That is, it is not availability of sufficient resources to pay for services provided during a period but to ensure sufficient resources in the long term to cover the cost of providing those services. In addition, **fiscal accountability** with a short term perspective is demonstrated by governmental fund financial statements.

Unlike an income statement of a business enterprise, the statement of activities focuses on the cost of services provided by function or program and the extent to which they either contribute to, or draw from, the general revenues of the government.

GASB standards require governments to report **budgetary comparison schedules**, either as a basic financial statement or as required supplementary information. The budget is the mechanism for documenting public policy choices and authorizing the allocation and use of these resources. Unlike business enterprises for which budgets are an internal planning tool, evidence of compliance with the legally adopted budget is necessary for publicly demonstrating accountability.

Combinations of business enterprises are based upon control obtained through acquisition of net assets or equity interest, both forms of ownership and the financial benefits and burdens that accompany that ownership interest. The standard for determining the reporting entity for governments reflects a difference of the governmental environment ie. the lack of equity ownership. Governmental combinations principally are based upon control over other governments through complex relationships of accountability, which is a broader concept than that of business enterprises.

Governments provide services through acquisition and maintenance of **infrastructure**, such as roads, bridges, and water systems. The accounting methods used for these assets reflect the long-lived nature of these assets and the perpetual existence of government.

In the case of governments, **grants and gifts** are a significant source of revenue and GASB Statement No. 33, Accounting and Financial Reporting for Non exchange Transactions, provides guidance in this area. For grants and gifts, characteristics such as time restrictions and eligibility requirements are critical to determining when a transaction should be recognized.

Governments often receive grants and other financial assistance to transfer to or spend on behalf of a secondary recipient. GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, requires reporting all cash pass-through grants in a government's financial statements. They are recognized as revenues and expenditures or expense unless the government acts strictly as a cash conduit.

In India, in exercise of the powers conferred by Article 150 of the Constitution, the President, on the advice of the Comptroller and Auditor General, makes the basic rules relating to the form of accounts of the Union and States. These rules—called '**Government Accounting Rules'**—incorporate also the general principles of Government accounting laid down by the Comptroller and Auditor General for the guidance of various Government Departments.

The article has highlighted several aspects of peculiarity of government accounting as discussed in various GASB reports and more details are available in their websites. Also, with respect to accounting of governments of different countries, states and nature of organization there are specific guidelines.

Though 'profit' is not the motive of government concerns, the cost of delivery of services matters a lot! With increased efficiency resulting in reduced cost if same services can be provided even better the need to raise more funds is minimized, thereby the burden of taxes is reduced. And, this can be achieved by any government only with the support of our profession, viz. Cost and Management Accountancy, undoubtedly. ❐

Corporate (FIP) Financial inclusion plan in India—An inclusive growth approach—An Empirical Study

Madan Mohan Jana
Assistant Professor, Susil Kar College,
Department of Commerce, Champahati, 24 Pgs. (South), West Bengal

Introduction

With the advent of globalization in 1991 (24th July, 1991) and recent (2008-09 & 2007-08) meltdown in world economy, basic institutional performance (BIP) is one of the core objectives and concerns of the Financial Institutions, Financial Liquidity (FL) being an ingredient of institutional performance, its (BIP) effective management (widening Financial Literacy = FL), maintenance and measurement, through its parameters and variables has gained a momentum in recent years.

Definition

Financial inclusion is a continuous process of bringing the people of "poverty battalion" into the domain of value added banking services in the form FLCCC and BC model with minimum or affordable cost in an integrated, inclusive and pro-participative manner to make them bankable and protection from rural giants of moneylenders and money-laundering process. But after a long struggle of 107 years, starting from the first Co-operative movements in 1904, second great Co-operative movements in 1914—18, the great depression period in 1929-33, the establishment of IBRD and IMF in june, 1946 with the draft proposal of Bretton Woods conference in June, 1944, the situations are not improved rather it is gray, gloomy, glassic and glimpse. In 1947, Mahatma Gandhi rightly told that India lives in village. So, it is our first task is to go there, extend yours hands and work hard for the rural for revitalization and revival but not palliative efforts.

Meaning of FIP

Branchless banking (BLBs) and rural initiatives (RI) of unbanked, under-banked, low-income groups and rural stake to bring into banking access,FLCCC (financial literacy and customer councelling centers) campaigning and to widenning the banking coverage to an inclusive manner.Financial inclusion is the availability of banking services at an affordable cost to the disadvantaged and low-income groups. In india, the basic concept of financial inclusion is having a savings account or current account with any bank. But in reality it includes CASA, No Frills, loans, BLBs,insurance services, SMEs finance, micro-insurance, TPP transactions, ATM service, Biometric ATM services, Mobile banking, E- commerce, M-commerce, BC models, CFSLs (colleteral free-small loans) and much more.

Importance of FIP

The philosophy of FIP is to growing bigger ang getting closer.Financial inclusion is aimed at delivery of Banking and financial services with value added form at an affordable costs to the un-banked sections of disadvantaged and low income segments of the society so as to unlock their savings and investment potential. The reasons for "financial exclusion" may vary from country to country thougth it not disputed by any of that "financial inclusion" is the only solution for lifting the financial conditions and standards of living of the poor, low-income groups and downtrodden among 122 (as per 2011 census) crores only 34% having access to bank in india with 50th rank in respect to reach of banking service and FLCCC campaign in the world out of 100 countries. Financial inclusion mainly focuses on the poor who do not have formal financial institutional support and getting them out of the cluches of local money lenders. As a first step towards this, most of the banks have come forward with genaral purpose credit cards and artisan credit cards which offer colleteral free small loans. The RBI has simplified the KYC norms for offering and openning "No Frills" This model will help rural stake and urban poor to open CASA without any identy proof and address proof.

Significance of FIP

With respect to Banking services and sectors, as the banking services are in the nature of public good, being service industry, it is only fair that the government provides unrestricted services and access of all banking facilities to the entire population without any discrimination. Financial inclusion has now become a buzzword for the entire gamut of banking sectors either co-operative sectors or Self-help group consisting of micro-finance institutions. No doubt the banking network with value added service of banking products has been expanding rapidly over the past few years in India but there are some difficulties in bringing the entire over 6 lakhs villages under the single umbrella of banking coverage. "Financial inclusion" is integral to inclusive growth process and sustainable development of any country. It is also essential that the "Financial inclusion" models stimulates and boost the entire banking service with BC model that banks come up to the close of the rural people having 60% of the 122 crores of population based on agricultural linkages directly should be replicable, viable and women empowerment through SHGs across the country.

Economic scenario of FIP

Propelled by a vibrant economy, India is at the forefront of developing nations sustaining 9.4% in GDP growth in 2006-07, 8.90% in 2007-08, 6.70% (Initial estimates 8%) in 2008-09, 7.40% in 2009-10 and 8.60% in 2010-11 and changing composition of GDP of 25.88% from travel and Tourism sector in 2006-07 and by reducing dependence on agriculture and much dependence on service sectors like banking, Insurance and tourism related industry, being growth Engine for Indian Economy, to enhance socio-economic growth through the promotion and inclusion of rural stake in the FLCCC campaign, Micro-finance for marginal folk and "sustainable Tourism" for upper stake deserving "International service reputation for cooperation in the Banking services between two countries and overcoming adverse impact of financial crisis which divides the Globe and exploring the 1.1 billion residents and its rapidly expanding middle class.

Major aspects of Inclusive Finance to make poor people bankable and rural bank initiatives :

1. Access to financial markets
2. Access to credit markets
3. Learn financial matters
4. Aware the rural base about Financial literacy and customers counseling centers (FLCC)

Banking value added Bank services in UK and USA :

The financial inclusion plan in UK and USA has witnessed an impressive growth pattern with the establishment of task force to look after the entire banking service reforms to close to the customers in a more inclusive way of integration. Now the financial inclusion task force in U.K identified three priority areas and they are :

1. Access to banking services with value added integrated service,
2. Access to affordable credit to the customers of poor section,
3. Access to free face-to-face advisory services with Internet banking service facilities E-pars facilities.

Reveiw of Literature

1. **The former UN Secretary General Kofi Annan (2003)** rightly said, "the stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive finance sectors that help rural poor people to improve their lives."

2. **The chairman of Financial Inclusion Committee, C Rangarajan (2008)** urgues that "The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

3. Littlefield and Hashmi (2003) argue that financial inclusion through micro-credit can help to substantially reduce poverty. Access to credit can contribute to a long-lasting increase in income by means of a rise in investments in income generating activities and to a possible diversification of sources of income; it can contribute to an accumulation of assets.

4. Khandelwal, Anil K., (2007), The concept of Micro-finance always existed in almost each and every society. Today in banking and policymaking field, micro-finance has become one of the most debated and documented, but still much confused buzzword. In the most simplistic way, it can be termed as "Banking for the poor". The name suggested that, most transactions under micro-finance involve small amount of money. But the connotation of the term has a much widermeaning.

5. Khandelwal, Anil K., (2007), Micro-finance as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards.

6. Khandelwal, Anil K., (2007), International Labour Organization (ILO) has defined, "Micro-finance is an economic development approach that involves providing financial services through institutions to low incomeclients[4]

7. Norwegian committee (2006) opined that micro-

finance can help people to break out of poverty, which in turn is seen as an important prerequisite to establish long lasting peace.

The objectives of the present study

To evaluate the "Inclusive Finance performance" of HDFC Bank specific objective of the study has been aimed at :

- **Percolation to Un-Banked :** Percolation of Rural folk to Inclusive Finance via strategically Technique for procuring, caring and percolating the un-served, under-served and un banked rural folk.
- **Bank services:** Value added Bank service to the rural stake of un-banked, under-banked and weaker sections.
- **FIP Parameters:** Analysis of FIP parameters to understand and to know the impact of sustained growth measurement technique to the rural poor.

Statistical Techniques

The required statistical techniques are used to analyze, test and assess the FIP parameters to make it more inclusive of rural base through CASA, NO-FL, FLCC, E-PERS, BLB, BATM, and MIC.

Major aspects of Inclusive Finance to make poor people bankable and social banking initiatives :

(i) Access to financial markets, (ii) Access to credit markets, (iii) Learn financial matters and (iv) Aware the rural base about Financial literacy and customers counseling centers (FLCC)

International banking value added Bank services in UK and USA :

The financial inclusion plan in UK and USA has witnessed an impressive growth pattern with the establishment of task force to look after the entire banking service reforms to close to the customers in a more inclusive way of integration. Now the financial inclusion task force in U.K identified three priority areas and they are :

1. Access to banking services with value added integrated service,
2. Access to affordable credit to the customers of poor section,
3. Access to free face-to-face advisory services with Internet banking service facilities E-pars facilities.

Hypothesis of the study

Keeping the above objectives in mind, the following hypothesis were constructed and tested during the study period for the present analysis :

1. There is no significant relation between Education of urban and rural people and access to Bank service as FIP parameters of concerned Institutions.
2. There is no significant relation between Income level of rural and urban people and access to Bank service as FIP parameters of concerned Institutions.
3. There is no significant relation between sex status of rural and urban people and access to Bank service as FIP parameters of concerned Institutions.
4. There is no significant difference between Actual Bank Deposit (ABD) and Expected Bank Deposit (EBD) of the concerned Institutions during the study period of 1997-98 and 2010-2011.
5. There is no significant difference between Actual Bank Advance (ABA) and Expected Bank Advance (EBA) of the concerned Institutions during the study period of 1997-98 and 2010-2011.

Research Design

1. Methodology : In this study the two major research methodology has been adopted .The first one is exploratory research for analyzing secondary data and the second one is empirical research for collection and analysis of primary data. A variety of indicators, tools and techniques of financial analysis have been used to analyze the financial inclusion position (FIP) of HDFC Bank and relevant statistical tools are used to assess and measure the performance as required for our analysis.

2. Time Frame of Study : The study is limited to 14 years starting from 1997-98 and 2010-2011 in the inclusive financial performance of HDFC Bank.

3. Data Sources :

The main Sources of Secondary data are :

i. The financial and non-financial information used in this study have been taken from published Annual Report of HDFC Bank.
ii. The Published Annual Reports of HDFC Bank consists of fourteen years financial data.
iii. Research Books, seminars papers and Journals etc.
iv. Internet based Materials and Web sites.

The main sources of Primary data are :

The primary data is collected from field survey and personal interview of respondent in the different areas of rural and urban stake. As per the requirement and necessity of the study some data are grouped, sub-grouped and compiled for analysis of objectives.

Limitation of the study

1.The study is limited to 14 years starting from1997-98 to 2010-11 in the financial performance of in the financial performance of HDFC Bank.

2.The financial and non- financial information used in this study have been taken from published Annual Reports for the 14 years only, because of the availability of published Annual report. As per the requirement and necessity of the study financial data and information are compiled, grouped and sub-grouped for analysis and interpretation for satisfying the objectives. For analyzing FIP position of HDFC Bank, Some statistical techniques are used, namely – Ratio analysis, student's t test and Chi-Square test (X^2) for assessing the FIP parameters.

Survey

A field survey was conducted to know the position of educational attainment urban poor people of among 100 persons randomly selected in an area whether they have bank account, either savings or current account, or not and the results of the field survey aregiven below:

Social Parameter—I. Educational Attainment of Urban people and bank linkages (H1) Proposition : Educational attainment and financial literacy of urban poor people

Table-1.1 Educational linkage to FLCCC Model

Access to Bank	Middle	High school	College	Total
Bank Account	01	06	14	21
No Bank Account	62	11	06	79
Total	63	17	20	100

Source : Compiled and Computed from Field survey in Urban area

Explanatory Part

It is clearly evident from the Table 1.1 that out of 100 respondent 14 have access to bank with educational attainment of college level education 17 percent have high school level education of which 6 respondents have bank account and balance 11 respondent have no bank account. Similarly, 63 percent respondent have middle level education of which 62 respondent have no access to bank only 1 respondent have only access to bank. So, it is clear picture for us enough for that educational attainment have great impact on willingness to enter in banking fold.

Statistical Analysis

The Chi-Square test (X^2) statistic is used under Null hypothesis (H_0). Test Statistic : Under H_o test statistic is Chi-Square test (X^2) with (m-1)(n-1) degree of freedom.

Proposition-I : From the table1.2 it is concluded that proposition one (H1) is analyzed and H_o (Educational attainment and access to bank of rural poor is independent) rejected and H_1 (Educational attainment and access to bank of rural poor is dependent) is accepted at both 5 percent and 1 percent level of significance. Hence it is concluded that educational attainment have great impact on willingness to enter in the banking fold of priority and vulnerable.

Proposition-II : From the table1.2 it is concluded that proposition one (H2) is analyzed and H_o (Educational attainment and access to bank of urban poor is independent) rejected and H_1 (Educational attainment and access to bank of urban poor is dependent) is accepted at both 5 percent and 1 percent level of significance. Hence it is concluded that educational attainments have great impact on willingness to enter in the banking fold of priority, marginalized and vulnerable.

Proposition-III : From the table1.2 it is concluded that proposition one (H3) is analyzed and H_o (Sexual status and access to bank of urban poor is independent) rejected and H_1 (Sexual status and access to bank of urban poor is dependent) is accepted at both 5 percent and 1 percent level of significance. Hence it is concluded that Sexual status have great impact on willingness to enter in the banking fold of priority, marginalized and vulnerable.

Proposition-IV : From the table1.2 it is concluded that proposition one (H4) is analyzed and H_o (Sexual status and access to bank of rural poor is independent) rejected and H_1 (Sexual status and access to bank of rural poor is dependent) is accepted at both 5 percent and 1 percent level of significance. Hence it is concluded that Sexual status have great impact on willingness to enter in the banking fold of priority, marginalized and vulnerable.

Proposition-V : From the table1.2 it is concluded that proposition one (H5) is analyzed and H_o (Income level and access to bank of urban poor is independent) rejected and H_1 (Income level and access to bank of urban poor is dependent) is accepted at both 5 percent and 1 percent level of significance. Hence it is concluded that income level have great impact on willingness to enter in the banking fold of priority, marginalized and vulnerable.

Proposition-VI : From the table1.2 it is concluded that proposition one (H6) is analyzed and H_o (Income level and access to bank of rural poor is independent) rejected and H_1 (Income level and access to bank of rural poor is dependent) is accepted at both 5 percent and 1 percent level of significance. Hence it is concluded that income level have great impact on willingness to enter in the banking fold of priority, marginalized and vulnerable.

Table-1.2 Findings of the study of social Parameters

Social Parameter	OV	$TV_{.05}$	$TV_{.01}$	DF	H_0	H_1
EAT in R = H1	60.21	5.99	9.21	02	Rejected	Accepted
EAT in U = H2	52.07	5.99	9.21	02	Rejected	Accepted
Sex in U = H4	18.89	3.84	6.63	01	Rejected	Accepted
Sex in R = H3	38.54	3.84	6.63	01	Rejected	Accepted
INC in U = H5	58.80	5.99	9.21	02	Rejected	Accepted
INC in R = H6	97.82	5.99	9.21	02	Rejected	Accepted

H_o : Educational attainment and access to bank of urban poor is independent (H1)
H_1 : Educational attainment and access to bank of urban poor is dependent (H1)
H_o : Educational attainment and access to bank of urban poor is independent (H2)
H_1 : Educational attainment and access to bank of urban poor is dependent (H2)
H_o : Sexual status and access to bank of urban poor is independent (H3)
H_1 : Sexual status and access to bank of urban poor is dependent (H3)
H_o : Sexual status and access to bank of urban poor is independent (H4)
H_1 : Sexual status and access to bank of urban poor is dependent (H4)
H_o : Income level and access to bank of urban poor is independent (H5)
H_1 : Income level and access to bank of urban poor is dependent (H5)
H_o : Income level and access to bank of urban poor is independent (H6)
H_1 : Income level and access to bank of urban poor is dependent (H6)

Analysis of Financial Parameters

The financial parameters inclusive finance for the purpose of analysis deposit as per schedule 3 is taken into consideration and advances as per schedule 9 is also serves the purpose too. The Chi-Square test (X^2) statistic is used under Null hypothesis (H_0) for assessing observed and expected financial parameter.

Proposition-I : Observed parameters of bank deposit and expected deposit are independent

Null Hypothesis (H_0) : There is no significance difference between observed parameters ad expected parameters.

Alternative Hypothesis (H_1) : There is a significance difference between observed parameters and expected parameters.

Conclusion : It is evident from Table 1.3 that observed value of X^2 is less than the critical value of X^2 at 5 percent level f sgnificance with 13 degree of freedom, null hypothesis (H_0) is accepted and hence there is no signoficant difference between actual bank deposit and expected deposit.

Proposition-II : Observed parameters of bank Advances and expected Advances are independent

Null Hypothesis (H_0) : There is no significance difference between observed parameters ad expected parameters.

Alternative Hypothesis (H_1) : There is a significance difference between observed parameters and expected parameters.

Conclusion: It is evident from Table 1.3 that observed value of X^2 is more than the critical value of X^2 at 5 percent level f sgnificance with 13 degree of freedom, null hypothesis (H_0) is rejected and alternative hypothesis is accepted hence there is a signoficant difference between actual bank Advances and expected Advances.

The students t test for test of association or correlation between the observed and expected paranmeters under null hypothesis

Proposition-III : Observed parameters of bank deposit and expected deposit are independent

Null Hypothesis (H_0) : There is no significance correlation between observed parameters and expected parameters.

Alternative Hypothesis (H_1) : There is a significance correlation between observed parameters and expected parameters.

Conclusion : It is evident from Table 1.3 that observed value of t is more than the critical value of t at 5 percent level of sgnificance with 12 degree of freedom, null hypothesis (H_0) is rejected and alternative hypothesis (H_1) is accepted hence there is a signoficant correlation between actual bank deposit and expected deposit.

Proposition-IV : Observed parameters of bank Advances and expected Advances are independent

Null Hypothesis (H_0) : There is no significance correlation between observed parameters ad expected parameters.

Alternative Hypothesis (H_1) : There is a significance correlation between observed parameters and expected parameters.

Conclusion : It is evident from Table 1.3 that observed value of t is more than the critical value of t at 5 percent level f sgnificance with 12 degree of freedom, null hypothesis (H_0) is rejected and alternative hypothesis (H_1) is accepted hence there is a signoficant correlation between actual bank Advances and expected Advances.

Analysis of Financial parameters

Table-1.3 Findings of the study of Financial Parameters

Parameters	D-Actual	D-Expected	L-Actual	Expected L-Actual
S.D of Flccc	6700737	6146389	5109200	4302714
Mean of Flccc	6254653	6284653	4302716	4302716
Cov of Flccc	107.132%	98.269%	118.74%	106.550%
^{r}xy	0.917271		0.897313	
R2	0.841		0.812	
X^2 0.05, 13	(–) 216.679		147.999	
H0	Accepted		Rejected	
H1	Rejected		Accepted	
T observed	27.67		24.71	
T 0.05, 12	1.782		1.752	
H0	Rejected		Rejected	
H1	Accepted		Accepted	
Source : Compiled and computed from Annual Report.				

SWOT analysis is used to assess and measure the strength and weekness of banking sector in the post liberalized era. In this paper an attemp has been made to analyze the linkages of social parameters and financial parameters with financial inclusion imperatives commercial banks in India. For this purpose field survey has been made both in rban and rural area to know the willingness of un-banked peoples.

Strength

- Their sheer number of customer base of 21.90 millioms is enough to send shivers to any competitors.
- **The B**ank has 1986 branches dpread over the 996 cities with 5471 ATMs giving value added service to customers. The bank has 467 branches in 2005 and 535 branche in 2006, 684 branches in 2007, 1412 branches in 2009, 1725 branches in 2010 with a strong increase in branch density of 15.13 percent over the previous year.
- The Bank is continuously **str**ides toward strategies on expanding service network to increase and widen the banking service to urban, rural, semi-urban and under-banked areas in the country.
- The Bank has strong branch network of 30% of total branches located in rural and under-banked areas of vulnerable and priority sectors.
- The Bank has ATMs centres spreade over the globe covering and giving value added service to customers at an affordable cost to vulnerable sections with 1147 ATMs in 2005, 1323 ATMs in 2006, 1605 ATMs in 2007, 3295 ATMs in 2009, 4232 ATMs in 2010 and 5471 ATMs in 2011 with a quantum leap of 29.28 percent over the previous year.
- The bank has several steps of giving loans to SHGs, micro-financing institutions, Kisan gold cards, SMEs loans and rural initiatives and Agriculture and allied activities.

Weakness

- In the present economic situation 70 percent of the total branches are spread over in the urban area which needs to rethink and reoriention of mission to diversify to branches to rural area of national importance.
- Ecessive governemnt control due to dependency on government policies and existence of bureaucracies in the service sectors.

Opporutnities

- The wide customer base banking network of 122 crore population in India could be put better use in distribution, diversification and exploring and creating new markets. The Indian federal system gives them a cohesive picture. The mammoth structure, they have at national level gives them leverage over many other private organizations. This unique feature should be utilized to its fullest advantage.
- More opportunities are to be opened before the customers of rural base where 70 percent of Indian population are based on agriculture and hence more priority sector credit and lending are to be provided at an innovative cost.

Thtreats

- Excessive government control and complicated operating process leads to financial exclusion of banking services even after 42 years of bank nationization, 14 commercial banks are nationalized in 1969 and 6 other commercial banks are nationalized in 1980.
- Excessive official regimentations, permissions, sanctions and restrictions leads to opening up nofrills savings account of national importance.

Conclusion

The above analysis and discussions clearly indicate that in the post-reform period financial inclusion plan serves as catalyst of economic development and progress that involves proving financial services to priority sector credit including agricultural credit through financial institutions. Small and marginal farmers are receiving enough support of institutional mechanism for credit supply since the financial reforms of year 1991 (24 July, 1991). Commercial banks are increasingly turning away from traditional mission and focusing their attention on large farmers, priority sector credits and cooperative agriculture. Cooperatives have a wide presence in rural areas but they are in a deliberated stage as a result of long year neglect, political and bureaucratic interference and mismanagement of rural bank loans gaining immense importance even after 42years (1969-2011) of nationalization of commercial banks. The main reason for financial exclusion is lack of regular income or substantial income and educational backwardness. So, Provision has to be made as an utmost care for augmentation of education of rural people and presentation of value added banking services to rural and urban poor both level at an affordable cost. More emphasis is to be given in value added Banking service. Expansion of Rural commercial Bank branches and other financial institutions will make the programme inclusive. The first-ever Index of Financial inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50. Only 34 percent of Indians having access to or receiving banking services. In 2006 Reserve Bank of India permitted commercial banks to make use of the services of Non-governmental organizations, micro-financial institutions and other civil society organizations as intermediaries for providing financial and banking services. The concerned bank also issued Gold Kisan cards, Credit cards and debit cards to the disadvantaged and poor with view to help them access easy credit. Pro-people Banking services are to be provided for both rural and urban folk. The bank also issued 12.60 lacks credit cards in 2005 and 50.50 lacks credit cards in 2011. Similarly, the bank also issued 29.80 lacks debit card in 2005 and 115.50 lacks debit cards in 2011. Extensive FLCCC programmes are provided with BC model to widen the value added bank service. As a result savings deposit rebound registered a 4.56 times (approx.) growth from 2005 (Rs.11418 crores) to 2011(Rs.63448 crores). Biometric public goods are to be provided to the front end at an affordable cost to realize the Reserve Bank of India's vision for 2020 is to open 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. ❐

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CAS Vs. AS 2 Applicability of Cost Accounting Standards for Inventory Valuation in Financial Statements

Sriraman Parthasarathy

GRAD CWA, FCA, ACS, CPA,
Partner, Deloitte Haskins & Sells

Introduction

The inventory is the life blood of any entity and its valuation is of paramount importance in determining the financial results of the entity. There are several key questions to be considered and evaluated in connection with the inventory valuation such as :

- What costs incurred need to be included as part of the inventory value?
- What are the various assumptions that go in while carrying out the inventory valuation?
- How the overhead allocation influences the inventory valuation?
- How the Net Realisable Value needs to be determined?

The answers to all these questions need not necessarily flow from the financial accounting standards which govern the inventory valuation exercise in the financial statements preparation process. The Cost Accounting Standards notified by the Institute of Cost and Works Accountants of India provide very detailed guidance/insights into various issues in determining the cost which can squarely address some of the inventory valuation nuances. This article is intended to compare the financial accounting standards that deal with the inventory valuation with the Cost Accounting Standards (CAS) and the core inventory valuation issues where the cost accounting standards throw greater light in reaching meaningful conclusions.

Cost Accounting Standards

Cost Accounting Standards (CAS) are promulgated by the Institute of Cost and Works Accountants of India. There are 13 CAS approved by the Council till now and, out of the same, 12 CAS have been made mandatory with effect from the period commencing on or after 1st April 2010 for being applied for the preparation and certification of General Purpose Cost Accounting Statements. Those mandatory standards are :

- CAS 1 : Classifications of Costs
- CAS 2 : Capacity Determination
- CAS 3 : Overheads
- CAS 4 : Cost of Production for Captive Consumption
- CAS 5 : Determination of Average (Equalized) Cost of Transportation
- CAS 6 : Material Cost
- CAS 7 : Employee Cost
- CAS 8 : Cost of Utilities
- CAS 9 : Packing Material Cost
- CAS 10 : Direct Expenses
- CAS 11 : Administrative Overheads
- CAS 12 : Repairs And Maintenance Cost

Financial Accounting Standards related to Inventory Valuation

Indian Accounting Standard 2 "Valuation of Inventories" (hereinafter referred to as "Financial Accounting Standard") deals with the valuation of inventories relating to the financial statements prepared for determining the results of the entity. According to AS 2, Inventories are assets

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

This standard aims to deal with the determination of the inventories carried in the financial statements pending subsequent sale or disposal. It elucidates the method of valuation of inventory and the cost formulae to be used for ascertaining the cost of inventory. Under International Financial Reporting Standards (IFRS), IAS 2 deals with the inventory valuation related aspects. There are certain differences between the non-converged Indian Accounting Standard 2 (AS 2) and the IAS 2 relating to inventory valuation. For the purpose of the current analysis, the Indian Accounting Standard relating to inventory valuation is considered.

Core Principles of Inventory Valuation

The fundamental principle of the accounting standard that deals with the inventory valuation is valuing the inventory on the basis of the lower of the cost or net realisable value (NRV). Both the components of cost and NRV determination have several procedural challenges in identification and accumulation of various elements that are considered for valuation. There are, broadly 2, major considerations that are involved as regards cost determination :

- The Cost Formulae or the buildup of the Cost and
- The method of determination of Cost—FIFO, Weighted Average etc.

Similarly, for the purpose of determination of the net realisable value, certain items have to be deducted from the expected realisable value to arrive at the NRV which involves the determination of the costs of completion and costs incurred in order to make the sales such as selling expenses.

According to the financial accounting standard, for the purpose of inventory valuation, the cost would comprise of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost of Purchase

According to the financial accounting standard, the cost of purchase consists of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similaritems are deducted in determining the costs of purchase.

