



Accounting and cost accounting aspects in Telecom

Hyderabad
13th Feb 2016

Discussion Flow



Global Telecom Market

India Telecom Market

Accounting in Telecom

Revenue lines

Cost lines incl profitability

Cost Accounting – Accounting separation

Mark to Market measurement – RMS

Telecom Highlights

Finance Profession in Telecom

TELECOM GLOBAL FOOTPRINT



Population

701 Crore

Telecom users

680 Crore

Penetration

97 %

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https://en.wikipedia.org/wiki/List_of_countries_by_number_of_mobile_phones_in_use

GLOBAL USER SPLIT

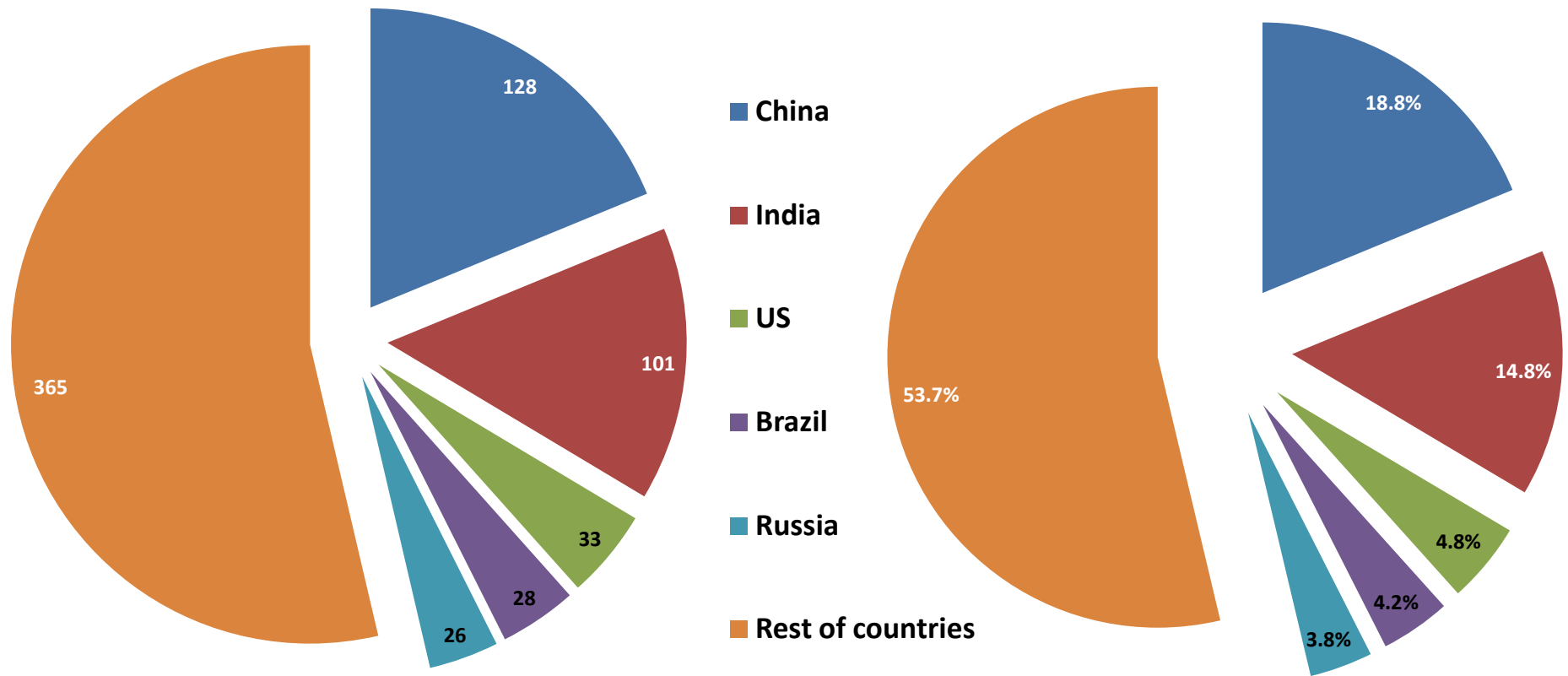
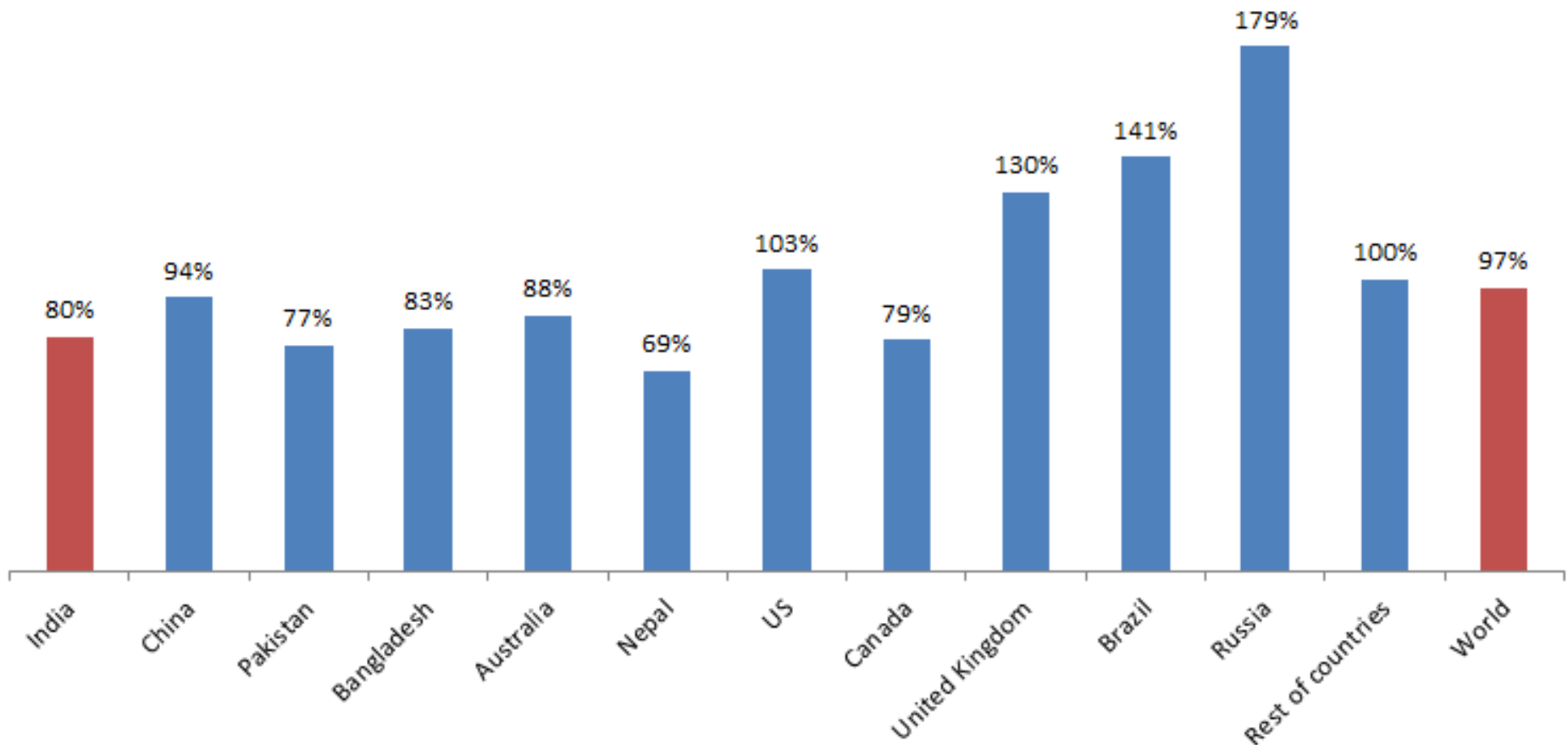