In this regard, the CAS defines Cost as a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services. Further, it defines the material cost as the cost of material of any nature used for the purpose of production of a product or a service.

Though there is no definition of the term material cost as per financial accounting standard, the costing definition provides ample clarity regarding the same. Material cost includes cost of procurement, freight inwards, taxes & duties, insurance etc. directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks, refunds on account of MODVAT, CENVAT, Sales tax and other similar items are deducted in determining the costs of material. Further, CAS also indicates that any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.

Per CAS, Inward transportation costs shall form the part of the cost of procurement ofmaterials which are to be identified for proper allocation/ apportionment to the materials/products.

As regards the cost of transportation, CAS 5 provides the required clarity as regards the composition. Per CAS 5, Cost of Transportation comprises of the cost of freight, cartage, transit insurance and cost of operating fleet and other incidental charges—whether incurred internally orpaid to an outside agency for transportation of goods, but does not include detention and demurrage charges.

Costs of Conversion

Per financial accounting standard, the costs of conversion of inventories include costs directly related to the units of production, such as direct Labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials.

It may be noted that the financial accounting standard does not define the specific components of the Labour. In this regard, CAS 1 defines Labour cost as the payment made to the employees, permanent or temporary, for their services. Labour cost includes salaries and wages paid to permanent employees, temporary employees and also to employees of the contractor. It specifically clarifies that salaries and wages include all fringe benefits like Provident Fund contribution, gratuity, ESI, overtime, incentives, bonus, ex-gratia, leave encashment, wages for holidays and idle time etc.

Further, the CAS provides ample clarity as regards various elements to be considered/ignored as cost of Labour as :

- The Labour cost also includes payable and provisions made for future payments for the services rendered by the employees of an enterprise.
- Contract employees include employees directly engaged by the employer on contract basis but does not include the employees of any contractor engaged in the organization
- Compensation paid to employees for the past period on account of any dispute/court orders shall not form part of the employee cost.
- Short provision of prior period made up in current period shall not form part of the employee cost in the current period.
- Payments made to employees in kind such as free food, housing, education to children, conveyance etc. should also be considered as part of the employee cost
- Any recovery from the employees towards any benefits provided to them will be deducted from the employees' cost.

- Payments towards other retirement/separation benefits, VRS, other deferred employee cost and further benefit payments are to be considered as part of employee costs.
- Cost of employees' stock option needs to be considered as part of the employees' cost.
- Remuneration payable to Managerial Personnel including Executive Directors on the board and other officers of a corporate will be considered as part of the employee cost of the year irrespective of the fact whether the whole or part of the remuneration is computed as a percentage of profits.
- Remuneration paid to non-executive directors shall not form part of the employee cost and the same will be treated as administrative overhead.
- Penalties, damages paid to statutory authorities or other third parties shall not form part of the employee cost.
- Recruitment costs, training costs and other such costs shall be treated as overheads.

The extent of conceptual clarity provided above by the CAS would help in standardizing various elements considered for inventory valuation. Different interpretations and positions taken by different entities as regards the items to be included/excluded as part of the Labour cost would defeat the very purpose of the standard. Hence, application of CAS in these areas could be of immense help in ensuring consistent application of cost formulae used for inventory valuation.

Further as regards the other costs of conversion, the CAS provides greater clarity in terms of the specific components to be considered as direct expenses, production expenses etc.

CAS stipulates that Identification of direct expenses shall be based on traceability in an economically feasible manner.Direct expenses paid or incurred in lump-sum or which are in the nature of 'one–time' payment shall be amortised on the basis of the estimated output or benefit to be derived from such direct expenses. CAS also provides some examples of such direct expenses such as Royalty or Technical know-how fees, or drawing designing fees, are paid for which the benefit is ensued in the future period. In such case, the production/service volumes shall be estimated for the effective period and based on volume achieved during the Cost Accounting period, the charge for amortisation should be determined.

Production Cost is the cost of all items involved in the production of a product or service. It includes all direct costs and all indirect costs related to the production. Further, it defines the Production overhead as the indirect costs involved in the production process. The term Production overhead is also termed as factory overhead or manufacturing overhead. Certain illustrative examples of Production overheads are indicated in CAS :

- Salaries for staff for production planning, technical supervision, factory administration etc.
- Normal idle time cost
- Expenses for stores management
- Security expenses in the factory
- Labour welfare expenses
- Dispensary and canteen expenses
- Depreciation of plant and machinery
- Repair and maintenance of factory building and plant & machinery
- Insurance
- Quality control etc.

Other Costs

Per financial accounting standard, other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.For example, it may be appropriate to include overheads other than production overheads or the costs of designing products for specific customers in the cost of inventories.

In this regard, if there is any overhead which is considered as an item to be considered for inventory valuation, the guidance provided under CAS below may be suitably considered.

Overheads are to be apportioned based on two principles :

- ***Cause and Effect :*** Cause is the process or operation or activity and effect is the incurrence of cost. Apportionment of overheads based on this criterion ensures better rationality as it is guided by the relationship between cost object and cost.

- ***Benefits received :*** Overheads are to be apportioned to the various cost centres inproportion to the benefits received by them.

The above principle will help in identifying the inventorisable overheads as part of other costs for inventory valuation.

Specific Exclusions from the Cost of Inventories

As per the financial accounting standard, certain items should be excluded from the cost calculations for determining the cost of inventories such as :

- Abnormal amounts of wasted Materials, Labour, or other production costs;
- Storage costs, unless those costs are necessary in the production Process prior to a further production stage;
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
- Selling and distribution costs.

CAS provides clarity as regards Abnormal Cost and defines the same as an unusual or a typical cost whose occurrence is usually irregular and unexpected and due to some abnormal situation of the production. Abnormal cost arises due to idle time for some heavy break down orabnormal process loss. They are not considered in the cost of production for decision-making and charged to profit & loss account.

Another item of cost which is excluded for inventory valuation purposes is Administrative overheads which do not contribute to the carrying value of the inventory. In this regard, the CAS stipulates that administrative costs are expenses incurred for general management of an organization. These are in the nature of indirect costs and are also termed administrative overhead. The CAS does not stop with defining the administrative cost but also provides practical examples of items to be included in Administrative overhead such as :

- Salaries of administrative and accounts staff
- General office expenses like rent, lighting, rates and taxes, telephone stationery, postage etc.
- Bank charges
- Audit fees
- Legal expenses
- Depreciation & repair and maintenance of office building etc.

In this regard, CAS also clarifies certain aspects of administrative overheads :

- Cost of shared service, infrastructure and general management costs will be considered as Administrative overheads.
- In the case of leased assets, if the lease is an operating lease, the entire rentals shall be included as part of administrative overheads. If the lease is a finance lease, the finance cost portion will be segregated and treated as part of finance cost.
- The cost of administrative services procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto, net of discounts (other than cash discounts), taxes and duties refundable or to be credited.
- Expenses incurred in a situation of natural calamity will be considered as abnormal administrative cost.

The next item of cost to be excluded for inventory valuation is selling and distribution costs. In this regard, the CAS provides clarity as to the nature of the selling expenses and distribution expenses.

Per CAS, Selling Costs include all costs relating to regular sales and sales promotion activities. Examples of expenses which are included in selling cost are :

- Salaries, commission and traveling expenses for sales personnel
- Advertisement cost
- Legal expenses for debt realization
- Market research cost
- Royalty on sale
- After-sales service cost etc.

Similarly, CAS defines Distribution Costs as the cost incurred in handling a product from the time it is completed in the works until it reaches the ultimate consumer. Distribution costs being the costs incurred for distribution of product to customers generally would include :

- Transportation cost
- Cost of warehousing salable products
- Cost of delivering the products to customers, etc.

The extent of clarity the CAS provides, in terms of dealing with an item, is quite apparent and is clearly evident from the fact that it clarifies that primary packaging cost is included in production cost whereas secondary packaging cost is distribution cost.

Treatment of Interest Cost for inventory valuation

As per the financial accounting standard, Interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories.

In this regard, the CAS provides absolute clarity and provides that finance costs incurred in connection with the acquisition of materials shall not form part of material cost. Further, it clarifies that the term finance cost would include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest cost.

Exchange Difference Impact on Inventory Valuation

As regards exchange difference, the CAS stipulates that the Forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost. Further, it adds that the date on which a transaction (whether for goods or services) is recognized in accounting in conformity with generally accepted accounting principles will be the date of the transaction.

Treatment of Subsidy/Grant/Incentive

Per CAS, Subsidy/Grant/Incentive and any such payment received/receivable with respect to any material/expenses shall be reduced from cost for ascertainment of the cost of the cost object to which such amounts are related. Hence, the cost of material/conversion considered for inventory valuation should be duly adjusted for these items.

Determination of Normal Capacity

Per financial accounting standard, the allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed production overheads allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are assigned to each unit of production on the basis of the actual use of the production facilities.

Per CAS, 'Normal Capacity' is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss ofcapacity resulting from planned maintenance.Normal capacity is practical capacity minus the loss of productive capacity due to external factors. Further, it also provides guidance for determining the Normal Capacity.

Normal capacity is determined based on the productive capacity achieved over a period of time, say average of three normal years out of preceding five years or expected to be achieved over a period of time, say next three to five years. This capacity is determined after adjustment of external factors with practical-capacity. Normal capacity of production process involved in the production of a product or the productive capacity of the plant as a whole should be taken into account to arrive at normal capacity for a product or plant, as the case may be. The periods influenced by abnormalities should be excluded for this purpose. Further, the CAS explains that, in case the same products with different specifications and of different ranges in terms of size, type, variety etc. are manufactured, then there is a need to determine equivalence among them in order to determine the capacity.

In case some intermediate products/components etc. are also produced, they should be taken into consideration for determining equivalent capacity. In case some machines are leased out/let out or some machines are taken on lease, resulting decrease/increase in capacity should also be considered.

Standard Cost

According to the financial accounting standard, the permissible techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience, if the results approximate the actual cost. Standard costs take into account normal levels of consumption of materials and supplies, Labour, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.

In this regard CAS defines Standard Costs as a predetermined norm applied as a scale of reference for assessing actual cost, whether these are more or less. The standard cost serves as a basis of cost control and as a measure of productive efficiency when ultimately posed with an actual cost. It provides management with a medium by which the effectiveness of current results is measured and responsibility of deviation placed.

While applying standard cost for the inventory valuation, the above guidance provided by the CAS may be kept in mind.

Conclusion

Though the Cost Accounting Standards (CAS) are not intended for standardizing the inventory valuation for financial statement purposes, it definitely provides ample clarity and guidance on several areas relating to inventory valuation where the financial accounting standard is silent or deals with it from a macro-perspective. Considering the clarity, domain expertise, global recognition, and the relevance of the guidance available in CAS, the entities should make the best use of it and inventory valuation is one area where the application of CAS is very crucial. In the light of the increasing need for standardization and the enhanced /qualitative financial reporting expectations, consideration and application of cost accounting standards, wherever required/relevant, would definitely support and supplement financial accounting and would also help in setting world class benchmarks for financial accounting. ❐

Managing Work Life Balance : Golden Mantras and Motivating Thoughts for Cost & Management Accountants

Raja Ghosh

BCOM, AICWA, PGDPM (Gold Medalist),
Sr. Manager (F&A) Corporate Accounts,WBSEDCL, Kolkata

The attitude towards life measures a persons attitude towards everything. This is a dynamic process and goes on throughout any ones life. We should all imbibe an inspiration from Lord Ganesha. The BIG HEAD of Lord Ganesha inspires us to think BIG, the BIG EARS prompt us to listen patiently to new ideas and suggestions, the NARROW EYES point us to deep concentration needed to finish tasks in hand well and quickly. The LONG NOSE tells us to poke around inquisitively to learn more and SMALL MOUTH reminds us to speak less and listen more .

I would like to share my real life thoughts & experience in my professional , personal and family life which may be practiced by my fellow COST & MANAGEMENT ACCOUNTANTS. These I call the GOLDEN MANTRAS of Success for CMA'S. We should never underestimate the power of our inner attitude. We should always check our attitude in life and always try to ensure that it is always on the track. But what is this attitude and how to keep it in track? We should always keep in mind that even if we sometimes go out of track (We are human beings after all), we can still get back on track. It is the will power which counts. Though I have tried to keep it as a guiding light for we CMA's, but as my real life experience tells, it is applicable in any sphere of life & in any profession.

A. CMA's and your Inner self :

1. Our trouble is not ignorance, BUT INACTION.
2. You can not be anything , if you want to be everything.
3. Character is the FOUNDATION stone upon which one must build to win respect
4. Those who can not remember the past are condemned to repeat it.
5. Admitting that you're wrong is a modest way of showing you've grown a little wiser.
6. Ships are safer in the harbor, but they are not meant for that purpose.
7. At the start of your career, what you LEARN is more important than what you EARN.
8. Take the DECISION. If it is right, well and good. If it is wrong, you will certainly find the right decision, very soon.
9. Honesty is still the best Policy, but with a little bit of Common Sense.
10. If you want to succeed, display enough courage to welcome failures
11. Machines WORK. Men must THINK.
12. The faster you learn about yourself, the faster you grow.
13. There is no substitute for strength & hard work, and no excuse for lack of it.
14. Always we should keep in mind that our own inner resolution to succeed is more important than any other thing.
15. If we dare to teach we must never cease to learn.

B. CMA's and Your Family

1. It is said that successful parents do not have successful children. Prove it Wrong.
2. Always put yourself in your children's shoes. Let them be known on their own and not as your Children. Give them opportunities to achieve small, successes. Don't push them. Do not insult them by comparison.
3. Education is when your children can play with you, their grandparents, uncle, brothers , sisters their friends.
4. Don't be a preacher, but a doer and do things to make your children proud of you.
5. Whether your sons and daughters become your ASSETS or LIABILLITIES 75 % depends on YOU and rest 25% depends on LUCK.
6. Mark Twain said as a tribute to his wife: "Wherever SHE was, there was EDEN.
7. One Father is more than a Hundred School-masters.
8. Ensure that you have a two–way communi-cation with your Wife and Children. If it is really TWO –WAY it is not only the words but the silence also which can work wonders.
9. Spend some quality time with your kids, family on regular basis.
10. Learn to find a glimmer of humour in every

situation in your family life and be pleasant to everyone around, at all times.

C. CMA's : Your Health, Happiness, and Joy :

1. Happiness is not having what you want but wanting what you have.
2. Give to the world the best you have and the best will come back to you.
3. A wise man is one who can live in peace with the things he can not change.
4. Keep Physically fit, mentally alert and spiritually strong.
5. Walk for at least 45 minutes in a day, practice YOGE, Meditation. Do some free hand exercise on regular basis. It works wonders both on your mind & body. It really enhances your self confidence and reduces stress levels.
6. Happiness is never perfect unless it is shared with others.
7. If you look for the positive things in life, you will definitely find them.
8. Needs can be met, greed's never.
9. Laugh it off. A pressure cooker is no good, if it has no safety valve.
10. Early to BED & REALY to RISE makes a man/ woman healthy ,wealthy & WISE.
11. Crystals, Carpets & Chandeliers make a nice house, but it is only the smiles on the faces of your children & family members which makes it a complete HOME.
12. It is only when we focus not only on the selfish "I" but something larger than "I" that we realize our true potential.

D. CMA's : Be pro-active : Whether in practise or Employment

Being pro-active is an essential and amazingly wonderful quality/attitude which is required to be successful. First and foremost a pro-active person is essentially self confident. People who are unsure of themselves and are not confident are unlikely to be pro-active and unlikely to extend their hands first. It is every boss's prayer to have such a pro-active person in his team. A person who is pro-active expands his behavior to personal lives as well. He is also pro-active with his health, relationship, friends & family. We should remember that we must become the change we want to see. A pro-active attitude is the fuel of progress and growth.

E. CMA's A void negative thoughts and whining :

The positive and the negative jostle side by side everywhere and it is up to us to pick the right one. Avoid whining. It simply does not help. We must prove our worth & expertise in whatever we do (and I am confident we are capable of it) .When we are always discussing about troubles and whining and wasting precious time, others may take advantage of it. If the problem is because of you, correct yourself. If its not because of you, what's the use crying. When the things go wrong don't just blame your juniors or colleagues. It is highly unprofessional. It is also very important that we apologize when the need arises. There is a great sense of liberation in an apology. Apologize when the need arises & you will make more friends that way.

The thoughts and beliefs which I have experienced in my life, learnt from others and through reading many enriching books by Corporate Warriors and the writings of Swami Vivekananda, Sunil Robert, Subroto Bagchi, Rashmi Bansal, Shiv Khera, Robin Sharma (just to name a few) etc are heartfelt and written with the hope that these may be followed in all facets of life to improve the quality of work life in this stress full world. This article may serve as an inspiration to young & budding professionals in their corporate life. Let us remember that in this age of Super computers, emails, fax, digital phones & what not, when we claim to be super connected with people, **let us think and ponder for a while ! ARE WE REALLY CONNECTED**? ❒

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OBITUARY

It is with profound grief we mourn the death of Shri Kalyan Kumar Datta, B.Com; FICWA (M/987) who left for heavenly abode recently. Shri Datta was the Additional Chief Finance Manager of Coal India Ltd. We offer our heartfelt condolence and pray to God that he gives necessary strength to his family to bear the loss. May his soul rest in peace.

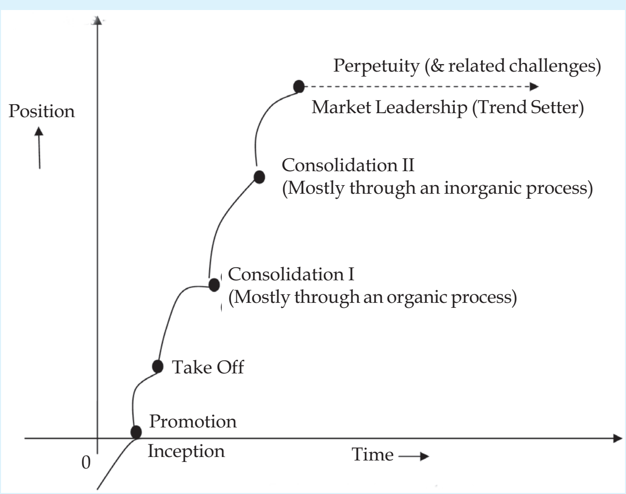
Strategic Wage Planning – A Life Cycle Approach

Dr. Girish Jakhotiya

Chief Consultant, Jakhotiya & Associates, Mumbai.

Strategic or long term Wage Planning (SWP) is the 'joint task' of the CEO, CFO and CHRO (Chief Human Resource Officer) supported by an executive committee comprising of business and other functional heads as its members. SWP is basically a 'vision-based' attempt of framing-up a long term wage approach and wage plan considering the complex externalities and internalities an organization would face.

SWP is mainly based on the various permutations and combinations of three major factors viz. positioning of a business enterprise in its life cycle, changes in its business model arising out of various compulsions and growth opportunities and cyclical or environmental changes as uncontrollable externalities. In other words, an SWP is a three dimensional process with intrinsic risks and uncertainties. Let us first look at the first major factor that influences the SWP mostly i.e. positioning in the life cycle. Normally, a business enterprise grows and transforms through the following life cycle stages—



Life Cycle of a business enterprise

During its life cycle, an enterprise grows on all the three fronts – volume, variety and value. Same three vehicles are applicable to strategic human resource planning. Especially the behaviour of these variables being interdependent, the composite impact at every stage of the life cycle could be drastically different. The other dimension of this complexity is the problem in defining the time-scale on which these stages of growth would actually materialize. Exact projection of time gap between two stages facilitates good assessment of the impact of cyclical changes. In other words, SWP depends on the stages of growth in the life cycle but seriously and simultaneously impacted by the external factors e.g. socio-economic change, global environment etc.

The impact of volume, variety and value on the SWP may be broadly viewed as follows considering the life cycle stages :

Table : Impact of volume, variety & value on SWP

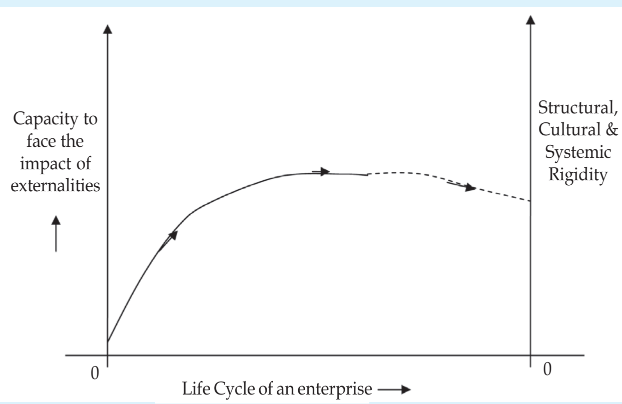
Sr. No.	Life Cycle Stage of an enterprise	Impact on the SWP of		
		Volume (i.e. quantum of output & human resources	Variety (i.e. variety of products, markets & employee competencies)	Value (i.e. cost variations along with various value propositions presented to the customers)
1	Inception & Promotion	Select human resources with systemic support	Entrepreneurial competency of the promotional team	More of project related cost
2	Take Off	Reasonable product output, growing number of human resources with cautionary approach to expansion	Limited variety & limited exposure	Managed cost, focused value proposition and well defined deliverables from human resources
3	Consolidation I	Considerable size of product output, good influx of systemic employees & decision making executives	Good variety of products and markets, bigger variety of employee competencies	Volume-driven cost, ambitious value propositions and corresponding competency flexibility required by all employees, employee cost is an impacting factor
4	Consolidation II	Very big product volume, geographical spread and proportionate large number of human resources	Complex variety of products, markets and employees, different cultural & competency	A large mix of different product – process – people costs, complex combinations of value & cost vis-

(contd.)

(contd.)

5	Market Leadership		backgrounds, different wage structures with regional differences	a-vis value and employability
		Volume sustenance, employee competence & compensation sustainability etc. are the challenges	Managing the equilibrium of the variety mix is a big task	Product, process and employee-wise profit centres emerge, performance & cost monitoring is a challenge

As mentioned earlier, the externalities of cyclical changes, socio-economic variations, emergence of new technologies & competencies, global movement of labour etc. add to the complexity of SWP. The trio of the CEO, CFO & CHRO has to constantly monitor their radar reflecting the externalities. As a business enterprise grows in its life cycle, its capacity of managing the externalities too improves; provided it maintains reasonable structural flexibility. A large organization with its systems and capacities (or facilities) develops 'bureaucratic rigidity'. Therefore strategic changes in human resource plan may become difficult or very expensive. A diagrammatic explanation of this reality may be presented :



Strategic Changes in Human Resource Plan

SWP should consider the following major externalities

1. Change in socio-economic environment
2. Impact of global networks effected through mechanisms like the WTO
3. Basic performance of an economy (i.e. country) in its sectors viz. manufacturing, agriculture and service
4. Impact of natural uncertainties on the sustainability of a business enterprise and the economy of its country
5. Cyclical changes in a particular industry in which an enterprise is performing
6. Change in the fiscal policies of a government.

One can now imagine the combination of two factors i.e. position in the life cycle and an externality. The impact could be further more complex if two or more externalities work together. Very often, the top trio faces a dilemma of defining 'known risk' vs an 'unknown uncertainty' while treating the results of these combinations. SWP becomes more complex if the uncertainties are not converted into risks. Therefore, macro-level mapping of the externalities becomes a regular strategic exercise.

A business enterprise manages the uncertainties of the above combinations through two alternate models. These two models are Geographical Diversification, and Business Model Variations. A multinational corporation naturally exploits its status of being internationally located. With globalization of business and technological advancement, such diversification has become very easy. A corporation would have its sourcing facilities in different countries to gain from 'natural hedge of externalities'. The risk of externalities is minimised by engaging 'geographically diversified human resources'.

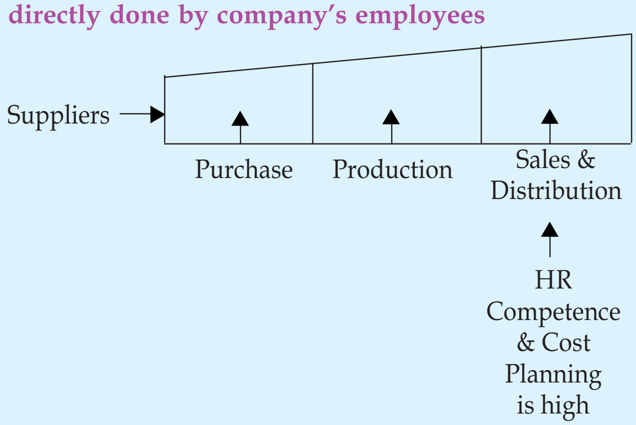
The second model, 'Business Model Variations' is comparatively difficult to execute. It basically requires 'value chain alterations' for the same business in different regions. Business Model or Value Chain Alterations are used keeping in mind the expected impact of externalities on SWP. For example, in a country or region where the 'son of soil issue' is complex, a business enterprise would prefer to outsource most of its 'non-critical processes' through ancillaries or vendors. In another region, where labour mobility is allowed, the same enterprise may employ different types of labourers for varied value-adding processes and exploit such diversity for the multiple advantages of competence variation, wage variation, cultural variation etc. In a country where 'human resource competence' is available at an entrepreneurial level of employability, a multinational corporation would prefer to have two distinct SWPs – one for the local human resources and another for the expatriate executives (who are in a small number).

So far we discussed two dimensions or determinants of the SWP. The third is obviously the 'Business Model'. It may vary from one stage to another stage in the life cycle of an enterprise. For example, an enterprise enjoying the status of 'market leader' may expand its business through franchises. It is a matter of brand extension, technology transfer and process supervision by the principal company. Naturally, most of the SWP becomes a primary responsibility of a franchise. The principal company would monitor the cost and competence of the franchise's human resources.

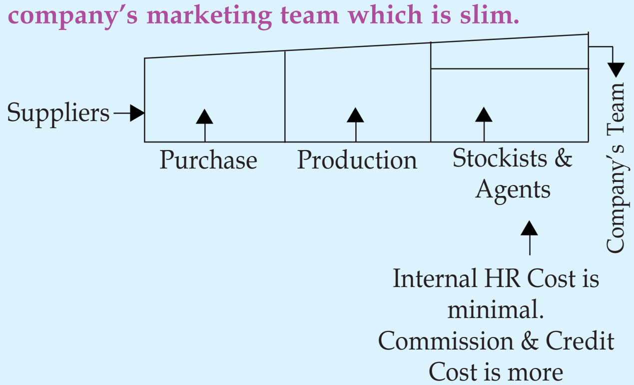
A Business Model is essentially a combination of 'value chain structure' and 'sharing of reward & responsibility among the stakeholders' (the major stakeholders are shareholders or owners, employees, vendors & ancillaries, distributors & agents and other business associates). The 'value chain structure' evolves with the maturity of an equilibrium among the operational, financial and strategic factors affecting the performance of a business enterprise. In other words, the most profitable combination of these three types of factors is tried out every time and corresponding change in the value chain is attempted. Of course, a right time and right quantum change is always a difficult decision.

Let us compare two business models with their corresponding value chains :

Business Model A : Sales and distribution directly done by company's employees



Business Model B : Sales and distribution is done by the stockists and agents. Supervision is done by company's marketing team which is slim.



Selecting Business Model A or B would depend on the types of market, product speciality and maturity stage of a business enterprise in its life cycle. Business Model A primarily depends on 'internal value creators' i.e. employees. Business Model B mostly depends on 'external value creators'. Both the models have their own suitability and limitations.

In all, we saw that there are five major stages in the life cycle of an enterprise. It has to face six important externalities and it has got two choices of business models based on the role of internal and external value creators. Statistically, we may conclude that there could be '5 x 6 x 2' i.e. 60 permutations and combinations of these three factors influencing the SWP.

Cash Flow Management for SWP

Long-term cash flow management is very critical for the success of any SWP. Along with other major costs like material and operating overheads, the employee cost puts lot of pressure on a company's cash flows. Eventually, its accounting treatment also influences the income statement seriously. At various stages of the life cycle, the cash flows would vary depending on the peculiarities of business status. These cash flows could be positively or negatively influenced by the externalities and choice of business model. The CHRO should closely work with the CFO while projecting these cash flows. Although short-term liquidity and profitability is affected by these cash flows, a long-term view of growth and sustainability cannot be neglected. Let us look at the behaviour of cash flows driven by the compulsions of the life cycle stages and their impact on a company's bottom line.

Table : Life Cycle Stages and Cash Flows on account of important components of the wage cost

Life Cycle Stage	Components of the Wage Cost					
	Selection & Deployment Cost	Training & Development Cost	Retention Cost	New Competence Building Cost	Aspiration or/and Pormotion Cost	Separation Cost
Inception & Promotion	Average	Low	Low	Low	Low	Very
Take Off	High	High	High	Low	Low	Low
Consolidation I	Very High	Very High	Average	Average	Average	Low
Consolidation II	Proportionately High	Average	High	High	High	Low
Market Leadership	Low	Average	High	Very High	Very High	Average Low

Table : Life Cycle Stages, components of the wage cost, accounting treatment and impact on the Income Statement (IS)

Life Cycle Stage	Components of the Wage Cost & Accounting Treatment with corresponding impact on Income Statement (IS)					
	Selection & Deployment Cost Cost	Training & Development Cost Cost	Retention Cost	New Competence Buinding Cost	Aspiration or/and Promotion Cost	Separation Cost
Inception & Promotion	To be written off in 3 years, low impact on IS	To be written off in 3 years, low impact on IS	Annual cost, low impact on IS	Annual Cost, low impact on IS	Annual Cost, low impact on IS	Annual Cost, no impact on IS
Take Off	To be written off in 3 years, reasonable impact on IS	To be written off in 5 years, reasonable impact on IS	To be written off in 5 years, considerable impact on IS	Annual Cost, low impact on IS	Annual Cost, low impact on IS	Annual Cost, low impact on IS
Consolidation I	To be written off in 3 years, reasonable impact on IS	To be written off in 5 years, reasonable impact on IS	Annual Cost, low impact on IS	Annual Cost, low impact on IS	Annual Cost, low impact on IS	Annual Cost, very low impact on IS
Consolidation II	To be written off in 3 years, considerable impact on IS	Annual Cost, low impact on IS	To be written off in 2-3 years, considerable impact on IS	To be written off in 2-3 years, considerable impact on IS	To be written off in 2-3 years, considerable impact on IS	Annual Cost, low impact on IS
Market Leadership	Annual Cost, very low impact on IS	Annual Cost, low impact on IS	Annual Cost, reasonable impact on IS	To be written off in 2-3 years, considerable impact on IS	Annual Cost, considerable impact on IS	Annual Cost, low impact on IS

The CEO, CFO and the CHRO will always have to establish a balance between the 'Recurring Wage Cost' incurred for short-term tangible results and the 'Capital Wage Cost' to be treated as a long-term investment in human resources as company's distinguishing assets.

Challenges in making SWP a foolproof exercise

There are a few major challenges companies normally face while bringing perfection to the SWP. Different companies face them differently—based on their priorities, conveniences of the promoters, market conditions etc. An organization believing in long-term, sustainable and all-round growth views SWP as an important tool for retaining and enhancing the competitiveness of its human resources.

The challenges may be narrated as follows :

1. Striking a balance between 'wages for yearly measurable results' and 'wages for long-term goals' has always been a challenge. Short-term profitability and long-term sustainability should be viewed as complementary and not contradictory. This could be achieved through a pragmatic Performance Management System.

2. Choosing between the extremes of capitalist structure and socialist structure of wages is also a difficult act of balancing between entrepreneurial reward and organizational equity. Lately, the capitalist structure has proved to be a 'road to greed and related manipulations in measuring results'. Socialist structure stagnates a business enterprise as it kills entrepreneurship. Due flexibility and legitimacy in the compensation system facilitates an act of equilibrium between entrepreneurial aspiration and systemic control.

3. Promoters who are working as managers in the business always face a dilemma between 'profit-based incentives' and 'dividend pay-out'. The distinction between entrepreneurial risk and managerial risk is a difficult exercise to do. Promoters have to achieve a fair equivalence between corporate governance and enterprise governance by strategically managing their rewards. This is very essential for long-term sustenance of the morale of a company's human resources.

4. Value-driving employees always expect a differential treatment. Rewarding them adequately without disturbing the fabric of cultural equity is always a challenge. In addition to 'differential wages', they could be rewarded and recognized through the methods of extra empowerment, opportunities of greater competence building, long-term plan of ownership sharing etc.

5. A good amount of confusion exists about rewarding employees from prime operations and subordinate operations. This becomes complex while rewarding 'star employees' from the subordinate operations. Another complexity gets added when a subordinate function becomes critical as a result of an externality or change in the business model.

6. 'Regional Cost Differences' are always to be considered while defining regional wage parity. This could be a complex exercise for a multinational company facing globalization of human resource movement. Regional wage disparity may be a result of selecting a business model based on regional peculiarities. A region's wage cost competitiveness may not be sustainable in long-run. Visualizing such possible future dilemma is a challenge for a CHRO. Such visualization impacts the overall strategic plan of a business enterprise.

7. The doctrine of 'perform and then get paid' may not always be an attractive proposition for the employees. Even the promoters get confused between selecting a 'short-term, volume-based reward system' and a 'long-term, sustainable reward system based on sustainable paying capacity of the organization'. Higher incentives paid during boom time are very difficult to be retained during bad time. Very often, 'systemic' employees are not ready to accept this reality. Hence raising the bar of incentivization is a very strategic decision.

8. Inorganic growth through acquisitions causes the complex dilemma of equating productivity and wage structures of different organizations merging together. An aspirational gap becomes a further criticality caused by different cultural backgrounds. Transparency, legitimacy, reasonability and sustainability are the four ways to tackle the 'wage dilemma' imposed by the acquisitions.

9. A trade-off between the capital investment in technological advancement and a similar investment in employee capability advancement is always a strategic exercise. This trade-off becomes a difficult task when the externalities impose serious uncertainty about a company's business model and threaten its competitive advantage.

10. A common challenge that all organizations face is of achieving a sustainable equilibrium of 'wages for yesterday's contribution, wages for today's performance and wages for post-retirement days'. Impact of generation gap, drastically changing concepts of employability and related uncertainty, globalized standards of compensation and uncertainty of the business model are the most critical factors impacting this equilibrium.

To conclude, Strategic Wage Planning is a joint effort of the CEO, CHRO and CFO. They need to understand and appreciate the combined impact of life cycle positioning of their business enterprise, critical externalities and business model alterations. Making SWP full-proof, this trio should be able to visualize the possible impact and formulate pragmatic strategies to minimise the damage done by such impact. The ultimate success of a SWP may be measured by its contribution to a company's long-term sustainable growth. ❐

Obituary

We deeply regret the passing away of Shri Pramod D Parkhi, Past President of our Institute on September 24, 2011. He was the President of the Institute for the period 1988-89. We extend our heartfelt condolence to Shri Parkhi's family and friends. May his soul rest in peace.

ERP Implementation Case Study : Role Played by Stakeholders

Smita P. Kachole

M.Sc. and M.Phil. (Statistics) and M.C.M., Faculty, Computer Management, J.D.C. Bytco I.M.S.R. Nasik 422 005

Introduction

Enterprise Resource Planning Systems are built to support organizational processes. These processes are interdependent and require coordination and collaboration between departments and that means people or stakeholders from different departments must come together and try and understand these interdependencies. Their involvement is what drives ERP Implementation project more than anything else.

A successful implementation brings about a radical change in that organization. There is a positive change in the organization such as increase in efficiency, shorter response time, and information accuracy, among others. Whereas, a failed implementation becomes a block in the path of organization's progress. This is an effort to study effect of people's factors on ERP implementation successful or otherwise.

Research Objectives and Methodology

ERP implementation projects are said to be people's projects. It is the different stakeholder's contribution that makes it a success. Davenport Thomas, 1998, page 131 concludes 'If the development of an enterprise system is not carefully controlled by management, management may soon find itself under the control of the system'.

Objective of the case study was to learn about the role played by different stakeholders and its effect on ERP implementation.

A list containing the points to be studied was prepared and, using that list as a guideline, interviews were conducted with various members of the organization. These members consisted of senior management, middle management, IT department, and end-users from all the departments.

Company Profile

This company is a large India-based international company engaged in engineering procurement construction business in power transmission, distribution and substation sectors. The company offers a wide range of services from design, engineering consulting, tower testing, manufacturing, construction and project management in this area. The company has been operating in this field for around 30 years and has earned considerable recognition all over the world. The company has operations in around 40 countries all over the world.

ERP Implementation Background

The company had a history of failed ERP Implementation (in 1991-92). This software was operational for about four years in the organization. The company had spent a lot of resources on the implementation but had not been able to get expected benefits from the particular implementation.

Different departments ended up having different stand-alone systems developed and implemented at different times and by different people. None of the systems were integrated. This resulted in duplication of data entry and hence data inaccuracy or inconsistency.

Company started growing faster as number of orders increased and, without a good ERP system, handling computing needs of the organization was becoming more and more difficult. There was always a possibility of error in data. Managers from different departments came up with different figures as a result of duplication in data entry. Auditors were not sure that the data provided is in fact, accurate. Finally, looking at all these aspects, top management decided to go for ERP. It was decided that initially the scope would be limited to the following departments:

(i) Finance and taxation (ii) Production (iii) Sales/ Commercial (iv) Dispatch/Materials Stores (v) Purchase (vi) Construction division (vii) Project sites.

Selection of the ERP Software

A detailed requirement study was done. Steering Committee members spent months in evaluating various ERP softwares available in the market on various issues. Suitability of the product as far as the business process, work culture, and cost were some of the important issues considered. Some of the prominent market players demand a dedicated core team, which means that some important staff members should be spared for a considerable period of time. It was realised that a dedicated team was not possible. Local software—which was technically strong—had low cost of customization and was viewed as a better option.

A steering committee of four persons was formed consisting of IT, finance, and manufacturing. The steering committee members visited and studied actual implementations of the ERP software being considered for selection. A feedback from other industries was also taken into consideration.

Planning for Implementation

After finalizing the software vendor, requirements analysis, AS-IS analysis and GAP analysis was done. A division-wise mapping of requirements was done. Software vendors worked along with the users from different departments for about one month. After the initial study, the requirements were discussed and reviewed by the module leaders and also the steering committee. To ensure that the requirements are as correct as possible, the requirements were always reviewed by the module leaders and one person from finance or taxation was included in each module so that any legal requirement or requirements regarding taxation are not overlooked by that department.

For implementation, module leaders and module committees were set up. A schedule for implementation was prepared in August 2007. A deadline was set up for November 2008.

Change Management Initiatives/Strategies

Initially, there was a lot of user resistance. In some cases, it was resistance to change and learn anything new. It was experienced that the younger generation was more receptive to this change. One of the module leaders experienced that employees became insecure. They felt that they would be transferred to remote areas or they might lose their job as a result of a successful ERP Implementation.

This aspect was handled very effectively by the management. It was made clear to all the concerned users/employees that this is a top management initiative and all possible cooperation must be given. This did not leave any room for anyone to think otherwise. Also, the module leaders understood their colleagues and subordinates well. They convinced them that, in fact, ERP Implementation was not at all a threat. They were assured that they will not be transferred or thrown out. If taken positively, this may help them get a promotion instead.

The module leaders understood their people, their insecurities, and their egos through years of experience and were simply patient. They were able to motivate and turn around the people that resisted initially, mainly because of their individual relationship and experience.

Also, it was observed that Finance and taxation departments did not experience any user resistance. This was because each user from Finance and taxation was using computers for more than ten years and they had realised that they would not be able to cope with increasing volume of data any longer without an ERP system.

Another aspect of change is Business Process Reengineering and Customization. A lot of customization was done in the software. Still there were some process changes. Through various meetings, users were informed about these changes.

Vendor Support and Testing

As there was more than 70 percent customization to be done, extra care was taken to test the software. Software vendor's team was assigned space and a server where they could load the modules as they were developed and test them on site. This also ensured 100 percent control on the ERP project. This also gave easy access of software vendors for the company, and vice versa. As a result there was a better communication and coordination between the two. This arrangement created an environment of its own where issues were resolved quicker than otherwise they would have been.

There was a distinct advantage in choosing a local software vendor. Compared to a Europe or US based software vendor, the local vendor understood their requirements much better, had a better idea of the working style of the industry here. Relations with the software vendor were more informal. They were able to communicate with the users in their native language and did not seem intimidating to their users/employees. One of the module leaders said that the software vendor "belonged". So this has certainly turned out to be a winning strategy for the company.

The company ensured vendor support by tying up payment terms with successful completion of stages of ERP. Even after that, a lot of follow-up was required to ensure vendor support. As with every ERP Implementation there were difficulties and miscommunication. Module leaders had to resolve those issues by persistently following the matter with IT Head/Steering committee members and software vendors.

User Training

Initially, key users were given training by software vendor's team. The key users then, in turn, helped train other users. Training was hands on and on the job training. Two to three hours were spent on training every day for two-three months. It is experienced that training on ERP is not a onetime activity. End users experience difficulties and sometimes new people join the organization and refresher courses or training for new users is required. Training material such as PowerPoint presentations has been prepared and the module leaders/key users are involved in this ongoing training activity.

Implementation Methodology

Phased Implementation methodology was used. Implementation started from purchase, stores and finance department. The sequence of implementation was : purchase-stores/inventory–finance, and then was extended to sales–production/manufacturing – purchase-stores–dispatch–finance.

This ensured that pre requisite data entries were already done on ERP module and were available for the next module being implemented. This eliminated writing programs to interface ERP with legacy modules. As phased implementation requires comparatively less resources, it was comfortably paced and allowed some time for all the concerned users/employees to gain more knowledge of the system.

The system was on a parallel run for 4 to 6 months in all the departments. Due to parallel run of both the systems during this period, all the ERP users were overloaded and had to work approximately two to four hours extra every day.

The management had given deadlines to users beyond which they would not be able to access the old system. The decision to cut off from the old system was not taken hastily and, at the same time, it was not delayed indefinitely. Cut off from the old system was done at a time when users were already comfortable with the new system.

Benefits Generated due to ERP System

1. User Satisfaction : All the module leaders and users expressed that they were very happy with the new ERP System. Some users said that compared to legacy system it was user's delight.

2. Manpower Reduction : All the departments experienced that it is now possible to handle more transactions with the same manpower as before.

3. Traceability for Quality : **For** the quality department maintaining traceability of items from raw materials to finished goods is very important for customers. The new ERP system has made it easier to maintain traceability.

4. Information for better decision making : The module leader, Quality Department, expressed that compared to legacy system the new ERP system is much better when it comes to providing information for decision making.

5. Online and real time information : After ERP implementation, the project site users make the data entry. This makes it possible to have real time information which was not previously available.

6. Reduction in outsourcing scrap : After the ERP Implementation initiative, the company decided to give one terminal at the vendor's location (to whom job work is outsourced) and one person to do the data entry at vendor's location. This has helped them to measure and monitor scraps level.

7. Benefits to Dispatch/Materials : (i)Better workflow management. (ii) Increased efficiency (iii) ontime dispatch information for customers. (iv) Interdivision stock transfer is now possible. (v) Correct information on dead stock has helped the company use 500 tons of dead stock worth 2 crore rupees. (vi) Better Inventory Control.

8. Increased Efficiency : All the departments experienced that they are now able to handle more work in less time. Reports are inbuilt and can be generated within minutes. Bonus calculations, which required a number of days, can now be done within two days.

9. Increased Credibility : Auditors of the organization are satisfied because the information is more reliable. This has increased credibility of the organization.

10. Correct packing list for construction division : One electric tower is made up of about 1,500 different angles. The design of a tower depends on the location. In each project, each tower can have different specifications and some items differ very little from each other. Due to automation, a correct packing list is generated.

11. Reduction in paperwork : Reports are generated automatically from the central database and can be sent as mail attachments. This has reduced a lot of paperwork.

Conclusions

It was found that

(i) A detailed requirement analysis
(ii) A careful study and selection of suitable ERP package
(iii) Top management support
(iv) Appropriate change management

played a crucial role in ERP implementation considered. ❒

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ANNOUNCEMENT

The Management Accountant —November, 2011 will be a special issue on **'CMAs IN SERVICE SECTOR'.** Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita @icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th October, 2011.

The Management Accountant — December, 2011 will be a special issue on **'ROLE OF CMAs IN BUSINESS VALUATION'.** Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita @icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th November, 2011.

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Sustainable Development and An Outline of Environmental Accounting

Pranab Nag

Associate Professor of Commerce,
Nabadwip Vidyasagar College, (W.B.), and Guest Faculty Member,
Dept. of Business Administration, Kalyani University (W.B.)

I

Introduction

Environmental pollution started since industrial revolution. With the growing up of world commodity economy, the scale of our ecological problems has been intensifying. Degradation of environment due to global warming, depletion of ozone layer, water, air and noise pollution, soil infertility became the concern of the general public since the eighties of the last century.

The mainstream environmental economists present the ecological crisis and environmental problems not as a problem of market failure, but as a failure of the accounting system. Their view is that if the environmental costs in the form of external or social costs can be internalised into private costs, then environmental costs can be priced and realised from the market. Thus Paul Hawken, a green entrepreneur, observes : for the most simple and frustrating of reasons: bad accounting. Natural capital has never been placed on the balance sheets of companies, countries or the world (Foster, 2003 : 34). But the internalisation of external environmental costs within the structure of market economy is unthinkable.

In capitalism, capital accumulation takes place through extended reproduction of commodities. But Nature cannot be extended through reproduction. So the inclusion of nature into the economy through the commodifica-tion of Nature has a limit. Hence there exists a contradiction — an unlimited desire of capital expansion within a finite environment. Foster (2003) describes it as a catastrophic conflict between global capitalism and the global environment (Foster, 2003 : 10). In order to understand the conflict we can cite an example—the ecological problems of global warming. We have seen that legally binding deductions of carbon emission through Kyoto Protocol (held in 1997) has failed and a new market for carbon trading has emerged.[1]

Many proponents of free trade policy believe that environment should not be a fundamental part of economy and development is arrested for environmental policy against free trade. The GATT secretariat was also for a long time denying any linkage among trade, environment and the achievement of sustainable development (Bhandari, 2001: 95). Subsequently the Trade and Environment Committee of WTO confessed the relationship between trade and sustainable development.

In 1987, the World Commission on Environment and Development (popularly known as the Brundtland Commission) recognised the concept of sustainable development for protecting the environment not only for present generation but also for future generation. After that, all the countries participating in the 1992 Earth Summit in Rio de Janeiro declared their support for sustainable development. Though the issue had been narrowly discussed yet something is better than nothing. The discussions remained confined to the realm of Economics. But it is necessary to address the question of sustainable development in the realm of Philosophy. However, sustainable development is understood, as discussed in the 1992 Earth Summit, as sustained economic growth.

Keeping in mind the limitation, we need to start and act with sustained economic growth — a better alternative than the only economic growth. We need to develop the green accounting techniques for proper valuation of natural resources and environmental damages that arise from production and consumption process. Environmental accounting is to be done at national level as well as at the enterprise level.

Sustainable development does not mean not to use the natural resources but to use these in a restricted way so that it is left for future generations as much as possible. It recognizes that waste disposal should be kept in an acceptable limit so that Nature can absorb it normally within itself. Environmental damages that arise from the unsustainable methods of production can greatly reduce the long-term national productivity but it can increase the current GNP figures. The short term economic benefit penalises both the present and specially the future generations.

It is therefore important that the government of a country incorporates some form of environmental accounting for its development planning and GNP calculation. A business firm is also expected to incorporate environmental accounting in the accounts of the firm for proper measurement of income and reporting thereof to discharge its social responsibility. A business entity is usually reluctant to internalise environmental costs (as far as practicable) and to report on environmental impact that arises from its activities. That is why conflict between the business entity and the local people including the employees may arise. Adversary accounting on behalf of the employees and local community may be useful in this regard.

Given this background, macro and micro aspects of environmental or green accounting are discussed in Sections II and III, respectively. Section IV discusses the applicability of adversary accounting.

II

Environmental Accounting in National Income Accounts

The role of natural resources in production was not considered in classical and neo-classical economic theories as they were obtained finely in nature (Bose, 2004; 44). The natural resources were valued at the cost of extraction only. The cost of extraction was determined on the basis of capital and labour employed in the extraction work. As a separate asset natural resource was not valued. In those theories, the wastes generated by the economic activities and thrown in the eco-system were also not valued as these were not economic goods. Following this wisdom, in conventional national accounts also, only manufactured capital (e.g., machines, factories, roads, etc.) was considered to be the overall capital assets. As such, net domestic product (NDP) was arrived at after deducting depreciation allowance on manufactured capital from the Gross Domestic Product (GDP). Under present SNA system, GDP or GNP is the aggregate of goods and services produced in a financial year plus (exports – imports). NDP is found out by deducting the intermediary consumption and depreciation of manufactured capital assets from GDP.

Symbolically it is expressed as :

$NDP = C + 1 + (X - M)$

where C = Final consumption after deducting intermediary consumption

I = Investment after depreciation or net capital formation (NCF)

X = Exports

M = Imports

Therefore, $NCF = NDP - C - (X - M) - I$

The investment part of NDP comes from savings. Following the growth model approach, saving rate is generally considered to be a good indicator for understanding the health of the economy. But the economic growth measured by the conventional national accounting system is overstated and is far from reality because it does not consider the depreciation allowance on natural resources.

Under sustainability conditions, depreciation on natural resources as well as man-made capital are to be provided to measure the sustainable saving rate. According to Pearce-Atkinson Measure (PAM) the improved measure is (vide Kadekodt, 2001 : 177) :

$PAM = S/Y - (\delta m/Y) - (\delta n/Y)$

where S and Y are savings and income at the economy level and S stands for change. If PAM is positive or zero, the economy is considered to be sustainable.

Environmental accounting suggests for inclusion of environmental capital (e.g. forests, soil quality, etc.) in national accounts. Sustainable development requires that the overall capital assets—i.e., manufactured as well as environmental capital assets—should not be decreased and that the correct measure of sustainable national income or sustainable net national product (NNP) is the amount that can be consumed without diminishing the capital stock. It can be expressed in this way (Todaro, 2001 : 411) :

$NDP = GNP - Dm - Dn$

where Dm is the depreciation of manufactured capital assets and Dn is the depreciation of environmental capital assets, i.e., the depletion and degradation of environmental capital assets.

Realizing the need for valuation of environmental assets and their use in national accounts, it was discussed in the Earth Summit of United Nations Conference on Environment and Development that was held at Rio de Janeiro in 1992.[2] It was held in the conference that the process of development would be undermined without better stewardship of the environmental resources and services and changes therein. In 1993, the UN Statistical Commission recommended the preparation of satellite accounts (supplementary accounts) for natural resources with the core accounts. The UN-SNA (United Nations' System of National Accounts) designed a system of Integrated Environmental and Economic Accounting (SEEA). The satellite accounts relating to environment are to be prepared separately following the SEEA.

The SNA for SEEA

Under SNA, assets are classified into two categories—produced assets, and non-produced economic assets. Under SEEA, non-produced economic assets have been divided into two parts—non-produced economic assets, and other non-produced environmental assets including intangibles. Produced assets include machinery, buildings, roads, livestock for breeding, agricultural crops, plantations, assets required for gases, wastes, and so on. Non-produced economic assets are those natural assets upon which ownership rights are enforced and economic benefits are accrued to their owners; for example, land, land underlying buildings, agricultural land, associated surface water, reforestation, etc. Other non-produced environmental assets are those upon which there are no ownership rights and everybody of the society shares economic benefits. These include air, ocean, rivers, lakes, wild species, wild biota, forests, infertile soil and so on. These assets are not used for economic purposes.[3]

Under SNA system for SEEA, environmentally adjusted net domestic product (Eco-Domestic Product or EDP) is obtained by deducting all environmental costs from net capital formation, i.e. EDP = NCF(or I) — All environmental costs. In other words, EDP is the net capital accumulation after deducting environmental costs. EDP is divided into two parts—EDPj and EDP2 (Dasgupta, 1997 : 43). Environmental costs consist of : (1) Depletion in produced economic assets, non-produced economic assets and non-produced environmental assets, and (2) degradation of environmental assets. Net capital accumulation = I – Depletion costs of all types of assets under EDPi.

Net capital accumulation = EDPi — Degradation cost of all types of assets

Under EDP_2

or, EDP_2 = I – Depletion and degradation costs of all types of assets.

Obtaining NCF, EDP_1 and EDP_2 for a number of years, we can make a comparative study and find the impact of environmental deterioration on capital stock. It is to be noted that the amount of genuine savings depend upon the deductions for depletion and degradation costs of the natural resources and environment. These deductions, again, depend upon the government policy. So the coordination between the ministries of Environment and Finance is desirable.

Resource and pollutant flow accounts can be prepared under SNA. A resources and pollutant flow account can be prepared with each Input-Output (I/O) account. For each production and final demand sector in the I/O tables a physical flow of natural resources is to be recorded, typically as inputs such as energy or raw materials to production process and a physical flow of wastes and emissions in the form of *COz,* SOi, etc. For example, when coal is used as input of power generation, a part of the total quantity of coal consumed is transformed into power and a part into wastes in the form of sulphur dioxide (SOi), oxides of nitrogen (NOx) and fly-ashes. With links to the I/O tables these accounts may help to take policy decisions on environmental regulations, estimating the emission tax rates, efficient use of natural resource, etc.

Valuation of Natural Assets

Natural resources include renewable and non-renewable or exhaustible resources. Non-renewable resource is limited in quantity (e.g. land, mineral resources) and is not reproducible. Hence extraction of this resource depletes its stock. Whereas renewable resource (e.g. fish, forestry) can be regenerated. Hence growth of it can be achieved by regeneration like man-made capital.

The value of natural resource originates from its present and future benefits. The measurement of benefits is the measurement of economic value of environmental or natural resource. The value of a natural resource consists of two values, namely, use value or user value and non-use or non-user value. If a resource is not used presently, it generates a non-use value, the value that arises from the option not to use it presently. So this value is also known as option value. A timber collecting from forest has a use value. But if the tree is not cut, it carries a non-use value performing a carbon sequestration function. The uniqueness of natural resource provides some unique amenities to the society. These environmental amenities have intrinsic value originating from non-user benefit and is called existence value. For example the snow of Antarctica or a wet land has existence value. The existence value of natural resources is very important from the perspective of sustainable development. So the total economic value of a natural asset is the aggregate of user value and non-user value (i.e., the user value plus option value plus existence value). The option value and existence value are calculated under stated preference method in which hypothetical or experimental market is constructed (as market price is not there) under contingent valuation method.[4]

However, the usual methods are (Dasgupta, 1997 : 53-67) : (a) Market Value Approach : It is applied for those natural assets that have a market value in the SNA sense. For example, cultivated or non-cultivated land, (b) Present Value Approach : It is the sum of the expected future benefits/revenues discounted at nominal or real interest rate for the life of the asset concerned, (c) Net Price Method : This method is applicable for overcoming the drawbacks of present value method. Net price is the difference between the market price of one unit and factor cost per unit. The unit difference is multiplied by the total units. It can be adopted for all types of natural assets particularly for minerals, gases. (d) Maintenance Cost Approach: This approach is introduced in the SEEA as an alternative to market valuation. Cost estimated or incurred to maintain or bring the environmental assets in its original form is the cost of depletion and degradation. If no maintenance is required, cost of depletion and degradation would be zero, (e) Compensation Cost Approach : It is introduced where a community as a whole is affected. It measures the impact of environmental damage that may arise from forest clearing or land acquisition for urbanization or industrialization.

Usefulness of Environmental Accounting

Environmentally adjusted net capital accumulation and the growth rate based on these data reveal a real position of the country. It helps the Government to take investment decisions and development planning for sustainable development. Environmental accounting discloses the unsound methods of production vis-a-vis unsound production and consumption patterns. Government may be cautious and take measures in this regard. It is useful for imposing compensation tax (pollution tax, spoiling tax, carbon tax, and the like) for internalizing the negative externalities of the polluters. The natural resources of many less developed countries are transferred to developed countries through international trade. In the era of globalization it is now increasing in the name of free trade. Environmental accounting helps the less developed countries to understand that to what extent the developed countries are responsible for deterioration of natural resources.

In European Union member countries, recently there has developed the National Accounting Matrix including Environmental Accounts (NAMEA) that structures the accounts in a matrix form. It identifies the pollutant emissions by economic sector. The physical data in the NAMEA system helps to assess the growth strategies on environmental quality. If emissions are valued in monetary terms, these values help to determine the cost of avoiding environmental deterioration and to compare the cost and benefit of environmental protection.

In India, the government administration is decentralized through panchayats and municipalities in rural and urban areas. These local governments can introduce environmental accounting for calculating the depletion and degradation of environmental assets at local level. The local governments can take initiatives to indentify the natural resources falling under the category 'other non-produced environmental assets' as classified by SNA for SEEA and to preserve them for protecting the ecosystem.

However, the environmental accounting or green accounting is still in the stage of infancy. There may arise problems in its implementation. It is expected that gradually a common consensus on its concepts and methods will be reached.

III

Environmental Accounting at Enterprise Level

Realising the need for environmental accounting and reporting at the enterprise level, the UN formed a working group known as the United Nations Intergovernmental Working Group of Experts on International Standard of Accounting & Reporting (ISAR) in 1989. The group formulated its first guidance for accountant in 1991 in terms of what should be disclosed in financial statements to exhibit the true and fair view of the environmental performance of an enterprise. Subsequently a guidance manual was published. As per the Guidance Manual of Accounting and Financial Reporting for Environmental Costs and Liabilities of United Nations Conference of Trade and Development (UNCTAD, 2000), the internal cost that arises from the transactions between the business entity and another party are to be recorded. The costs which are observed and considered by the entity as external costs should be excluded from accounting and reporting. For example, costs that may arise from the air or water pollution are not observed by the entity and are considered as external costs. These are not to be recorded in the books and reported to the stakeholders. The guidance manual, again, suggests that an environmental cost that is to be capitalised for recognising it as an asset should be amortized to the income statement over the current and appropriate future period (UNCTAD, 2000 : 23). An environmental liability is considered as a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefit. If any environmental cost, asset or liability is valued on the basis of some estimation it should be disclosed in the financial statement.