Figure in crores

India and China have 33% of Mobile Users of world

https://en.wikipedia.org/wiki/List_of_countries_by_number_of_mobile_phones_in_use

TELE DENSITY



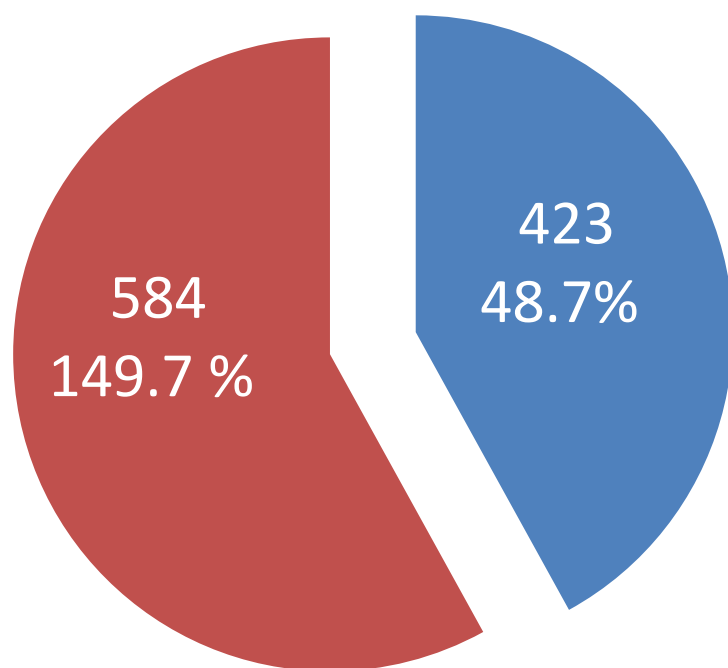
India Teledensity is lowest among most of countries and lower than global Teledensity.

https://en.wikipedia.org/wiki/List_of_countries_by_number_of_mobile_phones_in_use

INDIA MARKET



Base & Density



■ Rural ■ urban

	Pop	Base	Teledensity
Rural	869	423	48.7%
urban	390	584	149.7%
Total	1,259	1,007	80.0%

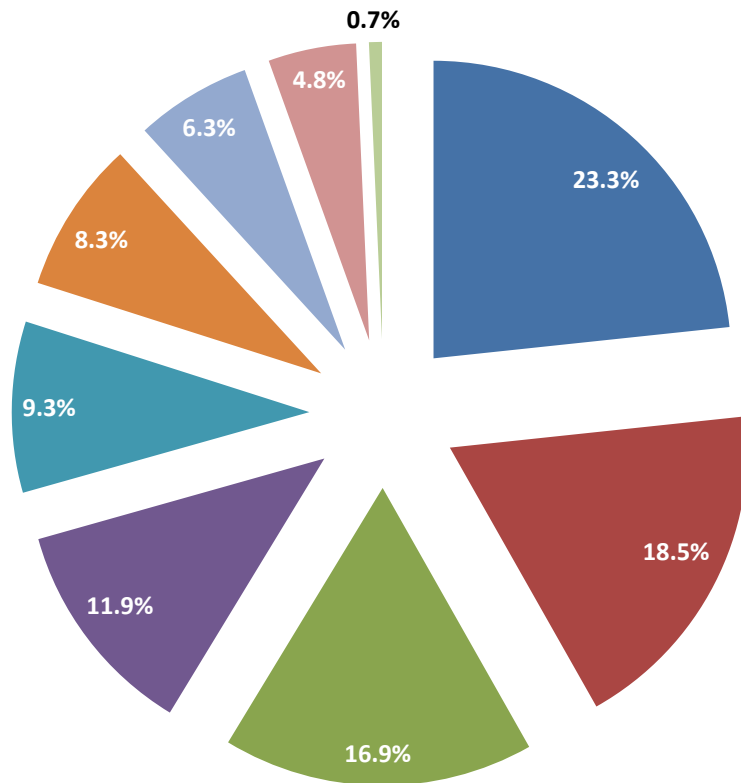
** All figures in mn*

44 Crore people in Rural are not using Telecom services

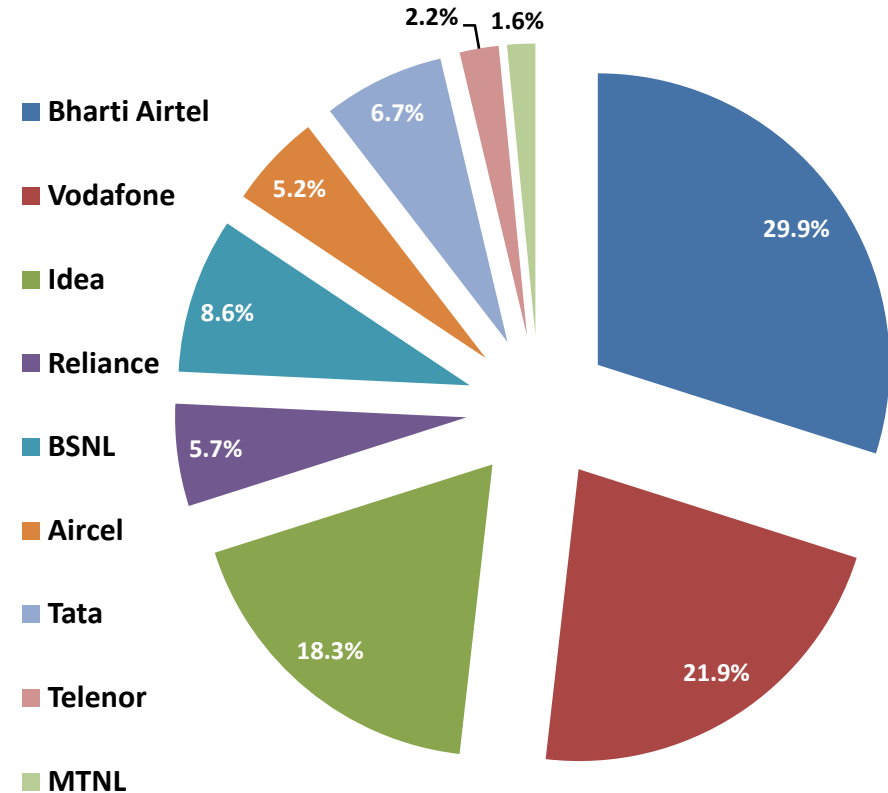
CMS and RMS



Customer Share



Revenue Share



**Top 3 National Operators (Airtel , Voda and Idea)
are having 60% customer and 70% Revenue share**

GOVERNING BODIES AND ASSOCIATIONS



Telecom Regulatory Authority of India

(IS/ISO 9001-2008 Certified Organisation)