A business entity incurs some costs for controlling the pollution and environmental damages. For example, cost of inspection of the products, purchase of pollution preventive equipment like effluent treatment plant, electrostatic precipitator, etc. These costs can be recorded in the account books under conventional system. The costs which are of a capital nature should be amortised to the income statement over the current and appropriate future period. Under traditional system, environmental costs are hidden within general overheads. That is why they are not allocated to cost objects. Rather, they are allocated on arbitrary basis within the allocation of general overheads. Hence, these costs are not identified product-wise or process-wise.

By using ABC system, the allocation problem can be overcome. Under this system, environmental costs can be accumulated by separate cost pools, analysed by appropriate categories and charged to the products or processes according to cost drivers. In this way, product or process having more environmental costs can be indentified by the management so that the manager who is responsible for the product or process can take measures to prevent and reduce pollutants emitted to the environment. As pointed out by Hansen and Mendoza 1999 (vide Drury, 2007 : 966) four categories of environmental costs can be reported. These are — (1) environmental prevention costs, (2) environmental appraisal costs, (3) environmental internal failure costs, and (4) environmental external failure costs. They also observed that a major limitation of environmental cost report is that it reports the internal environmental costs only. The external environmental costs, i.e., the costs caused by a firm but borne by society (social costs) are not included in the report (I bid : 966).

Non-renewable or exhaustible resource is limited in supply and not reproducible. That is why extraction of a unit today involves an opportunity cost—the value that might have been obtained at some future date. This opportunity cost is known as user cost (Bhattacharya, 2008 : 52). In case of a mineral resource extracting firm, the user cost should be added to the costs of extraction.[5] The total cost of extraction including the user cost is the internal or private cost borne by the entrepreneur. Whereas the health hazards, acid leached into streams from mine operations, etc. are the associated environmental or external costs (social costs) not borne by the entrepreneur. It seems to be necessary to include the environmental costs, at least a part of it, in the resource cost. For inclusion of environmental costs, though the price of mineral resource will be increased resulting in a declining trend in demand for minerals, yet a possibility would be there that the resource may last for a longer period.

Determination of the amount of environmental damage is a difficult and complex task. Because, it is based mainly on estimation. However, survey may be conducted in the locality to estimate the amount of damage of natural resources and sufferings of the people. Accounting or shadow pricing may be used where necessary to determine the cost of environmental damage. The cost of environmental damage would be (Chowdhuri, 1995 : 181-183) :

$$C_{ED} = \sum_{i=1}^{n} a_i + \sum_{i=1}^{n} W_i + \sum_{i=1}^{n} n_i$$

where

a = cost of air pollution (e.g. loss of trees, agricultural crops, damage of historical building , cost of medical treatment for asthma, bronchitis, skin disease, and so on.

W = cost of water pollution (e. g. market value of insects and fishes killed, cost of clearing the polluted water, market value of crops lost for infertility of soil, cost of medical treatment for diseases arising from polluted water, and so on.

n = cost of medical treatment for diseases arising from noise pollution, and so on.

The corporate responsibility of a business entity is to report the social groups both inside and outside of the firm on the environmental impacts on the society and the measures taken by the firm to restore and avert the environmental damage.

Life Cycle Assessment (LGA) — a new methodology to assess the environmental impact—has developed recently. The LCA covers the assessment of the environmental impact on the procurement of raw materials to be used for the products, processing of raw materials, using the product and its disposal. In India, LCA is used for awarding the Eco-mark label to products. A product is awarded if it satisfies the specific criteria and requirements of Indian standard as specified by the Ministry of Environment and forests. (Chatterjee, 2002 : 143-144).

At present many companies are shifting their focus away from pollution control to pollution prevention. For this purpose, a company considers clean technologies and preventive costs in capital budgeting decision. A company can invest in new manufacturing equipment that allows it to use less costly and nontoxic direct materials. It would result savings in direct material costs and toxic waste disposal. There can also be 'hidden' impacts on a company's revenues (Horngren *et al*, 2003). For example, periodic training for pollution control activities is required for employees. During each training season, plant remains idle though there is no idle time cost. The consequence is that training to employees adds to costs, and revenue is lost for shut down of the plant for each training session.

Sustainable development requires proper environmental reporting. Sustainable environmental reporting can be ensured through the 'triple bottom line' system. It considers profit, planet, and people by incorporating the economic performance, environmental performance and social/ethical performance. It is suggested by UNCTAD (UNCTAD, 2000:80). The environmental performance can be reported by the environmental performance indicators (EPIs). EPIs are useful for making economic and environmental decisions. Considering five global environmental problems, ISAR proposes a standardisation method for five generic EPIs at enterprise level for environmental performance reporting. The five indicators measure the five following environmental problems (UNCTAD, 2000 : 84) :

i. Depletion of non-Renewal Energy Resources
ii. Depletion of Fresh Water resources
iii. Global Warming
iv. Depletion of Ozone layer
v. Waste Disposal.

Value added or Sales can be used as denominator in the above indicators. Agenda 21 of the UNCED held in 1992 discussed some specific environmental problems that were related to three generic indicators mentioned above (i.e. ii, iii and v). This agenda was the most comprehensive agreement to date which was adopted by more than 178 governments which participated in the conference.

In India, disclosure requirements of environmental impacts of corporates under the Companies Act is minimal. Under Section 217 (1) (e) of the Companies Act, 1956, as amended by the Companies (Amendment) Act, 1988, only manufacturing companies belonging to 21 industry groups are required to furnish information on conservation of energy in Form A and B as part of Directors' Report. Proper utilization and conservation of energy are linked to sustainable development. The Energy Conservation Act, 2001, empowers the state electricity boards of the states to recommend the appointment for energy auditors to those undertakings who have a connected load of 5,000kw for commercial use. To give emphasis on energy audit, energy audit may be a mandatory requirement in the Companies Act, 1956, in case of an undertaking who has load connection of 5000kw or more, and an undertaking who uses a certain quantity of coal, oil, etc. The minimum consumption of coal, oil, etc. should be mentioned in a provision of the Act.

IV
Adversary Accounting for Environment

Accounting is generally viewed on behalf of the owners of capital. But in the context of capital-labour conflict, accounting may be used in the interest of labour. The concept of adversary accounting (McBarnet, D. et al, 1993) emerges from this aspect. Under adversary accounting, the financial information and accounting techniques are strategically used by the trade unions. Differing with management in different issues like profit-sharing, bonus, retrenchment etc., an alternative approach for cost allocation, asset & liability valuation and financial statement analysis can be adopted by the trade unions. An example may be given from McBamet (1993) where adversary accounting has been applied in favour of labour[6]: Management had consistently disclosed sales and sale prices achieved by subsidiaries in overseas markets. With the depressed domestic market, management launched a major overseas marketing campaign which involved reducing the selling prices to overseas subsidiaries and markets as a way of stimulating demand. The employee representatives were quick to realize that selling the goods at less than the standard selling price undermined their profit-sharing scheme and enhanced the profits of the subsidiaries. Challenging management on this issue resulted in a proportion of the overseas profits being brought into the profit-sharing scheme for distribution purposes (McBarnet, D et al, 1993 : 92)

The concept of adversary accounting may be extended to capital-community conflict or capital-ecology conflict. The local people and the environmental resources of an area in which a company operates are affected by the production and waste disposal activities of the company. There are sufficient grounds for the local people and the employees to know what are the environmental impacts of company's operation on the locality. They can ask what is the environmental policy of the organization, whether the policy is pro-people and would protect the environment properly. But the business community in general is reluctant to report the detailed information on environmental impact on the locality. Therefore environmental information may be an issue of adversary accounting. Any trade union and/or local civil society organization can take initiatives in this regard. The strategic use of adversary accounting can help in getting and analysing the accounting information for the assessment of the environmental impact on the employees, local community, and on the ecology as well.

Many stakeholders in general and the financial community in particular need standard environmental performance indicators (EPIs). We have mentioned in the previous section that ISAR proposes five generic EPIs for reporting at the enterprise level. Whether a firm maintains and reports EPIs properly as suggested by UNCED, or at least the EPIs as per Agenda 21, may be studied by any body (i.e., trade union or civil society organization). Through adversary accounting several new EPIs can be suggested and demanded for maintaining in the firm and reporting thereof in the financial statement for the protection of the local environment and community, For example, carbon emission in gm.per unit of output or value added, pH level in water in the local area in which the firm operaters, TSS (Total Suspended Solids) in mg. per litre of liquid waste disposal, oil & grease in mg. per litre of liquid waste discharge, correlation between presence of RPM (respirable particulate matter) and the number of respiratory patients, correlation between waste disposal and contaminated farm land area, etc.—can all be studied by any trade union of the factory or any local civil society organization (e.g. Nature Club, Science Club, Citizen Forum, any right-based association, etc.) to assess the environmental impact in the locality.

ISAR suggests recording the environmental costs that are paid by the enterprise. But there are many environmental costs that are borne by the society though the firm is responsible for these. These environmental costs are nothing but external or social costs. Through adversary accounting the boundaries of internal costs can be extended (as far as possible within the ambit of market economy) through the inclusion of a part of external or social costs in the internal or private costs. Some statutory obligations can be imposed on a business entity. It seems that the strategic use of adversary accounting can save the ecology and environment locally as well as globally to a great extent. ❒

Notes

1. It seems that this trend has not been minimized in the recently held Copenhagen Conference. Briefly speaking, one of the clauses of the Copenhagen Accord of 18 December 2009 was that the temperature of the earth should not be increased more than 2°C from the average temperature of the earth that was before the industrial revolution which began about 1760. But there is no legal binding of carbon emission by the participating countries. It seems that carbon market would be expanded more in future.

2. It may be mentioned that in the sixties and early seventies, environmental accounting was developed in Norway and France, but it was mainly associated with quantities, not with values. For a detailed discussion, see Dasgupta, N. (1997), Chapter 2.

3. Assets under this category are necessary for protecting the eco-system. But the natural resources under 'non-produced environmental assets' category have been converting gradually into the 'non-produced economic assets' for the interest of big capital.

4. Where market valuation is not possible, contingent valuation method is followed. It is an indirect valuation technique to determine the implicit value of a natural asset. Under this method, the customer's willingness to pay (WTP) for benefit or willingness to accept (WTA) the compensation for loss is determined by asking questions to the consumers. This method was first adopted for environmental valuation by Gerking and Stanley (1986); vide Banerjee, 2001. For a detailed discussion, see Banerjee, S. (2001 : 151-158). It may be mentioned here that while aggregating the values of natural resources in national income accounting there is a theoretical problem. That is the use value of a natural resource is calculated under revealed preference method where market is there and value is calculated on the basis of market price; but non-use value of a natural resource is calculated under stated preference method where there is no market. So an inconsistency may arise when the two different methods are followed.

5. User cost is an opportunity cost, not a historical cost. Yet it seems to be appropriate to include it in the cost of extraction for fixing the price of the resource.

6. For more examples, see McBarnet, D. et. al (1993).

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Academic Audit—A Tool of Academic Excellence

Dr. L. N. Koli

Associate Professor, Deptt. of Accountancy and Law,
Faculty of Commerce, DEI [Deemed University], Dayalbagh, Agra

Auditing is not a subject to check and verify the accounting data of any type of organization but it is a subject matter of evaluation of all type of activities of any type of organization (like commercial and non-commercial). In other words, Auditing is "concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and reports" [R. K. Moutz in Fundamental of Auditing]. It is, therefore, concerned with the examination of all accounting data from the books of accounts, vouchers and other documents. Thus auditing is not merely testing the arithmetical accuracy of the books of accounts, but also evaluation of all evidence that is produced in support of each transaction. Today the scope of 'auditing' is changing and increasing with the changes in the economic and non-economic condition of the country. Today it is not only a ticking profession. The scope of auditing has increased and is increasing year after year.

What is Academic Audit?

Academic Audit is a system of audit which provides external and independent assurance to the universities and colleges and which have adequate and effective mechanisms and structures for monitoring, maintaining, and improving the quality of their teaching.

Academic audit is an externally driven review of institutional quality assurance, assessment, and improvement systems. Unlike program review, audit does not directly evaluate academic quality itself, it focuses on the processes that are believed to produce quality in teaching and student learning and the methods by which academic assure themselves that quality has been attained .Audit of educational quality use institutional briefing documents in which institutions explain and illustrate the processes by which they maintains their chosen academic standards, and external peer review.

Characteristics of Academic Audit

An academic audit is a form of external quality assurance that has the following characteristics :

1. It presumes an institutional corporate responsibility for academic standards and quality assurance.

2. It utilizes external, process-oriented quality reviews.

3. It examines the academic standards set by universities and colleges.

4. It focuses on student learning.

5. It is concerned with the examination of educational policy.

6. It is oriented toward improvement and institutional capacity.

Objectives of Academic Audit

An academic audit is a form of external quality assurance that has :

1. To produce tangible improvements in education quality without having to spend more money.

2. To review educational programs.

3. To provide support for academic quality improvement.

4. To examine and monitoring academic standards.

5. To report to the Academic higher body, general public and universities for action.

Techniques of Academic Audit

The following techniques can be used at the time conducting the academic audit:

1. Accreditation
2. Program Review
3. Focus
4. Evidence
5. Comparing
6. Confirmation
7. Student Feedback.

1. Accreditation : Accreditation is a process in which certification of competency, authority, or credibility is presented. Organizations that issue credentials or certify third parties against official standards are themselves formally accredited by the standards bodies. For this purpose Indian higher education system have NAAC. In other words,

Accreditation determines whether an institution or a program meets threshold quality criteria and, therefore, certifies to the public the existence of minimum educational standards.

2. Progaram Review : Program review evaluates the overall quality of academic units; that is, program review goes beyond accreditation to make judgments about the relative academic quality of a program. It is not criterion-based but define quality relative to an institution's mission, and usually relative to a program's academic peers. It can be organized by an external agency.

3. Focus : Academic audit is clearly focused on those processes by which an institution monitors its own academic standards and acts to assure and enhance the quality of its teaching and support for student learning.

4. Evidence : Academic auditor examines the types of evidence and processes by which an institution makes such assessments. Academic auditor trace the interaction between an institution's quality assurance policies and the activities of academic units, by 'audit trails' and extensive investigation.

5. Comparing : A comparison is always between two figures or two groups of figures. The current year's figures of the academic program may be compared with those of the previous year. An inconsistency or a deviation, if any, between the two will be apparent and the mistakes can then be rectified.

6. Confirmation : It is a technique with an auditor to contact responsible officials [like Teacher or Registrar or VC] through interview and to open communication with the outside parties [like students or their parents] for ensuring that the transaction are authentic, valid and accurate.

7. Student feedback : Feedback is a process whereby some proportion of the output signal of a system is passed to the input. This is often used to control the dynamic behavior of the system. In other words, feedback is a process of sharing observations, concerns and suggestions between persons or divisions of the organization with an intention of improving both personal and organizational performance. Negative and positive feedback have different meanings in this usage, where they imply criticism and praise, respectively.

"Lack of sufficient relevant feedback is one of the most common sources of dissatisfaction and frustration for distance learners." — Karin

Most universities and colleges, around the world, collect some type of feedback from students about their experience of education. Feedback in this sense refers to the expressed opinions of students about the service they receive as students. This may include perceptions about the learning and teaching, the learning support facilities (such as, libraries' computing facilities, book bank, newsroom), the learning environment (lecturer rooms, laboratories, social spaces, post office facilities, sports ground and university buildings), support facilities (refectories, student accommodation, health facilities, student welfare facilities and other student facilities) and external aspects of being a student (such as finance, placement, sports programs and transport facilities).

Feedback from students has two main functions

1. Internal information to guide improvement,

2. External information for potential students and other stakeholders.

Some examples of student feedback

- "Earlier I was an ordinary student but this institute has prefixed the word 'Extra' with it. Apart from improving my qualifications it has led to my overall development. All this could not have been possible without the support of faculty members and the interactions during the live projects in the course curriculum."
- "Knowledge, discipline and dedication are prerequisites of achievement and can only be acquired through right people and institution, which I got from my institution, is best of everything I got ever in my life."
- "Sir your writing should be legible."
- "Sir your voice should be audible."

Student's Feedback Form

University or College's name — — — — — — — —

— —

— —

You are required to give your comments on the items given below for the purpose to improve quality of teaching and other academic and administrative works. This will be kept secret.

Class — — — — — — —

Subject — — — — — — —

Item to be considered for examination and Academic Audit	Excellent	Good	Poor
1. Konwledge of subject matter and ability to explain the subject matter			
2. Regularity in conducting classes			
3. Sense of humour			
4. Help in the class			
5. Help outside the class			
6. Legible writing			
7. Konwledge of current issues and ability to create interest in the subject			
8. Voice is audible			
9. Encourages discussions about jobs			
10. Available after the class			
11. Maintenance of discipline in the class			

- Any other comments —

Format of Academic Audit program for the evaluation of Teacher performance

Name of the teacher — — — — — — — — — — — —

Designation — — — — — — — — — — — —

Length of service — — — — — — — — — — — —

Items to be considered for Academic Audit	Place for information		
1 . Class which is taken by TEACHER		Classes	
	UG	PG	M.Phil.
2. No. of research paper(s) published	National	International	Local
3. No. of books published	Text	Edited	Others
4. No. of conference or seminar or workshop attained	National	International	Local
5. Any innovation in academic areas	Course	Curriculum	Others
6. Contribution in any academic work	BOS	Academic Council	Others
7. Any award or prize obtained	For teaching works	For academic research	Others
8. No. of research candidate(s) guided	M.Phil.	Ph.D.	Others
9. Contribution in evaluation or administrative works	Exams.	Review	Others

- Any other comments —

Composition of Academic Audit Teams

Academic audit teams are usually small, composed principally of faculty members experienced in teaching and academic work who act as generalists —not subject experts. However, a structure of an academic audit teams can be :

- Chairman of the team [VC/Principal of the institute]
- Members [All Deans of the faculty or all HODs]
- Additional member for legal advising—Registrar
- One student member [Nominee from the students]

Role of Academic Audit Teams or Academic Auditor

Academic audit teams review and verify the effectiveness of an institution's basic processes of academic quality assurance and improvement such as :

1. How an institution designs, monitors, and evaluates academic programs and degrees,

2. How an institution assesses, evaluates, and improves teaching and student learning, and

3. How an institution takes account of the views of external experts and students in improving teaching and student learning.

Audit Report

It is the duty of academic teams or auditors to make a report to the Academic higher education body [like UGC] or VC of the university or Principal of the college on student feedback and other academic information examined by him. Such type of report will be available for general public.

Conclusion

Academic audit team looks at the key faculty activities required to produce and regularly improve the quality of teaching and learning. That is, audit team evaluate the processes that lead to education quality rather than focusing on teaching performance or assessing student learning. An audit team inquires how faculty members organize their work and how they use data to make decisions. It also asks how faculty work collegially towards improvement in teaching and learning and how they use resources available to them. ❐

How Effective are we in Tackling Insider Trading—It's Impact on Financial Market's Behaviour—An overview

K P C Rao

LLB., FCS., FICWA

Introduction

Insider trading is the trading of a corporation's stock or other securities (e.g. bonds or stock options) by individuals with potential access to non-public information about the company. In most countries, trading by corporate insiders such as officers, key employees, directors, and large shareholders may be legal, if this trading is done in a way that does not take advantage of non-public information. However, the term is frequently used to refer to a practice in which an insider or a related party trades based on material non-public information obtained during the performance of the insider's duties at the corporation, or otherwise in breach of a fiduciary or other relationship of trust and confidence or where the non-public information was misappropriated from the company.

It was only about three decades back that insider trading was recognized in many developed countries as what it was - an injustice; in fact, a crime against shareholders and markets in general. At one time, not so far in the past, inside information and its use for personal profits was regarded as a perk of office and a benefit of having reached a high stage in life.

In the United States and Germany, for mandatory reporting purposes, corporate insiders are defined as a company's officers, directors and any beneficial owners of more than ten percent of a class of the company's equity securities. Trades made by these types of insiders in the company's own stock, based on material non-public information, are considered to be fraudulent since the insiders are violating the fiduciary duty that they owe to the shareholders. The corporate insider, simply by accepting employment, has undertaken a legal obligation to the shareholders to put the shareholders' interests before their own, in matters related to the corporation. When the insider buys or sells based upon company owned information, he is violating his obligation to the shareholders.

For example, illegal insider trading would occur if the chief executive officer of Company X learned (prior to a public announcement) that Company X will be taken over, and bought shares in Company X knowing that the share price would likely rise.

In the United States and many other jurisdictions, however, "insiders" are not just limited to corporate officials and major shareholders where illegal insider trading is concerned, but can include any individual who trades shares based on material non-public information in violation of some duty of trust. This duty may be imputed; for example, in many jurisdictions, in cases of where a corporate insider "tips" a friend about non-public information likely to have an effect on the company's share price, the duty the corporate insider owes the company is now imputed to the friend and the friend violates a duty to the company if he or she trades on the basis of this information.

It was the Sunday Times of UK that coined the classic phrase in 1973 to describe this sentiment - "*the crime of being something in the city*", meaning that insider trading was believed as legitimate at one time and a law against insider trading was like a law against high achievement. It is the trading that takes place when those privileged with confidential information about important events use the special advantage of that knowledge to reap profits or avoid losses on the stock market, to the detriment of the source of the information and to the typical investors who buy or sell their stock without the advantage of "inside" information. Almost eight years ago, India's capital markets watchdog — the Securities and Exchange Board of India organised an international seminar on capital market regulations. Among others issues, it had invited senior officials of the Securities and Exchange Commission to tell us how it tackled the menace of insider trading.

In the United States and several other jurisdictions, trading conducted by corporate officers, key employees, directors, or significant shareholders[3] must be reported to the Regulator or publicly disclosed, usually within a few business days of the trade. Many investors follow the summaries of these insider trades in the hope that mimicking these trades will be profitable. While "legal" insider trading cannot be based on material non-public information, some investors believe corporate insiders nonetheless may have better insights into the health of a corporation and that their trades otherwise convey important information.

But one of the main reasons that capital is available in such quantities in the markets is basically that the investor trusts the markets to be fair. Fairness is a major issue. Even though it sounds simplistic, it is a critical factor and one that is absent, really to a surprising degree in many of the sophisticated foreign markets. The common belief in Europe that certain investors have access to confidential information and regularly profit from that information may be the major reason why comparatively few Europeans actually own stock. Indeed, the European Economic Community has formally recognized the importance of insider trading prohibitions by passing a directive requiring its members to adopt insider trading legislation. The preamble to the directive stresses the economic importance of a healthy securities market, recognizes that maintaining healthy markets requires investor confidence and acknowledges that investor confidence depends on the "*assurance afforded to investors that they are placed on an equal footing and that they will be protected against the improper use of inside information*." These precepts echo around the world as reports of increased insider trading regulation and enforcement efforts are daily news.

What Constitutes 'The Insider Trading' — A Debatable Issue

"Insider trading" is a term subject to many definitions and connotations and it encompasses both legal and prohibited activity. Insider trading takes place legally every day, when corporate insiders – officers, directors or employees – buy or sell stock in their own companies within the confines of company policy and the regulations governing this trading.

The American notion that insider trading is wrong was well-established long before the passage of the federal securities laws. In 1909, the United States Supreme Court held that a director of a corporation who knew that the value of the stock of his company was about to skyrocket committed fraud when he bought company stock from an outsider without disclosing what he knew. But this condemnation is not universal, even in the United States.

Those who oppose prohibiting insider trading advance many arguments, most of which fall on their own weight.

1. Some argue that insider trading is a legitimate form of compensation for corporate employees, permitting lower salaries that, in turn, benefits shareholders. It provides an incentive to innovation, some argue, by promising huge rewards for developing a plan or product that will lead to a precipitous rise in the stock.[6] This argument, however, fails to address the real and significant hazard of creating an incentive for corporate insiders to enter into risky or ill-advised ventures for short term personal gain, as well as to put off the public release of important corporate information so that they can capture the economic fruits at the expense of shareholders.

2. Others have argued that reliance on several antifraud provisions, and the absence of a statutory definition of insider trading, may lead to unfairly penalizing traders whose conduct comes close to the line. This seems an illusory concern. There are at least two compelling reasons for this. First, scanter, a fraudulent intent, is an element that must be proven.[7] Second, given the inherent difficulties in investigating and proving insider trading cases, the reality is that there is a significant amount of clearly illegal activity that goes undetected or unpunished. As SEC Chairman observed, "*It's not as if insider traders wander innocently into the gray areas near the boundaries of legality. They willfully stride across the bright line of the law.*"

3. Another argument advanced by critics is that strict insider trading regulation may have a chilling effect on the work of securities analysts, prohibiting "sensible dialogue" between company officials and analysts. The empirical evidence is to the contrary. Thousands of analysts ply their important trade diligently, effectively and within the law.[8] Currently, this is an area of special concern to the Regulator because in several cases of unusual trading in the interval between a company's disclosure of price sensitive information to analysts and disclosure of the information to the public. "Legally, you can split hairs all you want. But, ethically, it's very clear: If analysts or their firms are trading – knowing this information, and prior to public release – it's just as wrong as if corporate insiders did it."

4. Finally, there are those who argue that insider trading is a victimless offense and that enforcing insider trading prohibitions is simply not cost effective; the amount of money recovered does not justify the money and human capital spent on investigating and prosecuting insider traders. With respect to equities trading, it may well be true that public shareholders' transactions would have taken place whether or not an insider was unlawfully in the market. But the options market presents a different story. Professional option writers write options only in response to a particular demand. Where that demand comes from an insider possessing material non-public information, the option writer suffers a loss that would not otherwise have occurred. Additionally,

this penny-wise, pound-foolish argument neglects the external costs that result from a perception that insider trading is unchecked. In fact, as regulators throughout the world are discovering, governments cannot afford to turn a blind eye to insider trading if they hope to promote an active securities market and attract international investment.

Insider Trading Law in the US

Rooted in the common law tradition of England, the US legal system has relied largely on the courts to develop the law prohibiting insider trading. The United States Department of Justice has played the largest role in defining the law of insider trading.

After the United States stock market crash of 1929, Congress enacted the Securities Act of 1933 and the Securities Exchange Act of 1934, aimed at controlling the abuses believed to have contributed to the crash. The 1934 Act addressed insider trading directly through Section 16(b) and indirectly through Section 10(b).

Section 16(b) prohibits short-swing profits (profits realized in any period less than six months) by corporate insiders in their own corporation's stock, except in very limited circumstance. It applies only to directors or officers of the corporation and those holding greater than 10% of the stock and is designed to prevent insider trading by those most likely to be privy to important corporate information.

Section 10(b) of the Securities and Exchange Act of 1934 makes it unlawful for any person "to use or employ, in connection with the purchase or sale of any security registered on a national securities exchange or any security not so registered, any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the [SEC] may prescribe." To implement Section 10(b), the SEC adopted Rule 10b-5, which provides, in relevant part :

It shall be unlawful for any person, directly or indirectly . . .,

(a) to employ any device, scheme, or artifice to defraud,

(b) to make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading, or

(c) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of a security.

Insider Trading Law-Court Decisions

In U S the development of insider trading law has resulted from court decisions. These broad anti-fraud provisions make it unlawful to engage in fraud or misrepresentation in connection with the purchase or sale of a security. While they do not speak expressly to insider trading, here is where the courts have exercised the authority that has led to the most important developments in insider trading law in the United States.

The breadth of the anti-fraud provisions leaves much room for interpretation and the flexibility to meet new schemes and contrivances head on. Moral imperatives have driven the development of insider trading law in the United States. And the development of insider trading law has not progressed with logical precision as the reach of the anti-fraud provisions to cover insider trading has expanded and contracted over time.

The anti-fraud provisions were relatively easy to apply to the corporate insider who secretly traded in his own company's stock while in possession of inside information because such behavior fit within traditional notions of fraud. Far less clear was whether Section 10(b) and Rule 10b-5 prohibited insider trading by a corporate "outsider." In 1961, in the case of *In re Cady Roberts & Co*[9], the Securities and Exchange Commission, applying a broad construction of the provisions, held that they do. The Commission held that the duty or obligations of the corporate insider could attach to those outside the insiders' realm in certain circumstances. The Commission reasoned in language worth quoting:

"Analytically, the obligation [not to engage in insider trading] rests on two principal elements: first, the existence of a relationship giving access, directly or indirectly, to information intended to be available only for a corporate purpose and not for the personal benefit of anyone, and second, the inherent unfairness involved where a party takes advantage of such information knowing it is unavailable to those with whom he is dealing. In considering these elements under the broad language of the anti-fraud provisions we are not to be circumscribed by fine distinctions and rigid classifications. Thus, it is our task here to identify those persons who are in a special relationship with a company and privy to its internal affairs, and thereby suffer correlative duties in trading in its securities. Intimacy demands restraint lest the uninformed be exploited".