**Cellular Operators
Association of India**





Accounting in Telecom

Source to measure

Business health

BUSINESS HEALTH INDICATORS

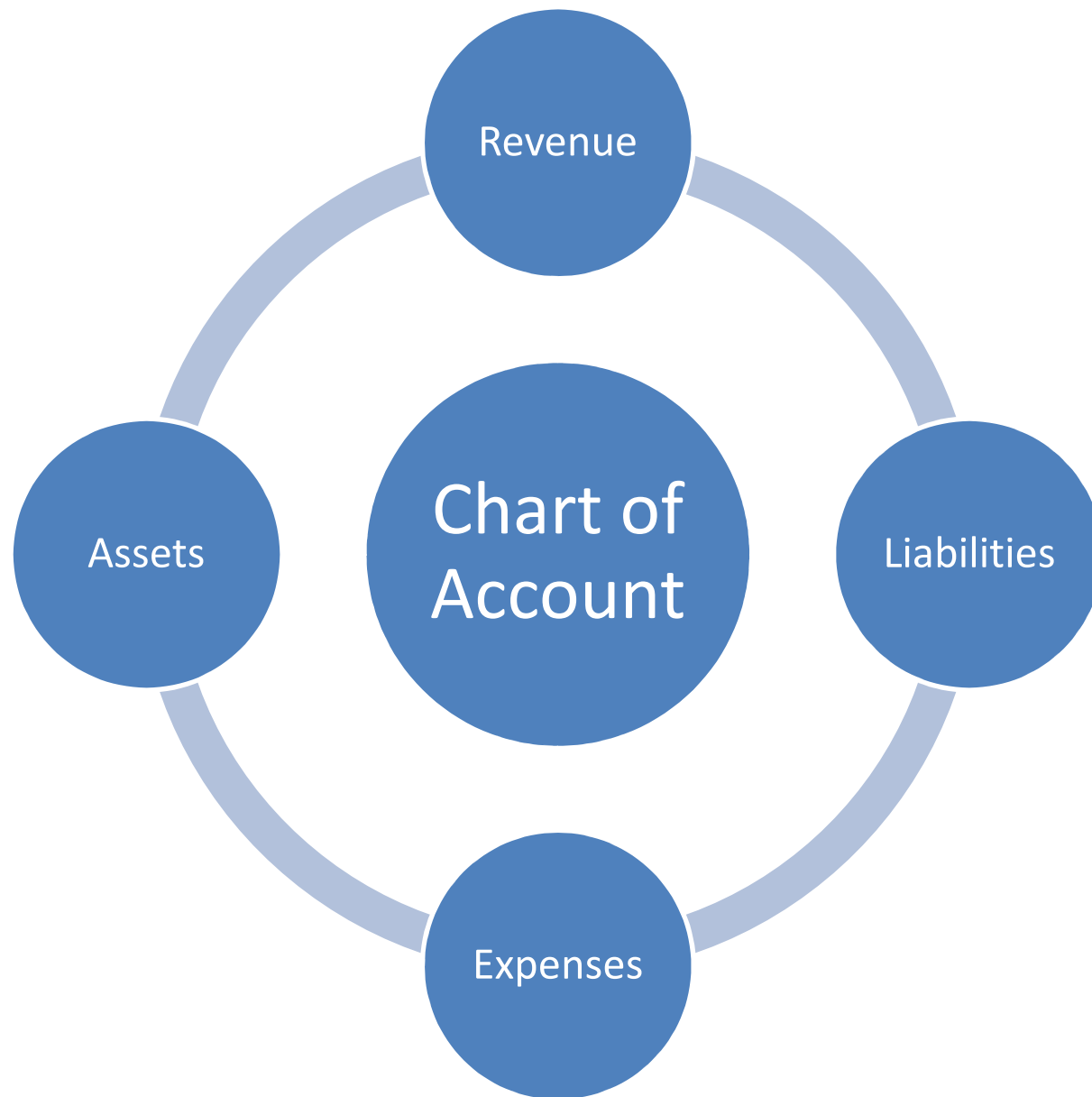


Revenue Growth

Profitability

RMS (Revenue Market Share)