Based on this reasoning, the Commission held that a broker who traded while in possession of nonpublic information he received from a company director violated Rule 10b-5. The Commission adopted the "*disclose or abstain rule*": insiders, and those who would come to be known as "temporary" or "constructive" insiders, who possess material nonpublic information, must disclose it before trading or abstain from trading until the information is publicly disseminated.

Several years later in the case of *SEC v. Texas Gulf Sulphur Co*, a federal circuit court supported the Commission's ruling in *Cady (*referred supra*)*, stating that anyone in possession of inside information is required either to disclose the information publicly or refrain from trading. The court expressed the view that no one should be allowed to trade with the benefit of inside information because it operates as a fraud all other buyers and sellers in the market. This was the broadest formulation of prohibited insider trading.

In *Strong v. Repide,* the Supreme Court of the United States ruled that a director upon whose action the value of the shares depends cannot avail of his knowledge of what his own action will be to acquire shares from those whom he intentionally keeps in ignorance of his expected action and the resulting value of the shares. Even though in general, ordinary relations between directors and shareholders in a business corporation are not of such a fiduciary nature as to make it the duty of a director to disclose to a shareholder the general knowledge which he may possess regarding the value of the shares of the company before he purchases any from a shareholder, yet there are cases where, by reason of the special facts, such duty exists.

In the case of *Dirks v. SEC*, the Supreme Court of the United States ruled that tippers (receivers of second-hand information) are liable if they had reason to believe that the tipper had breached a fiduciary duty in disclosing confidential information and the tipper received any personal benefit from the disclosure. (Since Dirks disclosed the information in order to expose a fraud, rather than for personal gain, nobody was liable for insider trading violations in his case.)

The Dirks case also defined the concept of "*constructive insiders*," who are lawyers, investment bankers and others who receive confidential information from a corporation while providing services to the corporation. Constructive insiders are also liable for insider trading violations if the corporation expects the information to remain confidential, since they acquire the fiduciary duties of the true insider.

In United States v. Carpenter (1986) the U.S. Supreme Court cited an earlier ruling while unanimously upholding mail and wire fraud convictions for a defendant who received his information from a journalist rather than from the company itself. The journalist R. Foster Winans was also convicted, on the grounds that he had misappropriated information belonging to his employer, the Wall Street Journal. In that widely publicized case, Winans traded in advance of "Heard on the Street" columns appearing in the Journal.

The court ruled in Carpenter: "It is well established, as a general proposition, that a person who acquires special knowledge or information by virtue of a confidential or fiduciary relationship with another is not free to exploit that knowledge or information for his own personal benefit but must account to his principal for any profits derived therefrom."

However, in upholding the securities fraud (insider trading) convictions, the justices were evenly split.

In *United States v. O'Haga,* the U.S. Supreme Court adopted the misappropriation theory of insider trading. O'Hagan was a partner in a law firm representing Grand Metropolitan, while it was considering a tender offer for Pillsbury Co. O'Hagan used this inside information by buying call options on Pillsbury stock, resulting in profits of over $4 million. O'Hagan claimed that neither he nor his firm owed a fiduciary duty to Pillsbury, so that he did not commit fraud by purchasing Pillsbury options.

The Court rejected O'Hagan's arguments and upheld his conviction.

The "misappropriation theory" holds that a person commits fraud "in connection with" a securities transaction, and thereby violates 10(b) and Rule 10b-5, when he misappropriates confidential information for securities trading purposes, in breach of a duty owed to the source of the information. Under this theory, a fiduciary's undisclosed, self-serving use of a principal's information to purchase or sell securities, in breach of a duty of loyalty and confidentiality, defrauds the principal of the exclusive use of the information. In lieu of premising liability on a fiduciary relationship between company insider and purchaser or seller of the company's stock, the misappropriation theory premises liability on a fiduciary-turned-trader's deception of those who entrusted him with access to confidential information.

The Court specifically recognized that a corporation's information is its property and held :

"A company's confidential information qualifies as property to which the company has a right of exclusive use. The undisclosed misappropriation of such information in violation of a fiduciary duty constitutes fraud akin to embezzlement—the fraudulent appropriation to one's own use of the money or goods entrusted to one's care by another."

In 2000, the SEC enacted Rule 10b5-1, which defined trading 'on the basis of ' inside information at any time a person trades while aware of material nonpublic information—so that it is no defense for one to say that he would have made the trade anyway. This rule also created an affirmative defense for pre-planned trades.

Illegal insider trading is believed to raise the cost of capital for 'Securities Issuers' thus decreasing overall economic growth.

SEC regulations

SEC regulation FD ("Fair Disclosure") requires that if a company intentionally discloses material non-public information to one person, it must simultaneously disclose that information to the public at large. In the case of an unintentional disclosure of material non-public information to one person, the company must make a public disclosure "promptly." Insider trading, or similar practices, are also regulated by the SEC under its rules on takeovers and tender offers under the Williams Act.

Security analysis and insider trading

Security analysts gather and compile information, talk to corporate officers and other insiders, and issue recommendations to traders. Thus their activities may easily cross legal lines if they are not especially careful. The CFA Institute in its code of ethics states that analysts should make every effort to make all reports available to all the broker's clients on a timely basis. Analysts should never report material nonpublic information, except in an effort to make that information available to the general public. Nevertheless, analysts' reports may contain a variety of information that is "pieced together" without violating insider trading laws, under the 'mosaic theory'. This information may include non-material nonpublic information as well as material public information, which may increase in value when properly compiled and documented.

Liability for insider trading

Liability for insider trading violations cannot be avoided by passing on the information in an "I scratch your back, you scratch mine" or quid pro quo arrangement, as long as the person receiving the information knew or should have known that the information was company property. It should be noted that when allegations of a potential inside deal occur, all parties that may have been involved are at risk of being found guilty.

For example, if Company A's CEO did not trade on the undisclosed takeover news, but instead passed the information on to his brother-in-law who traded on it, illegal insider trading would still have occurred.

Position in India

Insider

According to Regulation 2 (e) of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992[17] *"insider"* means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to unpublished price sensitive information in respect of securities, or who has received or has had access to such unpublished price sensitive information;

Price Sensitive Information

According to Regulation 2 (ha) of the Regulations, "price sensitive information" means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of securities of company.

According to the Explanation given in this Regulation — the following shall be deemed to be price sensitive information :

(i) periodical financial results of the company;
(ii) intended declaration of dividends (both interim and final);
(iii) issue of securities or buy-back of securities;
(iv) any major expansion plans or execution of new projects;
(v) amalgamation, mergers or takeovers;
(vi) disposal of the whole or substantial part of the undertaking; and
(vii) significant changes in policies, plans or operations of the company;

Prohibition on dealing, communicating or counseling on matters relating to insider trading. (R.3& 3A)

No insider shall—

(*i*) either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange [when in possession of] any unpublished price sensitive information; or

[(*ii*) communicate counsel or procure directly or indirectly any unpublished price sensitive information to any person who while in possession of such unpublished price sensitive information shall not deal in securities :

Provided that nothing contained above shall be applicable to any communication required in the ordinary course of business [or profession or employment] or under any law.]

No company shall deal in the securities of another company or associate of that other company while in possession of any unpublished price sensitive information.

Violation of provisions relating to insider trading. (R.4)

Any insider who deals in securities in contravention of the provisions of regulation 3 [or 3A] shall be guilty of insider trading.

Penalty for insider trading (Sec 15G)

If any insider who, —

(i) either on his own behalf or on behalf of any other person, deals in securities of a body corporate listed on any stock exchange on the basis of any unpublished price sensitive information; or

(ii) communicates any unpublished price- sensitive information to any person, with or without his request for such information except as required in the ordinary course of business or under any law; or

(iii) counsels, or procures for any other person to deal in any securities of anybody corporate on the basis of unpublished price-sensitive information,

Shall be liable to a penalty of twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is higher.

SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2011

Securities Exchange Board of India vide notification no LAD-NRO/GN/2011-12/16/26150, Dated 16-8-2011 has further regulations regarding "*Disclosure of interest or holding in listed companies by certain persons – Initial Disclosure*." through SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2011. These Regulations envisages :

"(2A) Any person who is a promoter or part of promoter group of a listed company shall disclose to the company in Form B the number of shares or voting rights held by such person, within two working days of becoming such promoter or person belonging to promoter group;

"(4A) Any person who is a promoter or part of promoter group of a listed company, shall disclose to the company and the stock exchange where the securities are listed in Form D, the total number of shares or voting rights held and change in shareholding or voting rights, if there has been a change in such holdings of such person from the last disclosure made under Listing Agreement or under sub-regulation (2A) or under this sub-regulation, and the change exceeds INR 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower."

Change of Takeover threshold Limits (2011)

In order to open up India's market for corporate control new takeover regulations are announced by markets regulator SEBI on 28th July, 2011. The Code has three major changes which are as follows —

1. The trigger point or threshold limit has been changed from 15% to 25%. This means that if the person/entity or persons acting in concert acquire shares of 25% of the company, the open offer would have to be made.

2. The size of the open offer has been increased from 20% to 26%. The earlier limit of offer has been changed as the threshold limit has been changed and it makes sense that the size of the open offer should be bigger than the threshold limit.

3. The contentious issue of non-compete fee has been abolished. This is a demand which has been made by minority shareholders and it has been finally accepted.

In other words, under the changed regulations, an acquirer has to make an open offer once he crosses the threshold holding of 25% in a company, rather than 15% as before, and the open offer has to be for 26% (20% earlier) and at the full price at which the threshold was crossed. No more sweet deals for promoter-sellers in the form of 'non-compete fees', an element of the share price that was denied to minority shareholders, while making the open offer. The acquirer would end up with a controlling stake, and shareholders, with a higher price than was likely in the previous regime. The raising of the open-offer trigger threshold has two effects. It makes it easier to fund enterprises -private equity player can hold a much larger stake, just a sliver lower than 25%, without getting into control mode. At the same time, the fact that someone can come so close to the 26% threshold that endows the holder with veto rights on special resolutions would put the promoters on their toes, even when that holding is below the 25% takeover threshold.

Judicial Interpretation — Indian courts

SEBI has extensively referred to the US laws while interpreting insider trading regulations. Over the years, US courts have developed two theories: traditional theory and misappropriation theory. The former emphasizes on disclosing or abstaining from dealings based on inside information by insiders who by virtue of their relationship have access to such information meant for corporate purposes. Misusing the information is a breach of duty and unfair to those who do not have this information. Misappropriation theory forbids trading on the basis of non-public information by a corporate 'outsider' in breach of a duty owed to the source of the information.[21]

Essentially, under this theory, a person is liable if he misuses the information which has been entrusted to him for personal use. SEBI too has adopted these two theories.

Hindustan Lever Ltd (HLL) v SEBI was one of the first cases where SEBI took action on grounds of insider trading. HLL and Brook Bond Lipton India Ltd. (BBIL) controlled by Unilever Inc. UK were both under the same management. HLL purchased 0.8 million shares of BBIL from UTI in March 1996 two weeks prior to the public announcement of the HLL and BBIL merger. Post announcement, the price of BBIL's shares shot up thereby causing losses to UTI. SEBI suspected insider trading and issued a show cause notice to HLL after conducting enquiries for several months. SEBI held HLL liable for insider trading. According to SEBI, HLL had full knowledge of the impending merger and misused the unpublished price sensitive information to its advantage. However, the appellate authority of SEBI reversed the order on the ground that the information was not price sensitive as it was reported in the media and, hence, was public knowledge.

As a fall out of this case, SEBI amended the Regulations to specifically provide that speculative reports in the media (print or electronic) shall not be treated as publication of price sensitive information.

In another case, *Dilip Pendse v SEBI*, Nishkalp Investment and Trading Company Limited, a wholly owned subsidiary of TATA Finance Ltd. (TFL) was a listed company. Dilip Pendse was the Managing Director of TFL. At the end of the financial year of 2001 (March 31), TFL had incurred huge losses. This unpublished price sensitive information was in the knowledge of Dilip Pendse. He passed on this information to his wife who sold her shares of TFL held in her own name and in the name of companies (Nalini Properties Limited) controlled by her and her father-in-law. The information was disclosed to the public a month later.

The above transaction occurred prior to public disclosure. Hence, the case squarely fell within the scope of insider trading. Penalty of INR 500,000 was imposed on each of Dilip Pendse, his wife and Nalini Properties Limited.

There have been instances where the SEBI appellate authority has shown a peculiar stand. For instance, in *Rakesh Agarwal v SEBI*, former was the Managing Director of a listed company, ABS Industries Ltd ("the Company"). The company found a joint venture partner in Bayer, a company based in Germany which made an open offer to the Indian investors to acquire at least 51% stake in the Company. Before the open offer, Rakesh Agarwal informed his brother-in-law about the same and instructed him to purchase shares of the Company from the market (to meet the eventuality of a failed open offer). SEBI held Rakesh Agarwal guilty of insider trading. However, the appellate authority overruled the order on the ground that the motive/intention of the insider has to be considered. According to the authority, the insider did not intend to gain any unfair advantage and hence was not guilty.

The above decision was anomalous as the SEBI Regulations nowhere stipulate the presence of mens rea or malafide intention to implicate an offender. In fact, chapter VIA of the SEBI Act does not stipulate that mens rea is an essential element for imposing penalties.

In *SEBI v Cabot International Capital Corporation*, the Bombay High Court has summarized certain principles in respect of imposition of penalties :

a. The relevant consideration for determining the nature of proceedings is the nature of the functions being discharged by the authority and the determination of the liability of the contravener and the delinquency.

b. There can be two distinct liabilities: civil and criminal under the SEBI Act.

c. The administrative authority has to act judiciously and follow the principles of natural justice, to the extent applicable.

d. Mens rea is not essential for imposing penalties.

e. Though looking to the provisions of the statute, the delinquency of the defaulter may itself expose him to the penalty provision yet the authority may refuse to impose penalty for justifiable reasons like if the default occurred due to bona fide belief that he was not liable to act in a manner prescribed by the statute etc.

In the case of Ispat Industries Ltd. v SEBI decided on 1st Dec., 2005, it was held that the amount of disproportionate gain or unfair advantage to the notice and amount of loss caused to the investors as a result of the default cannot be quantified in view of the absence of availability of any data/material on record in this regard in as much there is no allegation of actual trading by the notice on the basis of the said unpublished price sensitive information.

Securities laws provide for penalties for violating the provisions of the same. Adherence to regulatory framework is a *sine qua non* for healthy growth and safety of the securities market. Any violation of the provisions of the said regulations can be treated as a serious offence. Therefore, imposition of quantum of penalty has to be decided keeping these factors also in mind; in addition to the factors laid down under section 15J of SEBI Act.

In the light of the above judicial pronouncements, the ruling given in the case of *Dilip Pendse* is appears to be harsh.

Conclusion

Insider trading is considered to be a serious economic offence. Despite regulations, several countries have found it difficult to frame insiders because of the nature of the offence. Identifying the insider and then proving the charge is an onerous task due to the heavy burden of proof involved in each case. Although SEBI has implemented laws on insider trading yet the number of offenders actually brought to book is dismal. In fact, many a time SEBI has been unable to detect instances of insider trading. SEBI Regulations do stipulate safeguards like initial and continual disclosures by insiders to companies, code of conduct to be followed by listed companies etc. but there is room for improvement.

It is important to remember that capital markets are a source of large pool of funds for all kinds of investors. Most Funds say that the systems and processes are proper but one individual can beat these systems by being unethical. The argument is unacceptable. If systems are proper that means front running should not be possible. There will always be some individuals who will try to beat the system. Process has to be continuously upgraded to catch these people. Hence, it becomes important that the regulator has to maintain its integrity and efficiency by following a consistent approach which is designed to provide a level playing field in enforcement securities laws of the land. Nobody is more equal than the others and, therefore, trading by 'insiders' to the detriment of 'outsiders' should be strictly dealt with. Therefore, fighting against Insider trading is a biggest challenge before the Indian Watch Dog, the "SEBI"

To sum up, it is all the more important that the SEBI should strong enough to play a proactive and vigilant role by introducing stringent measures designed to provide greater deterrence, detection and punishment of violations of insider trading law. It should introduce greater transparencies, keep a check on sudden abnormal trends in the market, provide adequate safeguards like prohibition of trading by insiders prior to corporate announcements viz. mergers, takeovers, monitor the trading patterns and undertake swift investigations in case of a spurt of buying or selling activity in the market, take stringent action against the guilty to act as deterrence for others. At the same time, it is the prerogative of companies to strictly adhere to the code of conduct prescribed by SEBI, and ensure good corporate governance in order to protect the overall interest of investors against unfair and inequitable practices of insider trading. ❐

NOTIFICATION

DO No. HQ/ 60/ 2005-Computerisation

As you are aware companies are required to file their Balance Sheet and Annual Return to ROC within 30 and 60 days respectively from the date of placing it in the Annual General Meeting. The companies that follow the standard FY ending up to March each year are required to convene the AGM by September of that year. However, most of the companies do not utilize the 30 and 60 days allowed for filing their documents but instead, keep waiting up to last date to file their Balance Sheet and Annual Return. The avoidable delay in filing thus creates an artificial rush and results in heavy filing on the last dates of October and November each year. Moreover, these documents being of large size take a long time to upload. This makes it difficult for others to file their documents on-line.

In order to avoid heavy rush on the system due to filing of electronic forms and attachments which are of significantly large size (2MB or more), it is proposed to educate corporate and professionals so that companies can spread out their annual filings over a suitable period of time rather than rushing in on the last 2-3 days every month during peak filing season. Ministry requires your active assistance/co-operation in propagating this educational campaign.

I, therefore, request you to kindly publish the enclosed notice from Ministry in your periodic publications immediately and also put up a pop up message, ticker or similar prominent message on your websites for the next few months so that a message can reach to companies to comfortably file their Balance Sheets and Annual Returns in time without having to pay penal fees.

With best regards,

Yours sincerely,

(Avinash K Srivastava)
Jt. Secretary, Ministry of Corporate Affairs

Appearance Before Securities Appellate Tribunal

M. Govindarajan

ACS., AICWA, MBA, PGDCA,
Accounts Officer (TR-Comp), General Manager, BSNL,
Thanjavur, Tamil Nadu.

Section 15K of SEBI Act provides for the establishment of one or more Securities Appellate Tribunals ('SAT' for short) to exercise the jurisdiction, powers and authority conferred on such Tribunal by or under SEBI Act or any other law for the time being in force.

Composition of Sat

The SAT shall consist of a Presiding Officer and two other members to be appointed by Notification by the Central Government. A sitting or retired Judge of Supreme Court or a sitting or retired Chief Justice of High Court shall be appointed by the Central Government as the Presiding Officer of the SAT in consultation with the Chief Justice of India or his nominee. The member of SAT shall be a person of ability, integrity and standing who has shown capacity in dealing with problems relating to securities market and has qualification and experience of corporate law, securities laws, finance, economics or accountancy. The tenure of the Presiding Officer and the members is five years and eligible for re-appointment. The Presiding Officer shall not hold office after he has attained the age of 68 years and the Member after he attained the age of 62 years.

Appellate Jurisdiction

Sec. 15T of the SEBI Act provides for filing an appeal before SAT by any person being aggrieved –

- by an order of the Board made, on and after the commencement of Securities Laws (Second Amendment) Act, 1999, under SEBI Act or the rules or regulations made there under; or
- by an order made by an adjudicating officer under SEBI Act.

No appeal shall lie from an order made by the Board or by an Adjudicating Officer with the consent of the parties.

Section 22A of Securities Contracts (Regulation) Act, 1956 provides that where a recognized stock exchange, acting in pursuance of any power given to it by its bye laws, refuses to list the securities of any company, the company shall be entitled to be furnished with reasons for such refusal and may –

- within 15 days from the date on which the reasons for such refusal are furnished to it, or
- where the stock exchange has omitted or failed to dispose of, within the time specified in Section 73(1A) of the Companies Act, 1956 the application for permission for the shares or debentures to be dealt with on the stock exchange, within 15 days file appeal to the SAT having jurisdiction in the matter against such refusal, omission or failure, as the case may be.

Section 23A of Depositories Act, 1996 provides that any person aggrieved by an order of the Board made under the Depositories Act or the regulations made there under or by an order made by an Adjudicating Officer under Depositories Act may prefer an appeal to a SAT having jurisdiction in the matter. No appeal shall be lie from an order made by the Board with the consent of the parties.

A Practising Cost Accountant Can Appear Before Sat

The appellant may either appear in person or authorize one or more practising Chartered Accountants or Company Secretaries or Cost Accountants or Legal Practitioners or any of its officers to present his or its case before SAT. It is an area of practice for the practicing Cost Accountant. In this article the method of filing appeal and the procedure is discussed in detail.

Procedure

The following is the procedure to file appeal before SAT :

Memorandum of appeal :

- A memorandum of appeal shall be filed in the form prescribed;
- The appeal shall be presented in four sets (five sets in case of appeal under Depositories Act) in a paper book along with an empty file size envelope bearing full address of the respondent; where the number of respondents are more than one, then sufficient number of extra paper books together with empty file size envelope bearing full address of each respondent shall be furnished by the appellant;

● The appeal shall be accompanied with a fee as detailed below :

Amount of penalty imposed	Amount of Fees payable
1. Less than Rs.10000/-	Rs.500/-
2. Rs. 10000/- or more but less than 1 lakh	Rs.1200/-
3. Rupees 1 lakh or more	Rs.1200/- plus Rs.1000/- for every additional one lakh of penalty

The fee may be remitted either in the form of crossed demand draft drawn on a nationalized bank in favor of 'The Registrar' and payable at the station where the Registrar's office is situated or remitted through a crossed Indian Postal Order drawn in favor of 'The Registrar' and payable in Central Post Office of the Station where the Appellate Tribunal is located.

● The proceedings of SAT shall be conducted in English or Hindi. If the appeal or documents in any language other than English or Hindi the same shall be accepted by the Tribunal if the same is accompanied by a true copy of translation thereof in English or Hindi;

● The appeal shall set forth concisely under distinct heads, the grounds of which of such appeal without any argument or narrative and such grounds shall be numbered consecutively and shall be typed in double line space on one side of the paper;

● It shall not be necessary to present separate memorandum of appeal to seek interim order or direction if in the memorandum of appeal, the same is prayed for;

● The appeal shall be accompanied with two copies (at least one of which shall be certified copy) of the order against which appeal is filed;

● Where the appeal is represented —

- ■ by an agent documents authorizing him to act such agent;
- ■ by a legal practitioner, a duly executed Vakalatnama;
- ■ by any of the officers to act as Presenting Officer before the SAT the document authorizing him to act as Presenting appeal shall be appended to the appeal;

● A memorandum of appeal shall not seek reliefs based on more than a single cause of action in one single memorandum of appeal unless the reliefs prayed for are consequential to one another.

Limitation

● The appeal under Section 15T of SEBI Act shall be filed within a period of forty five days from the date on which a copy of the order made by the Board or the Adjudicating Officer, as the case may be, is received by him;

● The appeal under Section 22A of Securities Contracts (Regulation) Act, 1956 shall be filed within fifteen days from the date on which the reasons for refusal of listing the securities of the appellant company;

● The appeal under Section 23A of Depositories Act, 1996 shall be filed within a period of forty five days from the date on which a copy of the order made by the Board is received by the person.

The SAT may entertain an appeal after the expiry of the limitation period if it is satisfied that there was sufficient cause for not filing it within that period.

Filing and numbering

● The memorandum of appeal shall be filed by the appellant with the Registrar of the Appellate Tribunal having jurisdiction in the matter;

● The appeal sent by post shall be deemed to have been presented to the Registrar on the day on which it is received in the office of the Registrar;

● The appeal shall not be entertained unless such person has deposited with the SAT the amount of penalty imposed by the Adjudicating Officers; The SAT may, for reasons to be recorded in writing, waive or reduce the amount to be deposited with the SAT;

● The following are the powers and functions of the Registrar in registering the appeal —

- ■ to receive all appeals and other documents;
- ■ to decide all question arising out of the scrutiny of the appeals before they are registered;
- ■ to require any appeal presented to SAT to be amended in accordance with the rules;
- ■ to endorse on every appeal the date on which it is presented and sign endorsement;
- ■ to scrutiny whether the appeal is in order; if it is in order it shall be duly registered and given a serial number;
- ■ to allow the appellant to rectify the defective in his presence and if the said defect is not formal in nature, allow the appellant to rectify the same as he may deem fit;
- ■ to decline registration if the appellant fails to rectify the defect with the time stipulated by recording the reasons in writing.

● An appeal against the order of the Registrar shall be made within fifteen days of making of such order to the Presiding Officer concerned in his chamber, whose decisions thereon shall be final;

Reply to appeal

● A copy of the memorandum of appeal and paper book shall be served on the Board as soon as they are filed by the Registrar by registered post and also the respondent(s);

● The respondent(s) or the Board may file four copies sets (five in case of appeal under Depositories Act) containing the reply to the appeal along with the documents in a paper book for with the registry within one month of the service of the notice on him of the filing of the memorandum of appeal;

● The respondent or the Board shall also endorse one copy of the reply to the appeal along with the documents to the appellant;

● The SAT may, in its discretion on application by the respondent or the Board may allow the filing of reply after the expiry of the period of one month.

Hearing

● The SAT shall hold its sittings either at Head Office or at such other place falling within its jurisdiction as it may consider convenient;

● The SAT shall notify the parties the date and place of hearing of the appeal in such a manner as the Presiding Officer may by general or special order direct;

● Except on Saturdays, Sundays and other public holidays the offices of the SAT shall, subject to any other order made by the Presiding Officer, remain open daily from 10 A.M. to 6 p.m., but no work, unless of an urgent nature, shall be admitted after 4.30 p.m. on any working day. The sitting hours shall ordinarily be from 10.30 a.m. to 1.00 p.m., and 2.00 p.m., to 5.00 p.m. Where the last day for doing any act falls on a day on which the office is closed and by reasons thereof the act cannot be done on that day, it may be done on the next day on which the office opens;

● The SAT shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908 but shall be guided by the principles of natural justice and, subject to the other provisions of SEBI Act and rules, the SAT shall have powers to regulate their own procedure including the places at which they shall have their sittings; The SAT shall have, for the purpose of discharging their functions, the same powers are vested in a civil court under the Code of Civil Procedure, 1908 while trying a suit, in respect of the following matters, namely —

- summoning and enforcing the attendance of any person and examining him on oath;
- requiring the discovery and production of documents;
- receiving evidences on affidavits;
- issuing commissions for the examination of witnesses or documents;
- reviewing its decisions;
- dismissing an application for default or deciding it ex-parte;
- setting aside any order of dismissal of any application for default or any other order passed by it ex parte; and
- any other matter which may be prescribed.
- Every proceeding before the SAT shall be deemed to be a judicial proceeding within the meaning of Sections 193 and 228 and for the purposes of section 196 of Indian Penal Code and SAT shall be deemed to be a civil court for all the purposes of Section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973.
- A fee of rupees twenty, for every hour or part thereof of inspection subject to a minimum of Rs.100/- shall be charged for inspecting the records of a pending appeal by a party thereto. A fee of Rs.5/- for a folio or part thereof not involving typing and a fee of Rs.10/- for a folio or part thereof involving typing of statement and figures shall be charged for providing copies of the records of an appeal to a party thereto;
- After giving the parties to the appeal, an opportunity of being heard, pass such orders thereon as it thinks fit, confirming, modifying or setting aside the order appealed against;
- A copy of the order made shall be sent to the Board, the parties to the appeal and to the concerned Adjudicating Officer;
- The appeal shall be dealt with by it as expeditiously as possible and endeavor shall be made by it to dispose of the appeal finally within six months from the date of receipt of the appeal.

Order

- Every order of the SAT shall be in writing and shall be signed and dated by the Presiding Officer of the SAT;
- The order shall be pronounced in open court;
- The order may confirm, modify or set aside the order appealed against;
- The orders deemed fit for publication in any authoritative report or the press may be released for such publication on such terms and conditions as the SAT may lay down;
- Every order passed on appeal shall be communicated to the appellant and to the respondent and to the Board and Adjudicating Officer concerned in person or by registered post free of cost;

(contd. to page 940)

World Food Inflation : Persisting trends and Issue

Prof. Dr. Badar Alam Iqbal

Former Dean and Chairman, Department of Commerce,
Aligarh Muslim University

Introduction

Food articles are the necessity of life and hence, have direct impact, consequences and implications on human life, purchasing power and standard of living of the people. Any rising trend in prices of these commodities creates hue and cry. The people demand effective measures from the Governments to bring down the prices so that the existing pressure on the people could be eased out.

Global Trends

World food prices hit a record high. Global price index is at historical high. The most affected are the developing countries with their burgeoning population especially in Asian and African continents. Fresh oil price spikes and stockpiling by importers keen to head off unrest could hit already volatile cereal markets. Now the main pressure is also from noon-food items namely fuel. Unrest in West Asia and North Africa region has pushed international crude prices to a 30-month high of US $ 120 per barrel **[TOI 11]**.

Increasing food inflation is a morphing world's concern. The United Nations Food and Agricultural Organization's (FAO) index hit its second straight record in February 2011, further passing peaks witnessed in 2008 when prices sparked riots in several nations, driven by increasing grain costs and tighter supply **[Hindu 2011].**

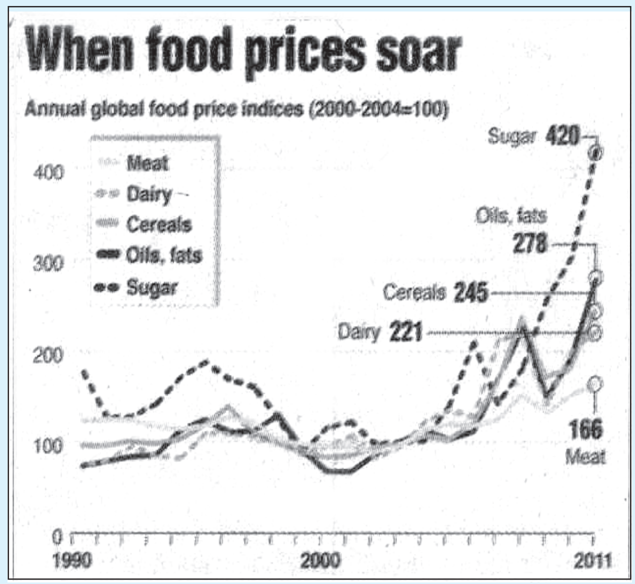
Global food prices are likely to remain close to record highs until and unless the condition and prospect of new crops is known. Increase in the oil prices could have an alarming impact and implications to grain markets which have been benchmark U.S wheat prices surge 60 per cent in the year March 2011 ***(Abbassian 2011).*** Until we know about new crops, that means waiting at least till April 2011, the view is don't expect any major corrections in these high prices, expect even more volatility now that oil has joined the crowd.

World Bank's Perception

Now it is the World Bank that is worried about the rising food prices. The Bank observes that food prices today are 29 per cent higher than 2011 and close to an all time high. The FAO had indicated that the high food prices are likely to persist for several months in 2011. In developing countries, consumers are facing the heat as food inflation touched double digit figure in recent weeks. Global food prices are rising to dangerous levels and threaten tens of millions of poor people around the world ***(Zoellick 2011)*** This situation has already pushed millions of people into poverty and putting stress on the most vulnerable, who spend more than half of their income on food **[DC 2011].** The key driver behind the upward spiral in the food price index has been sharp rises in the prices of wheat, maize, sugar and oils

Chart 1

Chart 1 Emerging trends in Prices of major Global Food Articles in 2011



Source : World Bank; Washington D.C 2010.

According to the latest edition of (FPW), the Bank's food price index has recorded a rise of 15 per cent between October 2010 and January 2011, is 29 per cent above its level a year earlier and only 3 per cent below its 2008 peak **[Hindu 2011].** Wheat prices have seen the most pronounced increase, doubling between June 2010 and January 2011, while maize prices registered an increase of 73 per cent. Fewer people had fallen into poverty in 2008 because of two reasons. Firstly, good harvest was recorded in many African economies. Secondly, the increases in rice prices- a key segment of the diet for many of the world's poor, has registered a moderate rise.

Measures to address the recent round of food prices spikes include expanding nutritional and safety net programmes in nations wherein food prices are rising fastest, avoiding food export restrictions, and finding better information on food stock. Global Food Crisis Response Programmed (GFCRP) has com forward to help around 40 million people in need by extending of US $ 1.5 billion support.

At present more than 40 low-income nations are getting or will be receiving assistance through new and improved seeds, irrigation techniques, and other farm support and food assistance for the most vulnerable people. For instance, in Benin, fertilizer provided through these resources led the production of extra 1.0 lakh tons cereals. Accordingly, in the long terms perspective, World Bank is increasing its expenditure on agriculture from the figure of US $ 4.1 billion in 2008 to US $ 6 to 8 billion in 2011 ***(Elliot 2011).***

Causes for Food Inflation

Rising trend in food inflation is an "***aggravating factor***" but not the main contributory factor. Oil prices recently hit two and half year highs, nearing records set in 2008, with markets spooked on concern that North African and West Asia unrest would choke key supplies. Farmers depend on fuel to run agricultural equipments, while dry bulk shippers are heavy oil users, costs which are passed on to food buyers. Spiral shipping costs for commodities threaten to drive food inflation even higher as nations from Asian and African contents scramble for supplies.

Stockpiling by some main grain importers **beyond nation's normal needs** seeking to head off political unrest and secure supplies on domestic markets, has been adding uncertainty and volatility to markets. Political instability in the regions and nations affects the markets by adding uncertainty; would a nation buy or not buy why it had bought so much now and hence, these trends are disruptive to the normal trade and contribute to food inflation.

The FAO that carries out monthly price ups and downs for a food basket comprise of cereals, oilseeds, dairy, meat and sugar, averaged 236 point in February 2011, the record in real and nominal terms, up by 2.2 per cent from January's 2011 record and rising for the eighth month in a row. On the other side of it, another analyst pointed out a fall in some grains markets in the second half of February 2011 ***(Dunsterville 2011)***

West Asia and North Africa Fear

Fuel inflation, though steady, continued to stay at elevated levels amid fears that continuing unrest in the Arab world could stoke price trends in coming months of 2011, keeping up the pressure on the Central Bank (RBI) to rein in broader inflation. On the other side of it, analysts termed the upsurge in food inflation as one-off move that should ease going ahead, the unrest in West Asia and North Africa has aggravated fears of costlier stoking overall inflation, even though a revision in fuel prices is unlikely. Spikes in oil prices are due to the fact that people feel worried in regard to interrupted supplies from the Middle East region (West Asia). But if we look at corn and soybeans, the people did not follow. Corn and soybeans usually tend to follow crude oil prices closely as these are used as a commodity to produce bio-fuels, with demand from that sector fuelling the 2008 spike. Larger grain stocks now than in 2007 and 2008, hence are serving as a buffer to prevent the return of food crisis, but the FAO is concerned in respect of larger use of stocks. FAO has forecast global wheat production to increase by nearly 3 per cent in 2011.

What should be done at Global Level?

In order to meet the rising challenge, the need of the hour is to take the following steps :

(a) To collect accurate and reliable information on food stocks;
(b) To inject more investment in agriculture;
(c) To develop of less-intensive bio-fuels;
(d) To adapt climate change;
(e) To harness tremendous potential in agriculture in developing economies.

A Case of India

Indian economy is also facing food inflation. But in our economy food inflation is half of the existing global level inflation. This is because; India does not allow its farmers free access to global markets for their crops. Increasing food inflation has the potential to erode the already precarious consumption levels of vulnerable section of the country's economy. It is a matter of generalized concern. On the other side, economists believe that increasing food inflation is just not a problem; it is also an option to raise the income of country's rural masses **[TOI March 2011].**

Existing Trends

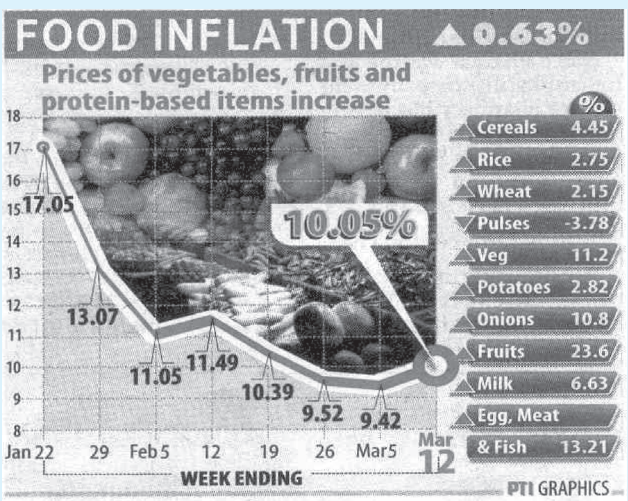
According to latest released data, the food price inflation, based on the annual Wholesale Price Index (WPI), went up to 10.05 per cent on March 12, 2011, higher than the 9.42 per cent annual rise recorded in the first week of March 2011. Accordingly, the fuel price index surged 12.79 per cent in the last week third week of March 2011. The markets seem to have discounted the up tick in the weekly inflation number, with bourses rising.

The Whole Price Index (WPI) statistics on primary articles pointed out that onion price increased by 11 percent on an annual basis, whereas fruits prices went up by 24 per cent and milk increased by 7 per cent, cereals sent up by 4 per cent, with wheat moving up sharply. Inflation among non-food items, led by fibers, was up 27 per cent year-on-year. On a sequential basis, poultry chicken, and fruits and vegetables surged by 2 per cent. Any hasty measures as that would lead to higher interest rates and affect industry at large ***{Basu 2011}.***

The current inflation in food articles is unacceptably high and efforts have to be made out to bring this down (**Chart 2**). But this can not be done in just 2 or 3 weeks because that would result into high interest rates or lead to closure of factories. This process does involve step by step measures. Added to this, demand and supply mismatches could not be tackled by the monetary measures taken by the Reserve Bank of India (RBI).

Chart 2

Emerging Trends in Food Inflation of Major Articles



Source : The Business Line; Chennai; March 25, 2011.

Impact of Food Inflation on Growth

Increasing food inflation has also increased the level of poverty and hunger in India. Hunger conti-nues to stalk over 300 million people of the country (**table1**). Accordingly, India slipped to 67th place in the Global Hunger Index (GHI) conducted in 2010 and the sample size was 122 countries **[IFPRI 2010].**

In India there are 410 million Indians who are living in poverty. Where there may be nit-picking over the actual numbers, but one thing is clear that there is widespread if not alarming hunger and malnutrition in the country despite high growth trajectory **[OU February 2011].** The main contributory factor is the persisting food inflation in the economy.

Table I

Hunger a reality for millions in 2010

Item	Figures
Total Number of households in India	23.9 Crore
Total grain needed @ 35 per kg per month per house hold	1008 lakh tons
Cost of buying rice and wheat (2 : 1) at current rates	Rs. 174,381 Crore
Cost recovered by selling at Rs 3 per kg	Rs. 30,240 Crore
Subsidy	Rs. 1,44,141 Crore
Current Subsidy	Rs. 55,578 Crore
Additional Subsidy	Rs. 88,563 Crore

Source : Centre for Budget and Governance Accountability. New Delhi 2010

For providing cheap wheat and rice to nearly 24 crore households in the country would cost the exchequer Rs. 1, 44,141 crore. The Government is already spending Rs 55,578 crore on providing food subsidies as per 2010-11 budget estimates. So net additional cost is stood at Rs. 88,563 crore per year. But this is not a last solution for reducing food inflation in the country. It has become imperative to provide a long last and sustainable solution to the persisting problem.

The trend and situation dramatically worsened in the past year with vegetable prices zooming up by over 24 per cent. Since March 2010, potato prices went up over 76 per cent and onion prices rocketed up by 300 per cent for a few months pushing these staple vegetables out of reach of bigger portion of the people. Inflation has become a vehicle for sustaining malnutrition and hunger in the country. The most astonishing fact is that the Government continues to drag its feet on such crucial measures as providing cheap food grains to the people **[CBGA 2010]**

Some Views

One of the logical views to tackle the issue of food inflation in India is that there is an utmost need to develop new systems, institutions, and incentives in place, to ensure that farmers produced adequately to meet the growing demand of food in India **[ET March 2011].**

The food inflation is persisting and therefore, there is a need to ensure increased productivity and reduction in post harvest wastages. This could be a reality, if the demand of establishing of silos for better handling of storage facilities ***[Arun 2011]***. Added to this, PPP initiatives for storing and handling infrastructure, irrigation infrastructure and insti-tutional support for productivity enhancement, newer and appropriate technology adoption, creating more efficient and economical marketing infrastructure, involvement of private entities by State Governments, and creating awareness and educating system about friendly credit products are the need of the hour.

The Indian Government had earlier exuded confidence that the expected bumper crop of wheat and pulses would ease out the pressure and may stabilize the rise in food prices. However, for the week end on March 5, 2011, prices of wheat and pulses among others continued to rise. The latest food inflation figures are 9.42 per cent for the week ended on March 5, 2011 was helped by a 9 per cent climb down in potato prices and 3.1 per cent in pulses on annual basis.

Universal solution

The single biggest step that could reduce hunger and bring down prices of essential food items is "***universalisation of the Public Distribution System***" The existing system does not help much neither in providing access to food nor keeping prices at the low ebb. Central and State Governments have to work collectively to remove supply bottlenecks in order to tame inflation. These steps may go a long way in controlling food inflation which is the need of the day and sine-quo-non for inclusive growth of Indian economy.

Prospects

According to economic analysts, while much of the inflationary pressure is owing to high global commodity prices coupled with a domestic demand and supply mismatch as well as uncertainty over monsoon rainfall that may fuel the prices further. 5 per cent inflation is considered as comfortable; 6 per cent to 7 per cent could be tolerated but surely not 8 per cent. Any slippage in the monsoon would affect food inflation numbers, especially vegetables, fruits and other essential commodities of mass consumption. ❐

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(contd. from page 936)

- The SAT may make such orders or give such directions as may be necessary or expedient to give effect to its orders or to prevent abuse of its process or to secure the ends of justice.

Additional Powers of Registar

The Registrar is having powers in addition to the powers discussed in filing appeal which are as follows:

- Subject to the directions of the Presiding Officer to fix the date of hearing of the appeals or other proceedings and issue notices thereof;
- To direct any formal amendment of records;
- To order grant of copies of documents to parties of the proceedings;
- To grant leave to inspect the record of SAT;
- To dispose of all matters relating to the service of notices or other processes, application for the issue of fresh notice or for extending the time for or ordering a particular method of service on a respondent including a substituted service by publication of the notice by way of advertisements in the newspapers;
- To requisition records from the custody of any court or other authority.

Civil Court not to have Jurisdiction

No Civil Court shall have jurisdiction to entertain any suit or proceedings in SAT to determine and no jurisdiction shall be granted by any court or other authority in respect of any action to be taken in pursuance of any power conferred by or under the Act.

Appeal to supreme court

Any person aggrieved by any decision or order of the SAT may file an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the SAT to him on any question of law arising out of such order. The Supreme Court may, if it is satisfied that the appellant was prevent by sufficient cause from filing the appeal within the said period allow it to be filed within a further period not exceeding sixty days. ❐

AUDITED ANNUAL ACCOUNTS FOR F.Y. 2010–2011

Gupta & Co.

Chartered Accountants

53A, Mirza Ghalib Street
Kolkata – 700 016
Phone : 2229-2638,
2229-6241, 2229-0871/72
Fax: (91) (033) 2229-1859
Email: guptaco55@hotmail.com

Auditors' Report on Consolidated Financial StatementsTo the Council of the Institute of Cost and Works Accountants of India

1. We have audited the attached Consolidated Financial Statements of the Institute of Cost and Works Accountants of India ("the Institute"), and its four Regional Councils and ninety Chapters (the Institute, the Regional Councils and Chapters collectively referred to as "the Group"), which comprise the Consolidated Balance Sheet as at 31st March, 2011, and the Consolidated Income and Expenditure Account for the year ended on that date, and a summary of significant accounting policies and other explanatory information annexed thereto. These financial statements are the responsibility of the Institute's Management and have been prepared on the basis of separate financial statements and other information regarding components that give a true and fair view of the consolidated financial position and consolidated financial performance in accordance with accounting principles generally accepted in India. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and the significant accounting estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our qualified audit opinion.

3. (a) We did not audit the financial statements of four Regional Councils, whose financial statements reflect total assets of Rs. 23,26,44,479 as at 31st March, 2011, and total revenues of Rs.14,54,49,161 for the year then ended as considered in the financial statements. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us by the management of the Institute, and our opinion, in so far as it relates to the amounts included in respect of these Regional Councils is based solely on the reports furnished by these auditors.

(b) We also did not audit the financial statements of forty two Chapters, whose financial statements reflect total assets of Rs. 14,47,76,737 as at 31st March, 2011, and total income of Rs. 10,10,54,732 for the year then ended have been audited by other chartered accountants. We also did not audit the financial statements of thirty eight Chapters whose financial statements reflect total assets of Rs. 21,46,00,989 as at 31st March, 2011 and total revenues of Rs. 13,78,18,343 for the year then ended have been certified by cost accountants. In so far as it relates to the amounts included in respect of these Chapters, our report is based solely on these certified financial statements, which we have relied upon as provided by the management of the Institute for the purpose of our examination of consolidated financial statements of the ICWAI Group.

(c) We also did not audit the financial statements of ten Chapters, whose financial statements reflect total assets of Rs. 2,20,37,304 as at 31st March, 2011, and total income of Rs. 1,23,11,695 for the year then ended .We further report that in respect of the financial statements of these Chapters we have relied upon the unaudited financial statements as certified by the management of the Institute. Our opinion, so far as it relates to the amounts included in respect of these Chapters is based solely on these certified financial statements. Since these financial statements for the financial year ended 31st March, 2011, which were compiled by the management of these Chapters, any adjustments to their balances could have consequential effects on the consolidated financial statements.

(d) As stated in Note B.1 on Schedule 16, in case of three Chapters financial statements as on 31st March, 2011 were not available.

4. In so far as it relates to the results of operations and the financial statements of the Institute included in these Consolidated Financial Statements, we draw attention to the following :

(i) As stated in Note B. 12 on Schedule 16, no provision has been made for penalty of Rs. 111.64 lakhs imposed by CIDCO pending resolution of Institute's appeal for waiver.

(ii) As stated in Note B.15 on Schedule 16, title deeds for lease hold land of Rs. 0.11 lakhs, free hold lands of Rs..23.01 lakhs and buildings of Rs. 5.55 lakhs were not available for our examination.

(iii) The internal control system for transactions with Regional Councils and Chapters needs to be improved and the internal control system of Delhi office also requires further improvement.

5. As stated in Note B.6 on Schedule 16, confirmation of balances from Regional Councils and certain Chapters are awaited. These balances are subject to reconciliation and consequent adjustments as may be necessary, on receipt of such confirmation.

6. As stated in Note B. (iv) (a) on Schedule 16, gratuity liability of Rs..36,18,372 as calculated by LIC has not been provided for.

7. The provisions of Rs. 13,103,485 on Schedule 10 under (current liabilities and provisions) include Rs. 72,13,485 which represent provision of liabilities of the nature of sundry creditors.

8. As indicated in Note 8 on Schedule 16, there are differences in accounting policies of the Regional Councils the impact of which has not been determined or stated. The policies followed by the Chapters were also not available.

9. We further report that, without considering items 4(ii), 4(iii) 5 and 8 above, the effect of which could not be determined, had the observations made by us in item 4(i) and 6 above been considered, the surplus for the year would have been Rs.38,80,92,645 (as against the reported figure of Rs.40,28,75,017), general fund would have been Rs.117,07,26,126 (as against the reported figure of Rs.118,55,08,498)

10. Subject to the matters referred to in paragraphs 4, 5, 6, 7 and 8 above :

(a) We report that the Consolidated Financial Statements have been prepared by the Institute's Management in accordance with the requirements of Accounting Standard 21 (Consolidated Financial Statements) issued by the Institute of Chartered Accountants of India (after certain adjustments carried out by the head office, to conform to the Institute's Accounting Policies).

(b) Based on our audit of the Institute and on consideration of the separate audit reports on individual financial statements of the Regional Councils and Chapters and on the other financial information of the components of the Group as referred to above, and the certified financial statements of Chapters and also unaudited financial statements of Chapters as referred to in Para 3(d) above, included in the Consolidated Financial Statements, and to the best of our information and according to the explanations given to us, in our opinion, the attached Consolidated Financial Statements read together with notes thereto give a true and fair view in conformity with the accounting principles generally accepted in India :

(i) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at 31st March, 2011; and

(ii) in the case of the Consolidated Income and Expenditure Account, of the excess of income over the expenditure of the Group for the year ended on that date, on the basis as described in Notes A.4 and A.5 on Schedule 16.

For Gupta & Co.
Chartered Accountants
Registration No. :301028E

S. K. Ganguli
Partner
Membership No. 6622

Place of Signature : Kolkata
Date: 22nd September, 2011

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Balance Sheet as at 31st March, 2011

Last year 2009-2010 Rs.	PARTICULARS	SCH. NO.	This year 2010- 2011 Rs.	Rs.
	INSTITUTE FUND :			
738,121,402	General Fund	(1)		1,185,508,498
5,913,533	Employees' Gratuity Fund	(2)		4,987,633
2,616,686		(3)		2,629,577
4,035,430	Misc. Prize Fund	(4)		4,198,641
94,924,690	Other Funds	(5)		77,920,743
845,611,741	**TOTAL**			**1,275,245,092**
	REPRESENTED BY :			
	Fixed Assets :	(6)		
212,902,869	(a) Gross Block		279,960,020	
102,918,641	(b) Less Depreciation		122,360,772	
109,984,228	(c) Net Block			157,599,248
5,119,134	Capital Work In Progress			13,186,429
98,111	Investment	(7)		98,100
818,554,076	Current Assets	(8)	1,155,057,209	
20,270,929	Loans & Advances	(9)	57,233,568	
838,825,005			1,212,290,777	
109,676,410	Less : Current Liabilities & Provisions	(10)	109,228,717	
729,148,595	**NET CURRENT ASSETS**			1,103,062,060
1,261,673	Miscellaneous Expenditure			1,299,255
	(to the extent not written off)			
845,611,741	**TOTAL**			**1,275,245,092**
	Notes to Accounts	(16)		
	Schedules referred to above form part of the Accounts			

As per our report attached.

For Gupta & Co.
Chartered Accountants

Rakesh Singh
Vice President

M. Gopalakrishnan
President

S. K. Ganguli
Partner
Membership No.6622

Kolkata
Dated : 22nd September, 2011

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Income and Expenditure Account
for the year ended 31st March, 2011

Last year 2009-2010 Rs.	PARTICULARS	Sch. No.	This year 2010 - 2011 Rs.
	INCOME :		
15,479,090	Membership & Other Fees	**(11)**	17,287,212
520,721,975	Tuition & Other Fees	**(12)**	648,399,322
75,012,230	Examination & Other Fees	**(13)**	103,595,569
30,533,692	Continuing Education Programme Receipt		34,564,283
7,821,938	National Award and Convention Receipt		14,363,771
814,415	Journal Subscription		930,500
109,550 986,692	Advertisement for Journal Rent Receipt		298,816 1,183,474
801,911	Sale of Publication		402,593
44,119,582	Interest		54,617,116
5,695,717	Other Income		9,036,002
702,096,792	Total :		884,678,658
	EXPENDITURE :		
132,242,813	Establishment	**(14)**	140,482,513
61,232,144	Office Expenses	**(15)**	69,147,468
365,306	Audit Fees		494,255
205,566	Internal Audit Fees		322,593
8,131,915	Travelling & Conveyance		10,580,339
28,221,328	Examination Expenses		38,409,503
16,973,011	Council & Committee Meeting Expenses		19,631,150
1,013,453	Election Expenses incl. Tribunal		1,013,453
5,430,937	Journal Expenses		7,076,113
1,516,073	Membership Subscription To Foreign Bodies		1,692,980
1,710,695	Conference & Meeting International		2,593,769
24,058,081	Continuing Education Programme Expenses		25,987,865
4,543,329	National Award for Cost Excellence Expenses		16,915,627
21,327,967	Professional Development Expenses		9,231,634
69,392,717	Coaching Expenses		85,282,158
26,038,275	Study Materials & Prospectus Consumed		30,207,314
199,468	Publication Stock Consumed		241,982
1,616,613	Non Moving Stock Written Off		610,814
806,491	Sundry Debtors - Written Off		1,343,079
18,477,898	Depreciation	**(6)**	20,903,318
423,504,080	**TOTAL**		**482,167,927**
278,592,712	**Balance being excess of Income over Expenditure c/d**		**402,510,731**

Contd.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Income and Expenditure Account for the year ended 31st March, 2011

Last year 2009-2010 Rs.	PARTICULARS	Sch. No.	This year 2010 - 2011 Rs.
278,592,712	Balance being excess of Income over Expenditure b/d		**402,510,731**
1,262,652	Prior Period Adjustment		364,286
279,855,364	**Balance being surplus of Income over Expenditure transferred to General Fund**		**402,875,017**
	Notes to Accounts	**(16)**	
	Schedules referred to above form part of the Accounts		

As per our report attached.