ACCOUNTING PRINCIPLE



P&L CONSTRUCT



Gross Revenue

Less : IUC Cost

Net Revenue

Less : Operating Exp

Less : Licence Fee

Less : Spectrum usage
charge

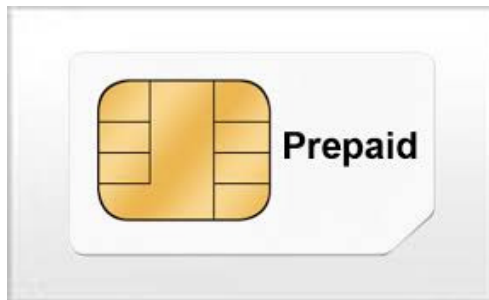
EBITDA

GROSS REVENUE LINES



Postpaid

Use and
pay



Recharge
before Use



inter
Connect

&

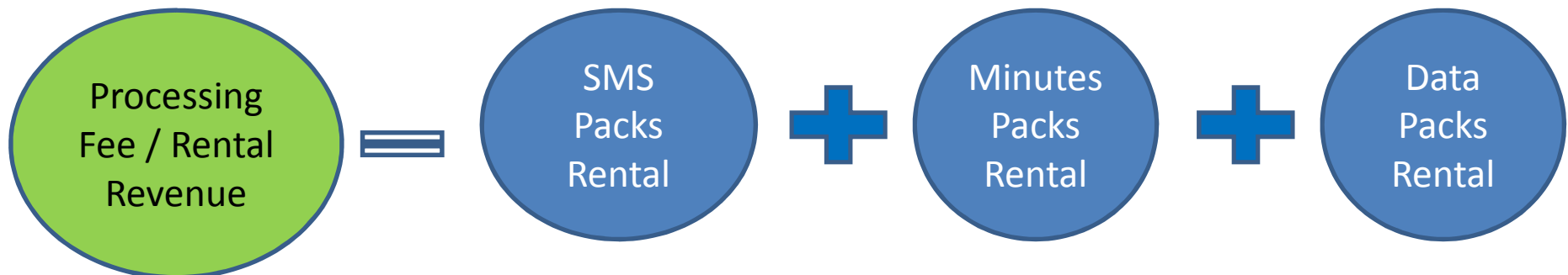
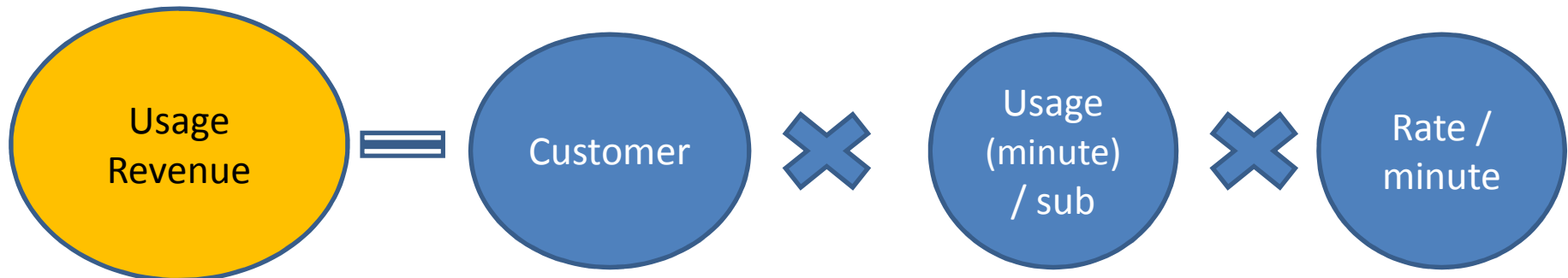
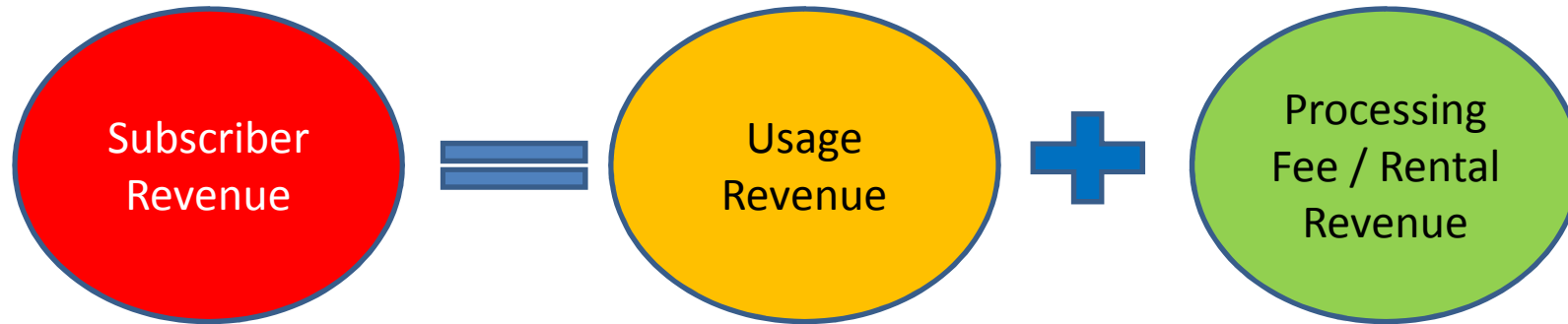


REVENUE LINES



Prepaid	<i>voice</i>	<i>data</i>	<i>vas</i>	<i>roaming</i>
Postpaid	<i>voice</i>	<i>data</i>	<i>vas</i>	<i>roaming</i>
in-roamers	<i>voice</i>	<i>data</i>	<i>vas</i>	
Interconnect	<i>voice</i>		<i>vas</i>	