For Gupta & Co.
Chartered Accountants

Rakesh Singh
Vice President

M. Gopalakrishnan
President

S. K. Ganguli
Partner
Membership No.6622

Kolkata
Dated : 22nd September, 2011

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS

Schedule No. 1 :

GENERAL FUND
as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.	Rs.
448,877,006	Balance as per Previous Balance Sheet		**738,121,402**
	Add :		
3,250,140	i) Capitalization of Chapter's Land & Building	39,764,632	39,764,632
452,127,146			
	Less :		
	i) Adjustment against		
501,893	Stock of Study Material & Prospectus	3,597,151	3,597,151
451,625,253			
955,185	Add : Entrance Fees (Member)	1,307,398	
5,685,600	Registration Fees (Student)	7,037,200	8,344,598
458,266,038			
279,855,364	Add : Net Surplus for the year as per		**402,875,017**
	Income & Expenditure Account		
738,121,402	**Total**		**1,185,508,498**

Schedule No. 2 :

Empolyees' Gratuity Fund
as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
5,285,261	Balance as per Previous Balance Sheet	**5,913,533**
757,305	Add : Contribution for the year	306,693
6,042,566		**6,220,226**
	Less : Amount Paid to Trust	1,232,593
129,033	Less : Gratuity paid to Employees' During the year	
5,913,533	**Total**	**4,987,633**

Schedule No. 3 :

Empolyees' Benevolent Fund
as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
2,183,418	Balance as per Previous Balance Sheet	**2,616,686**
421,782	Add : Contribution for the year	7,518
42,500	Add : Interest earned on Fixed Deposit of Fund for the year	39,543
31,014	Less : Paid to Employees during the year	34,170
2,616,686	**Total**	**2,629,577**

Schedule No. 4 :

Misc. Prize Fund
as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
3,738,196	Balance as per Previous Balance Sheet	**4,035,430**
24 6,316	Add : Addition during the year	286,180
206,831	Add : Income credited during the year	103,260
(155,913)	Less : Cost of the prize	(226,229)
4,035,430	**Total**	**4,198,641**

Schedule No. 5 :

Other Fund
as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
48,879,998	Building Fund	49,532,129
7,709,827	Library Fund	17,354,752
400,000	Silver Jubilee Fund	256,141
323,849	CASB Fund	286,098
37,611,016	Misc. Fund	10,491,623
94,924,690	**Total**	**77,920,743**

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS

Schedule No. 6 :

Fixed Assets
as at 31st March,2011

Description of	Gross Block				Depreciation/Amortisation				Net Block	
	Opening Cost 01.04.10	Addition during the period	Less : Sale/ Adjustment of Fixed Assets during the period	Total as on 31.03.2011	Upto 01.04.10	For the year	Add/(Less) : Depreciation Adjustment of Fixed Assets during the year	Upto 31.03.2011	This year 2010-2011	Last year 2009-2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Tangiable Assets :										
Freehold Land	18,531,761	5,496,433	–	24,028,194	283,463	–	–	283,463	23,744,731	18,248,298
Leashold Land	6,505,802	475,913	–	6,981,715	1,546,450	102,878	–	1,649,328	5,332,387	4,959,352
Freehold Building	102,619,730	45,738,584	–	148,358,314	46,416,587	8,409,676	–	54,826,263	93,532,051	56,203,143
Furniture & Fittings	23,832,898	3,755,026	–	27,587,924	10,761,287	1,967,397	–	12,728,684	14,859,240	13,071,611
Library Books	8,808,784	–	217,384	8,591,400	8,808,784	1,353,315	(1,570,699)	8,591,400	–	–
Office Equipments	20,339,631	3,995,330	–	24,334,961	9,718,389	2,504,187	–	12,222,576	12,112,385	10,621,242
Generators	1,829,698	1,054,161	–	2,883,859	1,031,495	223,010	–	1,254,505	1,629,354	798,203
Lift	416,062	850,000	–	1,266,062	387,072	131,849	–	518,921	747,141	28,990
Motor Car	499,939	–	–	499,939	214,870	50,024	–	264,894	235,045	285,069
Computer	26,470,507	2,300,543	28,771,050	21,736,861	2,950,035	109,512	24,796,408	3,974,642	4,733,646	
Cycle	5,528	2,840	–	8,368	5,528	–	–	5,528	2,840	–
Intangiable Assets :										
Software	3,042,529	3,605,705	–	6,648,234	2,007,855	3,210,947	–	5,218,802	1,429,432	1,034,674
	212,902,869	**67,274,535**	**217,384**	**279,960,020**	**102,918,641**	**20,903,318**	**(1,461,187)**	**122,360,772**	**157,599,248**	**109,984,228**
Previous Year	**197,168,957**	**17,440,697**	**(1,706,785)**	**212,902,869**	**97,152,933**	**18,477,898**	**(12,712,190)**	**102,918,641**		**100,016,024**
Capital-work in Progress									**13,186,429**	**5,119,134**

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS

Schedule No. 7 :

Investment (At Cost) as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
	Shares of Co-operative Trust	
	50 Shares of Rs. 10/- each in	
500	Rohit Chambers Premises Co-operative Society Ltd. Mumbai	500
	(earlier described as Jai Brindaban Premises Trust Fund, Bombay)	
11	Coimbatore Co-operative Housing Society Ltd.	
	(Surrended)	
	Mutual Fund (UTI 64 & Tata Opportunity Fund)	
16,100	Madurai Chapter	16,100
81,500	Nellai Pearl City Chapter	81,500
98,111	**Total**	98,100

Schedule No. 8 :

Current Assets as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.	Rs.
	Stock		
2,293,134	Publicationm Stock (at Cost)		3,087,267
599,367	Paper Stock (at Cost)		67,500
20,571,252	Study Material incl. Prospectus Stock (at Cost)		20,812,422
1,424,015	Stock of Other Material (at Cost)		1,021,828
7,207,071	Sundry Debtors		9,335,119
26,150,213	Other Receivables		17,567,355
	Cash and Bank Balances :		
871,699	Cash in hand	1,492,584	
1,055	Postage Stamp in hand	100,589	
17,006,699	Cheques in hand		
	Balances with Scheduled Banks :		
24,459,826	On Current Account	32,864,376	
25,271,063	On Savings Account	30,143,113	64,600,662
692,698,682	**Fixed Deposits with Banks :**		1,038,565,056
818,554,076	**Total**		**1,155,057,209**

Schedule No. 9 :

Loans and Advances as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
1,542,531	Building Loan to Employees	885,959
22,473	Vehicle Purchase Advnace to Employees	687,991
9,579,429	Other Advances	44,792,642
922,172	Festival Advance to Employees	941,300
844,911	Advance Membership Subscription to Foreign Bodies	947,380
2,771,108	TDS Receivable	4,925,803
1,897,602	Prepaid Expenses	1,723,722
2,690,703	Deposit	2,328,771
20,270,929	**Total**	**57,233,568**

Schedule No. 10 :

Current Liabilities and Provisions as at 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
	Current Liabilities :	
5,009,345	Library Deposit	5,450,312
10,053,883	Sundry Creditors	12,163,251
88,920,468	Other Liabilities	78,301,327
121,478	TDS Payable	210,342
5,571,236	Provisions	13,103,485
109,676,410	**Total**	**109,228,717**

Schedule of Provisions

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
	Head Quarters	
	Professional Development	3,500,000
	Staff Welfare	1,200,000
40,000	Grants to Co-operative Credit Society	1,040,000
150,000	Rates and Taxes	150,000
	Provision for Expenses	
1,453,235	SIRC	2,687,655
1,789,588	NIRC	1,928,192
2,138,413	WIRC	2,597,638
5,571,236	**Total**	**13,103,485**

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS

Schedule No. 11 :

Membership & Other Fees : for the year ended 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
11,529,198	Annual Membership Fees	13,692,585
835,679	Members Certificate of Practice Fees	877,979
1,427,872	Gard C.W.A. Fees	1,535,536
22,500	Members Complaint / Restoration Fees	10,000
397,523	Certified Facilitation Centre Fees	66,500
1,266,318	Membership & Certification Fees–IMA (USA)	1,104,612
15,479,090	**Total**	**17,287,212**

Schedule No. 12 :

Tuition and Other Fees for the year ended 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
8,528,400	Student Registration Fees	10,555,800
18,276,540	Practical Training Registration Fees	24,306,249
675,880	Practical Training Exemption Fees	924,500
268,065,317	Tuition Fees	336,281,779
13,213,544	CAT Course Income	13,023,947
105,602,192	Computer Training Fees	131,339,450
86,652,256	Service Fees	108,009,822
3,654,980	Revalidation of Coaching Completion Certificates Fees	3,063,805
9,425,659	Sale of Prospectus	15,001,823
1,850,142	Sale of Study Noes	529,158
4,709,135	Library Subcription	5,315,641
67,930	Sale of Postal Coaching, Revalidation & Denovo Forms	47,348
520,721,975	**Total**	**648,399,322**

Schedule No. 13 :

Examination and Other Fees for the year ended 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
69,624,617	Examination Fees	97,652,654
784,363	Vertification of Answers Paper Fees	982,722
1,870,530	Sale of Suggested Answer including Scanner	1,744,982
2,732,720	Sale of Exam. Forms	3,215,211
75,012,230	**Total**	**103,595,569**

Schedule No. 14 :

Establishment for the year ended 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
96,787,688	Salaries & Allowances	112,831,609
15,266,383	Employer's Cont. to Employees' Gratuity Fund	2,783,285
7,168,955	Employer's Cont. to Employees' Provident Fund	9,495,424
119,188	Employer's Cont. to Employees' Benevolent Fund	141,512
6,091,705	Employer's Cont. to Employees' Leave Encashment	7,827,441
2,418,422	Employees' Leave Encashment–Existing	2,531,018
2,578,212	Medical Expenses	3,334,835
519,200	Leave Travel Allowance to Employees	655,100
216,185	RPFC Administration & E.D.L.I. Inspection Charges	415,480
1,076,875	Training & Development (H.R.D.)	466,809
132,242,813	**Total**	**140,482,513**

Schedule No. 15 :

Office Expenses for the year ended 31st March,2011

Last year 2009-2010 Rs.	Particular	This year 2010 - 2011 Rs.
6,374,435	Printing & Stationery	6,620,961
6,929,790	Postage,Telegrams,Telephones & Fax	7,886,565
4,674,368	Electricity Charges	5,314,286
146,009	Generator Expenses	716,654
1,534,714	Rates & Taxes	1,456,148
161,573	Insurance	273,279
10,099,049	Repair & Maintenance	7,175,955
1,330,061	Car Expenses	1,964,022
14,300	Interest on Caution Money Deposit	6,800
2,434,826	Study Material Distribution Expenses	2,438,759
1,526,807	Legal Charges	2,715,053
364,510	Bank Charges	277,727
2,128,200	Computer Maintenance Expenses	2,759,332
2,224,474	Public Relation Expenses	2,720,046
443,811	Watch & Ward Expenses	868,424
654,721	Books & Periodicals	652,466
130,754	Delegate Fee	167,719
139,220	Gazette Notification	133,346
2,413,102	Staff Welfare	3,264,728
2,568,702	Rent	4,443,444
8,949,753	Administrative Charges	7,869,856
5,988,965	Sundry Expenses	9,421,898
61,232,144	**Total**	**69,147,468**

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Notes Forming Part of Accounts for the year ended 31st March, 2011

Schedule – 16

A. Significant Accounting Policies :

1. Basis for preparation of Financial Statements

The Financial Statements are prepared under the historical cost convention, the Generally Accepted Accounting Principles (GAAP) in India , the applicable Accounting Standards, the relevant provisions of the Cost and Works Accountants Act, 1959, as amended by the Cost and Works Accountants (Amendment) Act, 2006 and are on accrual basis unless otherwise stated.

2. Basis of Consolidation

The financial statements of the HQ and its four Regional Councils and Ninety One Chapters are consolidated on a line-by-line basis by adding together the book values of like items of assets and liabilities, income and expenses, after eliminating all material intra-group balances and intra-group transactions resulting in unrealized Surplus and Deficit and making necessary adjustments wherever required for non-uniform accounting policies.

3. Entrance Fee

Entrance Fee from members is capitalized.

4. Registration Fee

Registration Fee received from students to the extent of 2/5th thereof is capitalized.

5. Revenue Recognition

The Institute recognizes significant items of income on the following basis :

(a) Members' Subscription

Revenue in respect of Members' Subscription and Certificate of Practice Fee is recognized where there is certainty with respect to the receipt of such amount.

(b) Tuition and other Fees

Revenue in respect of Postal and Oral Tuition Fees are recognized as and when the student is enrolled.

(c) Sale of Publication

Revenue in respect of sale of publications is recognized when such publications are transferred to a user for a price.

(d) Examination Fees

Revenue in respect of Examination Fees is recognized as and when received.

(e) Others

Revenue from Programme and Research Fee is recognized as and when such activity is undertaken.

(f) Interest

Income from interest on Fixed Deposit with Banks t is recognized on time proportion basis taking into account the amount outstanding and the applicable rate.

(g) Income from Investments is recognized as and when the right to receive the payment is established.

6. Expenditure

The expenditure is recognized on accrual basis including expenses related to postal and oral coaching except in the following cases:

(i) The Annual Grants to Chapters are recognized as and when disbursed.

(ii) Expenses incurred for Elections are recognized proportionately over the term of the Council.

7. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Cost comprises the purchase price and any cost, attributable to bringing the asset to its working condition for its intended use. Assets under creation are shown as capital work-in-progress.

8. Depreciation/Amortization

(a) Depreciation on Fixed Assets is provided on written down value method as per Income Tax Act, 1961.

(b) Leasehold land is amortized over the Lease period. The premium paid for acquisition of Lease Hold Land is amortized over the period of lease. The ground rent, if any, are recognized as expense in the year for which such charges are due or payable.

(c) Library books are depreciated at 100% in the year of purchase.

9. Investments

Long term investments are stated at cost. However, when there is a decline other than temporary, in the value of long term investments, carrying amount is reduced to recognize the decline.

10. Inventories

Publication stock, Study Materials and Paper Stock including Prospectus stock etc. are valued at Cost or Net Realizable Value, which is lower. Cost of Publications and that of Study Materials is determined on weighted average basis and cost of paper is determined on first-in-first-out basis.

11. Accounting for Provisions, Contingent Liabilities and Contingent Assets

(i) A provision is recognized :

(a) when there is present obligation as a result of past event;

(b) it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation ; and

(c) a reliable estimate can be made of the amount of obligation.

(ii) No provision is recognized for

(a) any possible obligation that arises from past events and the existence of which will be

confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Institute;

(b) any present obligation that arises from past events but is not recognized because it

is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or a reliable estimate of the amount of obligation cannot be made.

Such obligations are disclosed as Contingent Liabilities. These are assessed at regular intervals and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for except in extremely rare circumstances where no reliable estimate can be made.

12. Foreign Currency Transactions

Transactions in foreign currency are denominated at the exchange rate prevailing on the transaction date. Monetary items are reported by using the closing rate. Exchanged items arising on the settlement of monetary items or reporting the monetary items at rate different from those at which they were initially recorded or reported, are recognized as income or as expenses in the period in which they arise.

13. Employee Benefits

(i) Short term benefit:

The short term employee benefit is recognized as expense when claimed during the period. Unclaimed amount is provided for.

(ii) Post employment benefit such as P.F, Gratuity, Leave Encashment etc. are provided as applicable to respective Regional Councils and Chapters.

14. Impairment of Assets

At the Balance Sheet date impaired assets, if any are identified and necessary provision as required is made.

15. Prior Period income/expenditure

Prior period items which arise in the current period as a result of errors or omissions in the preparation of financial statements in one or more prior periods are separately disclosed in the Income & Expenditure Account.

B. Notes forming part of Accounts

1. The consolidated financial statement is prepared considering Head Quarters, four Regional Councils and Ninety Chapters except Jhagrakhand-Chirimiri, Rajkot & Ajmer-Bhilwara (refer – Annexure).

2. Exemption in respect of Income Tax has been granted u/s 10(23A) read with Section 11 of the Income Tax Act,1961. Accordingly, no provision for income tax has been made.

3. All Prize Funds maintained by the Institute have been incorporated in the accounts together with relevant investment in Fixed Deposit thereof in terms of the decision of the Council. The funds have been sponsored by the different donors.

4. Miscellaneous Expenditure (to the extent not written off) includes :

(i) Election related expenses (partial) of Headquarters amounting to Rs.10,96,892/- (2011-15) to be recognized in the next four financial years as per Accounting Policy [Ref. Policy No. 6 (ii)].

(ii) Deferred Revenue Expenditure of Rs. 202,363/- (Kalyan-Ambernath – Rs. 81,600/-, Gurgaon – Rs.8,923/- & Jaipur - Rs.111,840/-

5. Other Advances include Rs. 1,36,097/- (previous year Rs.2,88,384/-) due from Certain Former Council Member owing to disallowances by the MCA, Govt. of India and presently the matter is subjudice. However Rs.1,52,287/- has been adjusted on the death of a member.

6. The balance with Institute's Current Accounts and Loans & Advances are subject to confirmation.

7. As at 31st March, 2011, there is no amount including Interest (thereon payable to Micro, Small and Medium Enterprises as defined under "The Micro, Small and Medium Enterprises Development Act, 2006", based on the information available with the Institute.

8. (i) Head Quarters

(a) Provident Fund contributions are made to the Institute of Cost and Works Accountant of India Employees Provident Fund Trust .

(b) The liability in respect of Gratuity, as per the Gratuity Act, 1972 (as amended) is Recognized on the basis contribution made to the LICI against the Group Gratuity Policy.

(c) The liability in respect of leave encashment is recognized on the basis of contribution to an Approved Leave Encashment Fund maintained with the LICI.

(ii) WIRC

(a) The liability in respect of Gratuity, as per the Gratuity Act,1972(as amended) is recognized on the basis of contribution made to the LICI against Group Gratuity Policy.

(b) Reimbursement of expenses are made on cash basis.

(c) Computer software has been amortized over a period of three years and the impact is not readily ascertainable.

(iii) SIRC

(a) Contribution to Provident Fund, Family Pension Fund and Deposit Linked Insurance are accounted for on accrual basis.

(b) The liability in respect of Gratuity and Leave encashment is recognized on the basis of yearly premium paid to LICI on the basis of actuarial valuation.

(c) Coaching Fees are recognized over the actual period of coaching and the impact due to this change is not readily ascertainable.

(d) Incomes other than Coaching Fees, Commission on Sales, Programme Fees, Interest Income are recognized on receipt basis. The impact due to this change is not readily ascertainable.

(e) Depreciation on Fixed Assets have been provided for the full year, irrespective of the date of purchase and the impact is not readily ascertainable.

(f) Computer software has been amortized over a period of three years and the impact is not readily ascertainable.

(iv) EIRC

(a) Gratuity Fund is maintained with the LICI with an increased ceiling of Rs.10,00,000. The consequent gratuity liability of Rs. 36,18,372 as calculated by LICI has not been provided in the Annual Accounts for the financial year 2010-2011.

(b) Contribution to Employees Provident Fund is deposited to Public Provident Account maintained with SBI However Regional Council has decided to get registration with Statutory Provident Fund.

(v) NIRC

(a) The liability in respect of Gratuity, b) is recognized on the basis of contribution made to the LICI against Group Gratuity Policy.

(b) A provision of Rs. 19,27,692 has been kept to take care-off any write off that may be required regarding obsolete stock of books ,towards loan given to chapters and interest accrued thereon.

(c) Computer software has been amortized over a period of three years and the impact is not readily ascertainable.

9. Expenditure on ongoing Renovation Work for the current year and previous year are as follows :

Sl. No.	H.Q./Regional Council/Chapter	Current Year (2010-11)	Previous Year (2009-10)
01.	Head Quarters	107,45,450	–
02.	Cochin	6,63,475	1,26,339
03.	Thrissur	20,050	–
04.	Visakhapatnam	–	53,250
05.	Cuttack-Bhubaneswar	62,081	–
06.	Dhanbad-Sindhri	391,905	3,91,905
07.	Asansol	–	14,74,172
08.	Durgapur	–	17,70,000
09.	Kota	13,03,468	13,03,468
	Total	**131,86,429**	**51,19,134**

10. Following amounts has been written off during the current year and previous year :

Sl. No.	Items	Current Year (2010-11)	Previous Year (2009-10)
A.	**Obsolete Study Material & Suggested Answer**		
01.	Head Quarters	68,181	14,88,498
02.	Vijayawada	783	–
03.	Visakhapatnam	5,580	19,473
04.	Bhalai	46,444	–
05.	Bhopal	2,70,313	–
06.	Jabalpur	89	–
07.	Nasik-Ojhar	47,115	–
08.	Surat-South Gujarat	4,461	–
09.	Chandigarh-Panchkula	1,58,018	–
10.	Gorakhpur	9,830	–
11.	NIRC	–	19,153
12.	Jalandhar	–	2,000
13.	Cuttack-Bhubaneswar	–	8,489
14.	Pune	–	79,000
	Total	**6,10,814**	**16,16,613**

(contd.)

(contd.)

Sl. No.	Items	Current Year (2010-11)	Previous Year (2009-10)
B.	**Old & Non Recoverable Debtors**		
01.	Head Quarters	880,319	5,66,491
02.	Visakhapatnam	18,000	–
03.	EIRC	22,105	–
04.	Durgapur	221,825	–
05.	Rourkela	1,000	–
06.	Gorakhpur	9,830	–
07.	Pune	1,00,000	1,89,558
08.	Hardwar-Rishikesh	90,000	
09.	South-Orissa	–	10,000
10.	Patna	–	17,657
11.	Bokaro Steel City	–	13,000
12.	Faridabad	–	9,785
	Total	**13,43,079**	**8,06,491**

11. Following provision has been made during the current year and previous year :

Sl. No.	Items	Current Year (2010-11)	Previous Year (2009-10)
01.	Head Quarters		
	– Professional Development	35,00,000	–
	– Staff Welfare	12,00,000	–
	– Grants to Co-operative Credit Society	10,40,000	40,000
	– Rates and Taxes	1,50,000	1,50,000
02.	SIRC	26,87,655	14,53,235
03.	NIRC	19,28,192	17,89,588
04.	WIRC	25,97,638	21,38,413
		1,31,03,485	**55,71,236**

12. A leasehold Land was allotted to the Institute by CIDCO, Navi Mumbai and due to delay in construction a penalty amounting to Rs111.64 lacs was imposed up to July,2011.Application has been made to the authority for waiver of penalty and grant of additional time to complete the construction. The decision is still awaited and no adjustment has been made in the current year.

13. Audit Fees for the current year includes Statutory Audit Fees of Rs. 1,21,330/- (previous year Rs. 1,10,300/-) and Audit Fees for Regional Councils and Chapter amounting to Rs.3,72,925/- (previous year Rs. 2,55,006/-)

14. During the year expenditure in foreign currency was :

- Membership Fees – Rs.16,92,980 (Previous year Rs. 15,16,073/-)
- Foreign Travel – Rs.13,74,724 (Previous year Rs. 9,01,401/-)

15.Summarized position in respect of the title deeds of Land & Building capitalized in the books of Head quarters are as follows :

(Rs. In lacs)

Classification of Deed Available at HQ	Freehold Land	Leasehold Land	Building
Original	60.05	3.11	361.11
Photocopy	79.8	56.44	120.21
Not available	23.01	0.11	5.55
Total	**162.86**	**59.66**	**486.87**

16. Previous year's figures have been regrouped and rearranged wherever necessary to conform to the current year's groupings.

Signature to Schedule No. 1 to 16

Rakesh Singh
Vice-President

M. Gopalakrishnan
President

R. N. Pal
Sr. Director – F & A

Date : 22nd September, 2011

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Status of Receipt of Annual Accounts for The F.Y. 2010-11

Annexure - 1

Chapters under WIRC	
Sl. No.	**Name of the Chapters**
1	WIRC
2	AHMEDABAD
3	AURANGABAD
4	BARODA
5	BHILAI
6	BHOPAL
7	BILASPUR
8	CHANDRAPUR
9	GOA
10	INDORE-DEWAS
11	JABALPUR
12	JHAGRAKHAND-CHIRIMIRI #
13	KALYAN AMBARNATH
14	KOLHAPUR-SANGLI
15	KORBA
16	KONKAN
17	KUTCH-GANDHIDHAM
18	NAGPUR
19	NAVI-MUMBAI
20	NASIK-OJHAR
21	PUNE
22	RAIPUR
23	RAJKOT #
24	SURAT-SOUTH GUJARAT
25	VINDHYANAGAR

Chapters under SIRC	
Sl. No.	**Name of the Chapters**
1	SIRC
2	BANGALORE
3	BHADRAVATI -SHIMOGA
4	COCHIN
5	COIMBATORE
6	GODAVARI
7	HYDERABAD
8	KOTHAGUDEM
9	KOTTAYAM
10	MADURAI
11	MANGALORE
12	METTUR SALEM
13	MYSORE
14	NELLAI PEARL CITY
15	NELLORE
16	NEYVELI
17	PALAKKAD
18	PONDICHERRY
19	RANIPET VELLORE
20	TIRUCHIRAPALLI
21	THRISSUR
22	TRIVANDRUM
23	UKKUNAGARAM
24	VIJAYAWADA
25	VISAKHAPATNAM

Chapters under EIRC

Sl. No.	Name of the Chapters
1	EIRC
2	AGARTALA
3	ASANSOL
4	BOKARO STEEL CITY
5	CUTTACK-BHUBANESWAR
6	DHANBAD-SINDRI
7	DURGAPUR
8	GUWAHATI
9	HAZARIBAGH
10	HOWRAH
11	JAJPUR-KEONJHAR
12	JAMSHEDPUR
13	KHARAGPUR
14	NAIHATI-ICHAPUR
15	PATNA
16	RAJPUR
17	RANCHI
18	ROURKELA
19	SAMBALPUR
20	SERAMPORE
21	SILCHAR
22	SILIGURI-GANGTOK
23	SOUTH ORISSA
24	TALCHER-ANGUL

Chapters under NIRC

Sl. No.	Name of the Chapters
1	NIRC
2	AJMER-BHILWARA #
3	ALLAHABAD
4	CHANDIGARH-PANCHKULA
5	DEHRADUN
6	FARIDABAD
7	GHAZIABAD
8	GORAKHPUR
9	GURGAON
10	HARDWAR-RISHIKESH
11	JAIPUR
12	JALANDHAR
13	JAMMU-SRINAGAR
14	JHANSI
15	JODHPUR
16	KANPUR
17	KOTA
18	LUCKNOW
19	LUDHIANA
20	NANGAL
21	NOIDA
22	PATIALA
23	UDAIPUR

 # Not included

Best Cost Management Practices Adopted

Our esteemed readers are perhaps aware that "ICWAI 8th National award for Excellence in Cost Management – 2010" was organized at Vigyan Bhawan, New Delhi on 18th July 2011 to recognize the qualitative cost management practices adopted by the industry. The award has successfully propagated the potentials of the tools and techniques of cost and management accountancy in the challenging global economic environment which is fiercely competitive and ever changing.

ICWAI 8th National Awards for Excellence in Cost Management 2010
(Awards Recipients)

Category I :	**Private-Manufacturing : Organisation (Large)**	
	1. LG Electronics India Pvt. Ltd.	First
	2 HV Axles Limited	Second
	3 Amara Raja Batteries Ltd.	Third
Category II :	**Private-Manufacturing : Organisation (Medium)**	
	4 WABCO - TVS (India) Ltd.	First
	5 PME Power Solutions (India) Ltd.	Second
Category III :	**Private-Manufacturing : Units (Large)**	
	6 Shree Cement Ltd. Unit : Beawar	First
Category IV :	**Private-Manufacturing : Units (Medium)**	
	7 Greaves Cotton Limited, Light Engines Unit-II	First
Category V :	**Private-Manufacturing : (Small)**	
	8 Jenburkt Pharmaceuticals Ltd	First
Category VI :	**Public Manufacturing : Organisation (Large)**	
	9 National Fertilizers Limited	First
	10 Steel Authority of India Ltd.	Second
Category VII :	**Public Manufacturing : Organisation (Medium)**	
	11 Gujarat Alkalies and Chemicals Ltd.	First
Category VIII :	**Public-Manufacturing : Unit (Large)**	
	12 Bharat Heavy Electricals Limited, Unit : Tiruchirappalli	First
	13 Oil and Natural Gas Corporation Limited, Unit : Ankleshwar	Second
	14 Bharat Heavy Electricals Limited Unit : Boiler Auxiliaries Plant, Ranipet	Third
Category IX :	**Public-Manufacturing : Unit (Medium)**	
	15 GAIL (India) Ltd, Unit : KG Basin, Rajahmundry	First
	16 GAIL (India) Ltd, Unit : Vizag-Secundrabad	Second
	17 Bharat Heavy Electricals Limited, Unit : Jhansi	Third
Category X :	**Private-Service Sector (Large)**	
	18 ICICI Prudential Life Insurance Company Limited	First
	19 BSES Yamuna Power Limited	Second
Caterogy XI :	**Private-Service Sector (Medium)**	
	20 Yamuna Power and Infrastructure Limited	First
	21 B. E. Billimoria & Co. Limited	Second
Category XII :	**Public-Service Sector (Large)**	
	22 Engineers India Limited	First
	23 Paschim Gujarat Vij Company Ltd.	Second
Category XIII :	**Public-Service Sector (Medium)**	
	24 RITES Limited	First
	25 Transmission Corporation of Andhra Pradesh Limited	Second

Award Winning Co's

In the Private Manufacturing Units (Large) category, **Shree Cements Ltd.** bagged the first prize. Shree Cement Ltd. (SCL) is basically into cement and power sector, and is an energy efficient, environment friendly and sustainable company. Cost control is a vital part of Shree culture and as a matter of practice, they celebrate "Cost Effectiveness Workshop" every year. Some of the missions organized for cost optimization are :

- Mission Support
- Mission 11-Profit optimization and cost reduction by 11%
- Mission "PAO"- Profit Appreciation and Optimization
- Mission "Happiness"- Anthem has been very successful.

SCL is ranked among the top five cement manufacturing groups in the country where cost management and cost control is a way of life practiced by all its stakeholders.

In the Private Manufacturing Units (Medium) category, **Greaves Cotton Ltd**. bagged the first prize. Robust cost management practice is always a combination of sound cost conscious operating processes and effective cost monitoring as well as analyzing system followed by the company.

A brief analysis of Cost Management System of the company reveals that :

- A Total Cost Management (TCM) is in place,
- After due deliberation Annual Budgets are drafted & approved,
- Budgetary controls and variance analysis are followed on a continual basis,
- Company has inculcated the habit of looking at cost aspect in each and every activity by each and everyone,
- Having SAP in place, collecting all cost at micro-levels under various cost centers with high level of accuracy and accumulation at micro level for profit centers as a whole,
- Apportionment and absorption of the cost to the respective profit/cost centers are diligently done with maximum possible accuracy.

The deployment of above cost techniques have a telling impact on the operation with operating results going up from 274% to 316% on Net Working Capital and from 188% to 228% on Net Fixed Assets over a 3 year span.

In the Public Manufacturing Units (Large) category, **Bharat Heavy Electricals Ltd. (Unit-Tiruchirapalli)** won the first prize. BHEL, India's largest engineering and manufacturing enterprise, is one of the largest employers of cost accountants and thereby ensuring that the cost records are managed professionally and as per generally accepted accounting principles. In BHEL, the focus is placed on continuous process of cost control and cost reduction and Budget acts as an important tool to manage the costs with reference to the turnover targets and the required returns to fulfill the stakeholder aspirations. Pricing system in BHEL is based on 3 tier cost estimation procedures. The following are three levels of costing:

Level I-Incremental Cash Cost/Variable Cost/ Marginal Cost
Level II-Estimated Factory Cost) plus Variable C&A Overheads
Level III- Total Cost.

Various quality initiatives are being taken to increase the efficiency of facilities and cost effectiveness. Various software & technology are used for cost reduction through standardization, parameterization and Design to Cost (DTC). In BHEL, managing the cost is not only the responsibility of the Management, but also of each employee.

In the Public Manufacturing Units (Medium) category, **GAIL India Ltd. (Unit K G Basin Rajahmundhry)** has won the first prize. GAIL strongly emphasizes on Total Cost Management, where all cost management initiatives form a part of the company's structure planning and are monitored regularly to ensure better capacity utilizations, higher labour productivity, lower power and fuel consumption etc. Continuous efforts made by the company, collective over a period of time to set new standards of excellence in the field of cost management ensures setting of benchmarks in the industry, year after year. As a leader in the gas sector, GAIL has adopted various cost management techniques like; Marginal Costing, Process and Product Costing, Variance Analysis, Inventory Management, TQM, Enterprise Resource Planning etc.

The details of best cost management practices followed by other companies will be discussed in the subsequent issues.