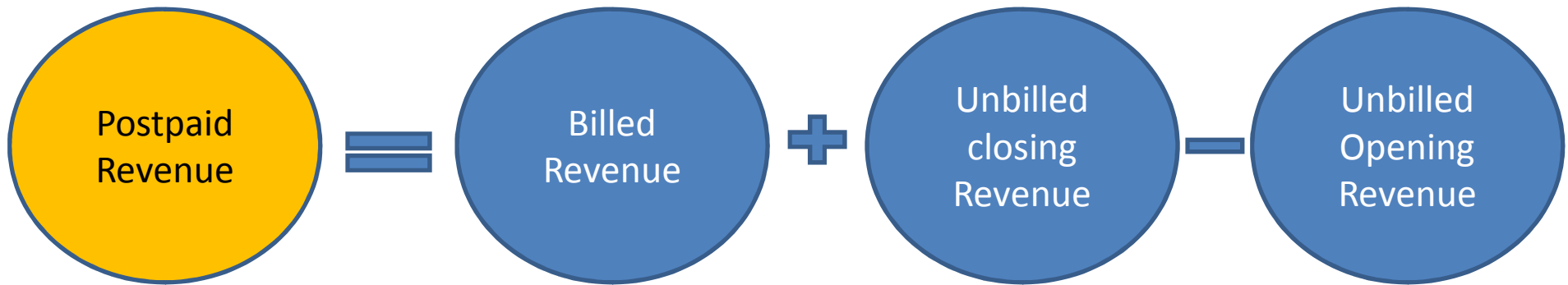
SUBSCRIBER REVENUE BUILDUP





postpaid

POSTPAID REVENUE ACCOUNTING PRINCIPLE



Billed & Unbilled Revenue Split happens :-



SMS



POSTPAID REVENUE ACCOUNTING PRINCIPLE...cc

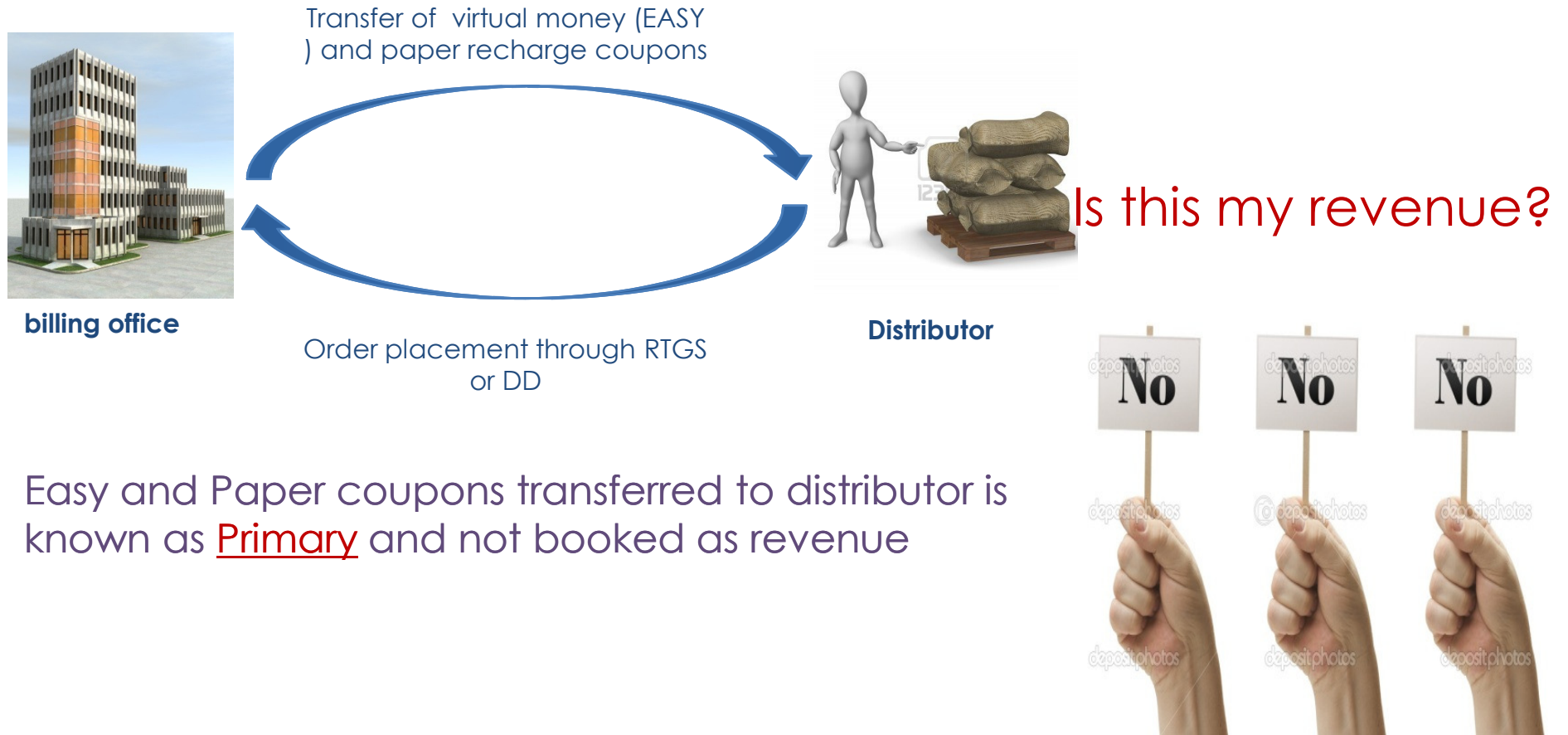


- Basic charging system is “KENAN” in most of telecom company
- Revenue accounting to happen as per billed revenue report
- Service tax liability becomes payable , the moment billing happens
- **Post that , collection process to happen and all collected money to be posted in customer account**
- **Any uncollected money at the end of certain period to be booked as Bad Debts , however no tax benefit on Bad Debts booked**



prepaid

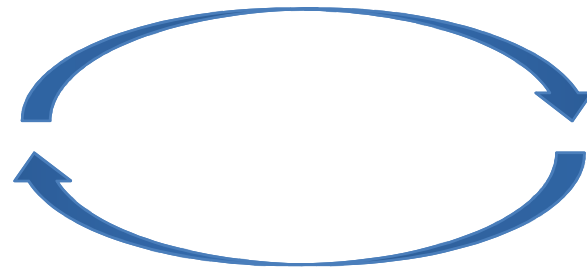
PREPAID REVENUE RECOGNITION



PREPAID REVENUE RECOGNITION



Transfer of virtual money (Easy)
and paper recharge coupons



Payment to distributor through
cash



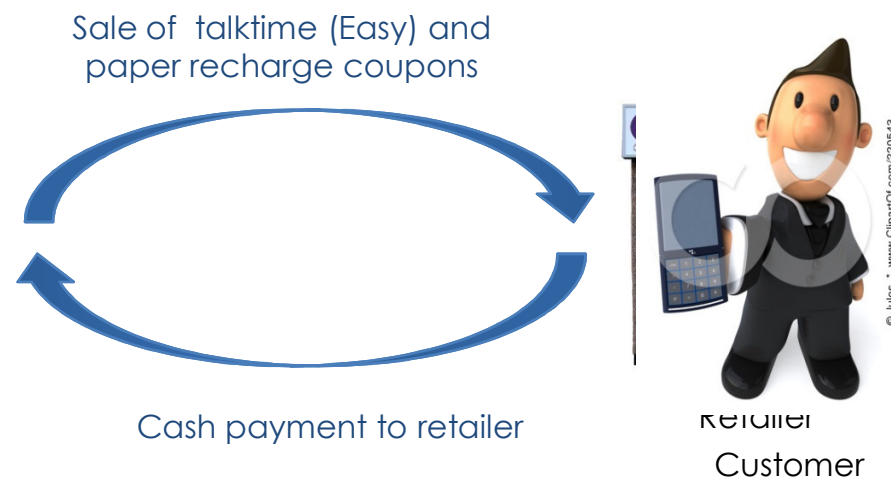
Retailer

Is this my revenue?



Easy and paper coupons transferred to retailers is known as Secondary and not booked as revenue

PREPAID REVENUE RECOGNITION



Is this my revenue?



Easy talktime and paper coupons sale to customer is known as **Tertiary** and not booked as revenue

Tertiary sales of products offering services such as SMS or other value add services (other than talk time) are booked as processing fees (PF) revenue

PREPAID REVENUE RECOGNITION



Balance depletion from customer's mobile wallet in the act of calling other users (consumption of services) known as Decrement and booked as revenue

Hence the usage revenue is recognized only when the services are delivered to customer

Processing fees revenue on products offering services other than talktime are recognized at the time of tertiary and deferred in proportion over the period if service period exceeds monthly accounting cycle

PREPAID REVENUE ACCOUNTING PRINCIPLE



Company to Distributors

- Cash inflow to Company, whereas distributors purchases recharge / sim in advance
- All cash inflow to book as Liability
- All stock billed to Distributor termed as market stock

Distributor to Retailer

- No transaction in company books of account
- All stock lying at retailer to be termed as market stock

Retailer to Customer

- Upon Any recharge , system picks detail and Liability transfer from market stock to customer stock, because Balance gets loaded in customer account
- Revenue to be booked the moment customer starts using