MANAGEMENT DEVELOPMENT PROGRAMMES 2011-12

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament)

Management Development Programmes 2011-12

Dates	Topic	Venue	Status & Fee (Rs.)	
			Non-Residential	
	October, 2011			
18 - 21	Contract Management	Goa		33,000
18 - 21	Corporate Tax-Planning, Compliance and Management	Goa		33,000
	November, 2011			
02 - 06	Certificate Course on IFRS and Converged Indian Accounting Standards	Kolkata	25,000	
15 - 18	Advance Tax, TDS & Tax Planning	Hyderabad	15,000	33,000
15 - 18	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Hyderabad	15,000	33,000
15 - 25	International Programme on 'Emerging Trends in Financial Management.	Singapore Kualalumpur & Bangkok		2,50,000
	December, 2011			
13 - 16	Finance for Jr. Finance and Accounts Officers and Non-Executives (F & A)	Shirdi		33,000
13 - 16	Management of Taxation – Service Tax, VAT, Excise & Customs, TDS and Proposed GST & DTC	Shirdi		33,000
22nd	Proposed DTC	Kolkata	4,000*	
23rd	Proposed GST	Kolkata	4,000*	
	January, 2012			
03 - 06	Internal Auditing for Effective Management Control	Mahabaleshwar		33,000
03 - 06	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Mahabaleshwar		33,000
5th	Proposed DTC	Hyderabad	4,000*	
6th	Proposed GST	Hyderabad	4,000*	
17 - 20	Strategic Financial Management	Agra		33,000
17 - 20	Advance Tax, TDS & Tax Planning	Agra		33,000
	February, 2012			
09 - 10	Valuation Management	New Delhi	15,000	
21 - 24	Corporate Tax–Planning, Compliance and Management	Bhubaneshwar		33,000
21 - 24	Strategic Cost Management	Bhubaneshwar		33,000
23 - 24	Financial Risk Management	New Delhi	15,000	

Note : * Rs. 7000/- if any nomination is for both the programmes together.

For Non-Residential Programmes — **Fee includes course fee, course material, lunch, tea/ coffee etc.**

For Residential Programmes — **Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.**

CEP Credit Hours — [For 1 Day Prog. – 4 Hours] [For 2 Days Prog. – 6 Hours] [For 3 Days more Prog. – 10 Hours]

For Kind Information

- For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
- For residential programmes normally the first day check-in at 12.00 noon and last day check-out at 12.00 noon.
- For International programmes, Faculty will be from the respective countries apart from the Indian Faculty.
- The Payment of the Fee is to be made by Cheque / DD in favour of 'The Institute of Cost and Works Accountants of India' payable at New Delhi.
- Details for ECS Payment: State Bank of India (60321), Andhra Association Building, Institutional Area, Lodhi Road, New Delhi -110003 Current A/c No.: 30678404793 MICRCode : 110002493 IFSCCode : SBIN0060321

For further details and Registration please contact :

Shri D. Chandru, Director (CEP)

The Institute of Cost and Works Accountants of India

ICWAI Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003

Phones : 011-24622156-57-58, 24618645 (D) 011-24643273 (M) 09818601200

Tele-Fax : 011-43583642/24622156/24618645

E-mail : mdp@icwai.org, cep.chandru@icwai.org Website : www.mdp.icwai.org, www.icwai.org

President

Shri M. Gopalakrishnan

At the Helm of Affairs

Shri Anil Chaudhary has been elevated to the position of Director (Finance) w.e.f. 1st September, 2011 Steel Authority of India Ltd. Prior to this, he was working as Executive Director (F & A) at Bokaro Steel Plant. Before joining Bokaro Steel Plant, he worked as General Manager (F & A) at SAIL Corporate office, New Delhi.

He has accomplished a number of assignments during his career in SAIL. In particular, he has contributed tremendously in the areas of Treasury and Banking Operations, Foreign Exchange Management, Capital Budgeting, Cost & Operations Budget, Financial Concurrence and Administration of Centralised Gratuity and Superannuation funds.

Shri Chaudhary, an Associate Member of the Institute of Cost & Works Accountants of India (ICWAI) & Institute of Company Secretaries of India (ICSI), is also an alumnus of Faculty of Law Studies (FLS) & Faculty of Management Studies (FMS) of Delhi University, from where he completed LLB and Post Graduate Diploma in Personnel/Business Management.

Our heartiest congratulations to Shri Chaudhary and we wish him all success in life.

For Attention of Practising Members
Procedure for Change of Professional Address & Other Particulars

Practising members are requested to check their status from the option **Members -> Login (by giving your user name and password)** from the website www.icwai.org and inform the Institute with respect to their professional address and other particulars as reflected therein.

In case of any **change in the professional address and other particulars**, the same is to be intimated by furnishing a duly filled in and signed Professional Development Information Form given below to :

Shri Vivek Agarwal
Deputy Director
The Institute of Cost and Works Accountants of India
12, Sudder Street, Kolkata – 700 016.

The signed intimation may also be sent by fax to no. 033-22521723.

Otherwise, a scanned file of the duly filled in and signed Professional Development Information Form may be sent by attachment to e-mail address: membership.vivek@icwai.org.

PROFESSIONAL DEVELOPMENT INFORMATION FORM
For ICWAI Members in Practice

Date……………….

Please return this Form duly filled in and signed to :

Shri Vivek Agarwal
Deputy Director
The Institute of Cost and Works Accountants of India
12, Sudder Street
Kolkata – 700 016.

for inclusion in the **"List of Members Holding Certificate of Practice."**

Name ……………………………………………………………………………………........................

………………………………………………………………………...

Qualification ………………………………………………………………...

Professional ………………………………………………………………...

Address ………………………………………………………………...

………………………………………………………………...

………………………………………………………………...

Telephone

Number(s) Office : ……………………………………………………………………………......................

Residence : …………………………………………………………………………..................

Mobile : …………………......……………………………………………………...........................

Fax Number ……………………………………………………………………………………..............

E-mail Address ....……………………………………………………………………………..

(Signature of Member)

Membership No ………..…..

FOR ATTENTION OF MEMBERS

PROCEDURE FOR CHANGE OF ADDRESS & OTHER PARTICULARS

Members are requested to check their status from the option **Members -> Login (by giving your user name and password)** from the website www.icwai.org and inform the Institute with respect to the following:

1.	In case of any change in the **professional address and other particulars**, the same is to be intimated through a signed hard copy preferably in the format **(Format "A" – Please see Annexure I)** given below to :	Shri Vivek Agarwal Deputy Director (Membership) The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016. The signed intimation may also be sent by fax to no. 033-22521723. Otherwise, a scanned file of the signed intimation may be sent to e-mail address : membership.vivek@icwai.org
2.	If the journal mailing address is desired to be changed as per the professional address, the intimation in (Format "A" —Please see Annexure I) is also to be made to :	Shri Vivek Agarwal Deputy Director (Membership) The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016. The signed intimation may also be sent by fax to no. 033-22521723.Otherwise, a scanned file of the signed intimation may be sent to e-mail address : membership.vivek@icwai.org
3.	In case of any change in the journal mailing address only, the same is to be intimated through a signed hard copy or by e-mail preferably in the format **(Format "B" — Please see Annexure I)** given below to :	Shri Arpan Banerjee Assistant Director (S) (Journal) The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016.e-mail: rnj.arpan@icwai.org

ANNEXURE I

Format "A"

	CHANGE OF ADDRESS & OTHER PARTICULARS IN THE LIST OF MEMBERS			
	NAME IN FULL :			
IN BLOCK LETTERS	MEMBERSHIP NO. :			
	QUALIFICATION :			
	ADDRESS :			
	CITY :			
	STATE			
	PIN CODE :			
	PHONE NO. (OFFICE)			
	PHONE NO. (RESIDENCE) :			
	PHONE NO. (MOBILE) :			
	E-MAIL :			
	SIGNATURE OF MEMBER :		DATE :	

NOTE : PLEASE INDICATE **N.A.**, IF ANY OF THE COLUMNS IS NOT APPLICABLE.

Format "B"

IN BLOCK LETTERS	CHANGE OF ADDRESS IN THE JOURNAL MAILING LIST			
	NAME IN FULL :			
	MEMBERSHIP NO. :			
	QUALIFICATION :			
	ADDRESS :			
	CITY :			
	STATE			
	PIN CODE :			
	SIGNATURE OF MEMBER :		DATE :	

NOTE : PLEASE INDICATE **N.A.**, IF ANY OF THE COLUMNS IS NOT APPLICABLE.

Guidelines for Payment of Membership Fee at Reduced Rate

Eligibility :

A member of the Institute may obtain approval for payment of membership fee at a reduced rate by making an application to the Secretary in plain paper declaring that :

1. His age is 60 years or above.
2. He is not engaged in any gainful employment or not in practice.

Evidence :

The member concerned is required to produce evidence to the satisfaction of the Institute of his age and retirement.

Fees :

Upon approval from the Institute to pay membership fee at reduced rate, the member concerned shall pay a reduced annual membership fee as under :

Associate Member : One fourth of annual membership fee, i.e. Rs. 125/-.

Fellow Member : One fourth of annual membership fee, i.e. Rs. 250/-.

Members who have attained 60 years of age or above may send a signed application in plain paper to the Secretary, The Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700 016 with the following declarations in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959 to the effect that they :

1. Have attained the age of 60 years or above;
2. Are not engaged in any gainful employment or not in practice.

The following clarifications are given in this context :

1. If a member is engaged in any occupation during a part of a financial year (i.e. 1st April of a year to 31st March of the next year) by way of employment, practice or any other manner, he will be required to pay full amount of membership fee pertaining to that financial year.

2. A member desirous of paying membership fee at reduced rate with retrospective effect shall be permitted to do so subject to fulfillment of other conditions in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959. If the name of a member is removed from the Register of Members for non-payment of fees but otherwise fulfils the conditions in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959, he shall also be permitted to pay membership fee at reduced rate with retrospective effect, but will have to pay additional fee of Rs.500/- for restoration and submit appropriate form in terms of Regulation 17 of the Cost and Works Accountants Regulations, 1959.

For Attention of Members & Applicants

The following application forms have been revised by the Council :

1. Form of Application for Admission as Associate/Fellow Member.
2. Form of Application for the Issue or Renewal of a Certificate of Practice.
3. Form of Application for Particulars of Offices and Firms.
4. Form of Application for Restoration to Membership of The Institute of Cost And Works Accountants of India.

The members and applicants concerned are requested to visit our website www.icwai.org and download the aforesaid forms from the link: http://www.members.icwai.org/members/members-forms.asp.

Regions and Chapters News

BOKARO CHAPTER

A workshop on Indirect Taxation was conducted on 28th August,2011 in the ICWAI Bokaro Chapter at Sector 5. The workshop was inaugurated by the Honourable chief guest Shri Anil Chaudhary, the then ED (F & A)/ SAIL-Bokaro Steel Plant cum Director (Finance)/SAIL (designate).

During his round of the premises/ complex having updated gadgets, Shri Chaudhary expressed his surprise with a complimentary note about Bokaro Chapter that such equipped ICWAI chapters are yet to be seen even in Big Metros. Senior lecturers, Mr. U S Bhaskar, Mr. P C Mishra and Mr. S Gunakar made the presentation with a visual demonstration through projector on Indirect Taxes and its use. Mr. R K Sarda also greeted the chief guest by a Shawl and gifted him the emblem of the Bokaro Chapter as a token of respect.

SOUTH ORISSA CHAPTER

The Annual Members' & Students' Meet-2011 was conducted by the South Orissa Chapter of ICWAI, Berhampur (Orissa) on 4th September, 2011 from 9.30 AM onwards at Hotel Jyoti Residency, opp. old bus stand, Berhampur, Orissa.

Shri TCA Srinivasa Prasad, CCM, ICWAI, as Chief Guest, Shri Radha Kishan Sharma, IPS, DIG of Police Southern Range, Berhampur, as Special Guest Shri Pravakar Mohanty, Head (Finance) IDCOL & Former President of ICWA of India, Kolkata, as chief Speaker Dr. S. Bandopadhyaya, CCM, ICWAI, Shri Shiba Prasad Padhi, RCM, EIRC of ICWAI, Kolkata, Shri Bibekananda Mukherjee, RCM, EIRC of ICWAI, as Guests of Honour and Shri Sidheswar Mishra, DGM (Fin.) HAL, Sunabedha, Guest from Industry had adorned the dias.

Dr. Sanjiban Bandhopadhyaya, Central Council Member, ICWAI, had distributed different assignments and responsibilities to different members. He talked about cost audit and DTC. Duties of cost accountants in present world. Shri Ch. Venkata Ramana, Vice-Chairman, Shri N. C. Kar, Chairman of the chapter and Shri TCA Srinivasa Prasad, Central Council Member & Chief Guest of the session inagurated the ''SOC NEWS'' (1st volume 1st Issue) in the Meet.

Shri Pravakar Mohanty, Head (Finance) IDCOL & Former President of ICWA of India, Chief Speaker discussed about the development of the Chapter. He said that we have to mould challenges into opportunities. We must not be protected; we must actually face challenges for attainment of progress. He cited examples from India epics about how communication modes were also prevaioling there in the ancient India. He has narrated about professional code of conduct & ethics required to be followed and to maintain high quality discipline for the management of corporate world.

Felicitation to the rank holder with mementos were given to Mrs. Liza Samal who won highest mark in June–2011 session in final group.

Late Indumati Proficiency award, donated by Shri Suresh Chandra Mohanty, CCM, ICWAI, was given with a memento and with a cash prize of Rs. 500 to Miss. N. Lavanya who secured highest marks in Cost & Operational Audit in December — 2010 session. Certificates and mementos were distributed to the rank holders of students of all groups for December – 2010. Lastly votes of thanks were given by Shri Ch. Venkata Ramana the Vice-Chairman.

SURAT SOUTH GUJARAT CHAPTER

Surat South Gujarat Chapter of Cost Accountants— Ankleshwar Bharuch center of ICWAI organized a seminar Jointly with Ankleshwar Industrial Association on "Important Changes in Excise, Customs & Service Tax & Recent Changes in Cost & Management Accountancy" on 25th September 2011 at Hotel Lord's Piazza, GIDC, and Ankleshwar. Shri B M Sharma, immediate past president of ICWAI was the Chief Guest. In the first technical session Shri B M Sharma, immediate past president of ICWAI elaborated the reasons for recent changes in Cost Accounting record rules and Cost Accounting Audit order and its implication. The second technical session was on implications of Indirect tax where Mr. Anand Nanavati & Mr Jigar Shah (representing reputed firm Laxmikumaran & Shridharan) were the experts. In the third technical session, CMA Manubhai Desai, Senior Practicing Cost Accountant gave his views on implications of recent changes in Cost Accounting record and audit rules. The program was co-ordinated by CMA Rajendra Rathi. It was well attended by CMAs, delegates from the industries and students.

MYSORE CHAPTER

SIRC of ICWAI and Mysore chapter of ICWAI jointly conducted a seminar on 4th September 2011 at Hotel President, Mysore on "Latest Development in Cost Accounting Record Rules and Cost Audit Report Rules".

Shri M. Gopalakrishnan, President, ICWAI inaugurated the function by lighting the lamp. Members felicitated Shri M. Gopalakrishnan along with Shri B.R. Prabhakar, Chairman, SIRC of ICWAI and Shri A. Om Prakash, Council Member and Chairman - Training and Education facilities Committee of the Institute. Shri A. Om Prakash made a presentation on "Latest Development in Cost Accounting Record Rules and Cost Audit Report Rules".

Shri Gopalakrishnan, President, ICWAI felicitated Dr. N. R. Parashuraman on his promotion as Director, SDM Institute of Management Development, Mysore a premier Business school in the South. Shri M. Ashok Kumar, Secretary of Mysore chapter of ICWAI proposed vote of thanks.

MANGALORE CHAPTER

Mangalore chapter of ICWAI organized an investor awareness programme on 24th September 2011 on "Developments in Capital Market" at Karnataka Bank auditorium, kodialbail, Mangalore. The chief guest of the programme was Shri Ullas Kumar Melinamogaru, Professor & Chairman, Department of Business Administration, Mangalore University.

Shri Melinamogaru welcomed the gathering and spoke about the need to educate the investors on the recent developments in the stock markets. This was followed by an introductory speech from the Chief Guest and guest speaker Dr. T. Mallikarjunappa on the day's topic and he also congratulated the ICWAI for having taken the initiative to conduct the programme and advised the investors to take full advantage of the opportunity available to enrich their knowledge. The programme ended with vote of thanks by the Chairman.

Inaugural Function of Noida Chapter's new office premises

Noida Chapter of ICWAI organised a function for opening of its new office at Sri Aurobindo Bhawan, Sector 62 Noida to cater to the needs of students in and around Noida, Indirapuram and Vijay Nagar etc. Shri. M. Gopalakrishnan President, ICWAI inaugurated the new office of Noida Chapter. Shri. Rakesh Singh, Vice President, ICWAI, Shri O.P. Dani, past President, ICSI, Shri B. L. Jain Chairman, Secretary, Treasurer and other executive committee members of NIRC were present at such function.

Shri. Suraj Prakash, Chairman Noida Chapter while welcoming President & Vice President of ICWAI, Chairman & other office bearers of NIRC and other dignitaries stated that the initiative taken by Noida Chapter in opening new office at Noida will go a long way in providing quality professional qualification in the field of cost and management accounting to the students residing in and around Noida. He highlighted the need for providing quality based delivery of services to students and members for ensuring best possible contribution to industry.

Shri. BL Jain, Chairman NIRC of ICWAI while complementing Noida Chapter for the initiative taken in this regard pledged total support to Noida chapter in all its' endeavour towards professional development. He called upon all other nearby Chapters to emulate the achievements of Noida Chapter.

Shri. Rakesh Singh, Vice President ICWAI informed that ICWAI has taken several initiatives to strengthen Delhi Office and that Institute was looking for land/premises for creating full fledged office for accommodating various directorates including research centre.

Shri. M Gopalakrishnan, President ICWAI in his address informed about various new initiatives including changes in course curriculum in line with changing business environment and highlighted the need for our professionals to keep pace with such changes. He informed that cost and management professionals are process and technology users and this being one of their core activities must ensure process optimization through technology applications. He said that this will go a long way in helping industry improve their cost competitiveness in view of changing business scenario. Shri Gopalakrishnan, President, ICWAI also informed about campus placements being made by ICWAI for its students and that companies like BHEL have recruited large no. of our students with excellent pay packages.

Shri R. Venkatarmanan, Vice Chairman of Noida Chapter of ICWAI proposed vote of thanks.

Circular No. : 57/2011

No. HQ/MCA/Digitised/AR/2009

Government of India

Ministry of Corporate Affairs

5th Floor, ''A'' Wing, Shastri Bhawan,
Dr. R. P. Road, New Delhi-110001
Dated : 28.07.2011

All the Regional Directors,
All the Registrar of Companies/Official Upuidators
All shareholders

Sub : Filing of Balance Sheet and Profit and Loss Account in extensible Business Reporting Language (XBRL) mode.

Sir,

The Para 3 of the Circular No. 37/2011 dated 07.06.2011 may be read as under :

''All companies falling in Phase-I class of companies (excluding exempted class) are permitted to file their financial statements without any additional fee up to 30.11.2011 or within 60 days of their due date, whichever is later.''

Further, in supersession of Para 2 (i) of Ministry's Circular No. 43/2011 dated 07.07.2011, it is informed that the verification and certification of the XBRL document of financial statements on the e-forms would continue to be done by authorized signatory of the company as well as professional like Chartered Accountant or Company Secretary or Cost Accountant in whole time practice.

This issue with approval of Competent Authority.

Yours faithfully,

(J. N. Tikku)
Joint Director

Your Heath And Convenience Is Paramount – ICWAI join hands with SRL

Now You Do Not Have To Fast For Your Health Screen And Do Not Have To Go To Lab For Your Health Check.

SRL Brings Non-Fasting Package @ Your Premises On Discounted Rates.

xcept for the first hours in the early morning, most individuals are in the non fasting state most of the me. The requirement for fasting, or the protocol of not eating or drinking anything for 8 to 12 hours before king the test, sometimes becomes a restriction, and makes us avoid taking the test and we usually avoid uring for our Health – Our Biggest Asset. ***SRL - Non Fasting Package*** has been designed keeping the onvenience in mind and with a focus on the utility of the selected investigations in screening for commonly prevalent diseases. References are available and have been thoroughly evaluated by our expert team of doctors.

Why Non Fasting Package?

- You don't have to get up early morning
- You don't have to be fasting
- You can give the samples at any time of the day
- Relevant and researched parameters are included in this package
- This package screens for all major organs of the body
- This package can be done while you are working, at college or at office

RELIGARE SRL Diagnostics
Super Religare Laboratories
Trusted by Millions

Either/All of the following reasons would support the choice of the tests included:

- Tests for which the already existing accepted protocol is either the non - fasting or fasting state.
- Tests whose efficacy is relatively unaffected when conducted non - fasting. (Supported by studies and research papers)
- One specific test (Triglyceride) has been included because of the growing body of research supporting the utility of post meal or non fasting triglyceride levels in being an independent marker for the risk of developing cardiovascular disease.
- Tests which have a specific screening & preventive nature
- Tests which have medical literature available which specifically supports either or all of the above

Non Fasting Package-Over 35 Tests
General : CBC (Red Blood Cell Count, Haemoglobin, Haematocrit, Mean Corpuscular Vol, Mean Corpuscular Hb, Mean Corpuscular Hemoglobin (Concentration. Red Cell Distribution Width, Platelet Count, Mean Platelet Volume, White Blood Cell Count. WBC Differential Count, Neutrophils, Eosinophils, Lymphocytes. Monycytes, Basophils, Band (Stab Cells), URINE R. BLOOD GROUP ABO & RH, VDRL
Diabetic Screen : RBS, HBAIC
Cardiac Screen : DIRECT LDL, HsCRP, TRIGLYCERIDE (NF)
Renal Screen : BUN, SCREATININE, S CALCIUM, S PHOSPHOROUS
Liver Screen : SGOT, SGPT, GGT, HBsAG, S BILIRUBIN
Thyroid Screen : T3, T4, TSH

SRL offers special discounted rates for members, employees, students and families of ICWAI.

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Premsaran.seth@srl.in

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by an Act of Parliament)

Examination Time Table & Programme – December 2011

Certificate In Accounting Technicians (CAT)

Day & Date	Time	Foundation Course (Entry Level) Part - I
Wednesday, 14th December 2011	02.00 P.M. to 05.00 P.M.	Organisation and Management Fundamentals
Thursday, 15th December 2011	02.00 P.M. to 05.00 P.M.	Accounting
Friday, 16th December 2011	02.00 P.M. to 05.00 P.M.	Economics and Business Fundamentals
Saturday, 17th December 2011	02.00 P.M. to 05.00 P.M.	Business Mathematics and Statistics Fundamentals

Day & Date	Time	Competency Level Part - II
Saturday, 10th December 2011	09.30 A.M. to 12.30 P.M.	Financial Accounting
Monday, 12th December 2011	09.30 A.M. to 12.30 P.M.	Applied Statutory Compliance

Examination Fees

Inland Centres	Foundation Course (Entry Level) Part – 1	₹ 730/-
	Competency Level Part – II	₹ 730/-

1. Application Forms for CAT Examination can be down loaded from Institute's website **www.icwai.org** and filed **online** also.
2. Last date of receipt of Examination Application Forms without late fee is **10th October, 2011** and with late fee of ₹ 100/- is **20th October, 2011**.
3. Examination Fees to be paid through Bank Draft of requisite fees drawn in favour of **"ICWAI A/C CAT"** payable at **New Delhi**.
4. Students will send their Examination Application Forms along with the fees to Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, New Delhi – 110003.
5. Examination Centres : Agartala, Ahmedabad, Akurdi, Allahabad, Alwar (Rajasthan), Asansol, Aurangabad, Bangalore, Baroda, Berhampur (Ganjam), Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Raigarh(Chattisgarh), Rourkela, Salem, Shillong, Solapur, Surat, Sahajahanpur, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, and Waltair.
6. A candidate who is fulfilling all conditions will only be allowed to appear for examination.
7. Probable date of publication of result : Foundation Course (Entry Level) Part – I is 1st February, 2012 and Competency Level Part – II is 20th February, 2012.

C. Bose

Sr. Director (Examination)

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by An Act of Parliament)

Examination Time Table & Programme – December 2011

Programme for Syllabus 2008

Day, Date & Time	Intermediate 09.30 A.M. to 12.30 P.M.	Final 02.00 P.M. to 05.00 P.M.	Foundation 02.00 P.M. to 05.00 P.M.
Saturday 10th December, 2011	Financial Accounting	Capital Market Analysis & Corporate Laws	
Sunday 11th December, 2011	———	Financial Management & International Finance	
Monday 12th December, 2011	Commercial and Industrial Laws & Auditing	Management Accounting– Strategic Management	
Tuesday 13th December, 2011	Applied Direct Taxation	Indirect & Direct– Tax Management	
Wednesday 14th December, 2011	Cost & Management Accounting	Management Accounting– Enterprise Performance Management	Organisation and Management Fundamentals
Thursday 15th December, 2011	———	Advanced Financial Accounting & Reporting	Accounting
Friday 16th December, 2011	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Saturday 17th December, 2011	Applied Indirect Taxation	Business Valuation Management	Business Mathematics and Statistics Fundamentals

Programme for Management Accountancy — December 2011 Examination

Saturday 10th December, 2011 09.30 A.M. to 12.30 P.M.	Saturday 10th December, 2011 02.00 P.M. to 05.00 P.M.	Sunday 11th December, 2011 09.30 A.M. to 12.30 P.M.	Sunday 11th December, 2011 02.00 P.M. to 05.00 P.M.	Monday 12th December 2011 09.30 A.M. to 12.30 P.M.
Management Accouuntancy	Advanced Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

Examination Fees

Group (s)	Final Examination	Intermediate Examination	Foundation Course Examination	Management Accountancy Examination
One Group (Inland Centres) (Overseas Centres)	₹ 1250/- US $ 100	₹ 1000/- US $ 90	₹ 1000/- US $ 60	Per Group ₹ 2500/-
Two Groups (Inland Centres) (Overseas Centres)	₹ 2250/- US $ 100	Rs. 1600/- US $ 90		

1. (a) Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
   (b) Students can also download the Examination Form from ICWAI Website at www.icwai.org. In case of downloaded form ₹ 50/- should be added extra towards the cost of the form.
   (c) Students can also submit the form online.
2. Last datefor receipt of Examination Application Forms without late fees is 10th October, 2011 and with late fees of ₹300/- is 20th October, 2011.
3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of the Institute and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICWAI, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query can be sent to Sr. Director (Examination) at H.Q.
5. Finance Act 2010, involving Assessment Year 2011-2012 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct – Tax Management (Final) for the purpose of December 2011 term of Examination under Revised Syllabus 2008.
6. Examination Centres: Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Solapur, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Dubai and Muscat.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Foundation – 1st February 2012 and Inter & Final – 20th February 2012.

C. Bose
Sr. Director (Examinations)

Desi Cost Accountants foray into North American Market – Opening of Toronto Centre of ICWAI

ICWAI opens its centre at Toronto which is the first of its kind in North America and will be the focal point of the Institute's globalization strategy, particularly in North America.

Brainchild of Shri Davinder Bhatia, a Toronto based cost and management professional, the centre has been operational since January 2011. Providing a platform of development and networking to ICWAI members in Canada, the centre was recently incorporated as a not-for-profit organization. Pioneered by Shri Bhatia and supported by a small group of ICWAI members working in leading corporations, banks and government throughout the GTA the centre is currently functioning under Shri Asokan Sadasivan, as Chairman and Shri Nand Kumar Prabhune as Secretary.

To quote, Asokan, one of the primary objectives of the Centre is to provide networking and professional development opportunities to its members and provide a base to support new immigrant ICWAI members to integrate and settle down in Canada.

Shri R. K. Choudhary, an ICWAI alumni and Toronto based leading tax practitioner, and Vice Chairman of the Centre adds The centre is a good starting point for new comer cost and management accountants from India to get right and timely information about accounting bodies in Canada, job markets, education evaluations process, mentorship and net-working through various meetings, events, website and information sessions at the centre. I wish we had established the centre long time ago, as early as 1996 when I first landed in Canada.

According to Shri Nandkumar Prabhune, Secretary of the Centre, a Cost and Management Accountant and eminent social worker "We have taken right steps in right direction, the centre will work on recognition of ICWAI designation in Canada and North America with other professional Accounting bodies like CMA, CGA, CA, CFA and CPA and will also plan couple of research projects on Cost management practices for local Industries.

ICWAI is an active member of International Federation of Accountants (IFAC) and is represented in the Public Accountants in Business Committee, by its member Shri A.N.Raman. The new areas such as Integrated Reporting, Sustainability and Risk Management are being discussed in the International Accountancy Forums and ICWAI is taking an active role in contributing to these initiatives. ICWAI also, in close co-ordination with CMA Canada, have brought out Management Accounting Guidelines on Corporate Environmental Strategies and tools and techniques on Environmental Accounting .The Toronto centre will also work in close co-ordination with ICWAI head quarters on these matters.

As part of its future plans, the Centre intends to organize various events for professional development of its members and to promote the recognition of the ICWAI qualification in Canada. The centre will also establish contacts with local accounting bodies and identify and develop areas of co-operation with them.

For inquiries please contact at : 416-455-5709/647-237-8465/416-371-5866

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