prepaid

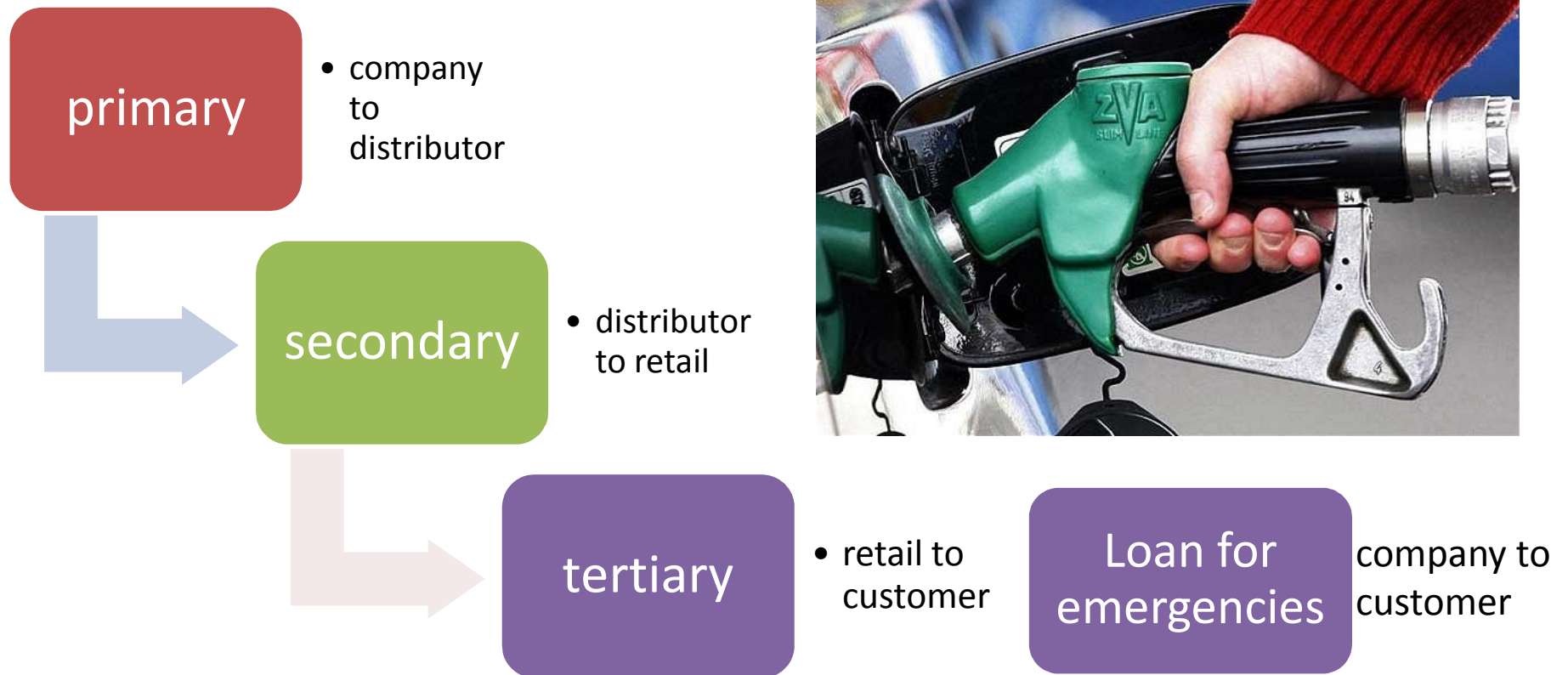


phenomena of

loading &

consumption

Prepaid..... loading



Prepaid RevenuePF accounting



Talktime products :- immediately @ the time of Recharge

MRP	100.0	It includes Service tax
S.Tax @ 14.5%	12.7	Deposit to Govt @ Primary level
Processing Fee	3.0	immediate Processing Fee Revenue
Airtime to Customer	84.3	Revenue booking as per Decrement

All other Products :- gets booked as liability and deferred over days / month validity of product

Minutes Pack

Rate Cutters

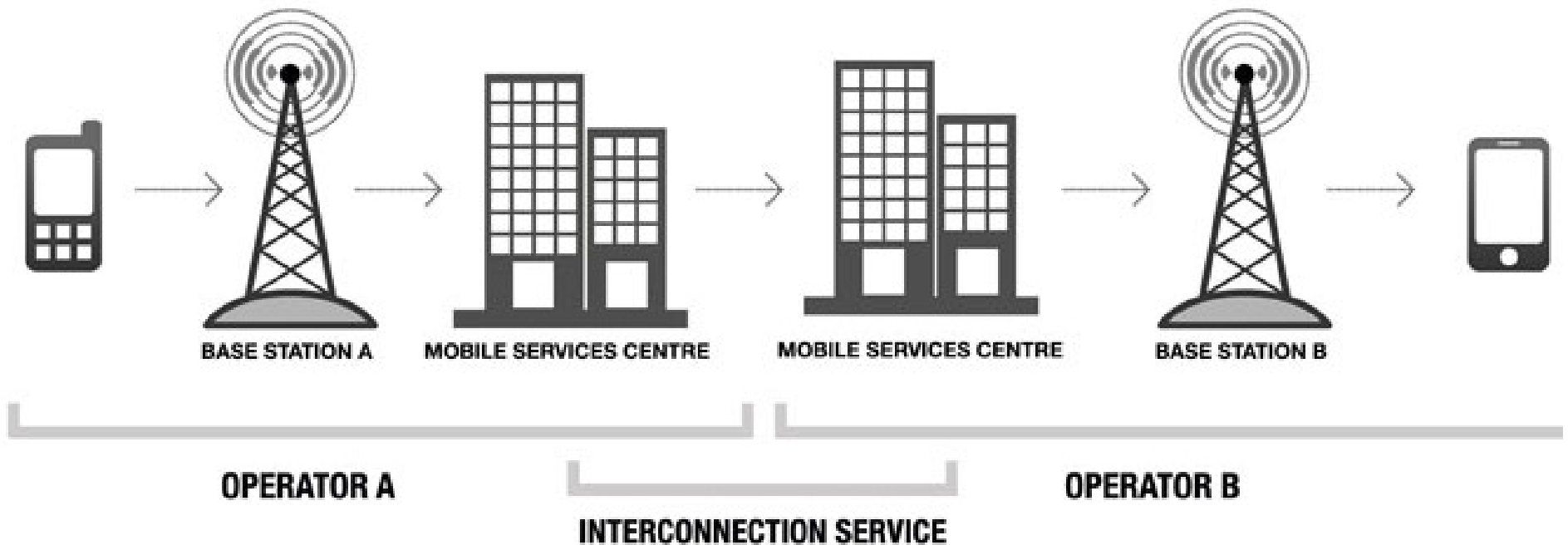
SMS Packs

Data packs



INTERCONNECT

Interconnection ??



INTERCONNECT REVENUE AND COST



- Governed by TRAI IUC guideline 2003
- With objective of sharing of call revenue across operators , it allows Subscriber of Operator A to communicate with subscriber of operator B

Various Scenarios

Operator A Customer makes local / national call to Operator B customer.

In this scenario Operator A will pay some amount to Operator B

For Operator B – IUC Revenue

For Operator A – IUC Cost

Above payout applies for Voice / SMS / Data all type of transaction

INTERCONNECT Charges



Termination Charges – Charges payable by Originating service provider (whose subscriber originates the call) to terminating service provider (in whose network call terminates)

Carriage Charges :- In India , Telecom access providers are Licenced on the basis of circles or service areas and they can carry calls maximum to their licenced area or state.

However National Long Distance Operators (NLDO) are licenced to carry Inter circle traffic.

The charges paid to carry Inter circle traffic are carriage charges.



How much am I earning ??

Profit (EBIT)

COST LINES



Network



**Sales &
Distribution**



Manpower



**CUSTOMER
SERVICE**



COST LINES



Site Running Exp
Rental
Energy
Others R&M Exp

MSC Expenses

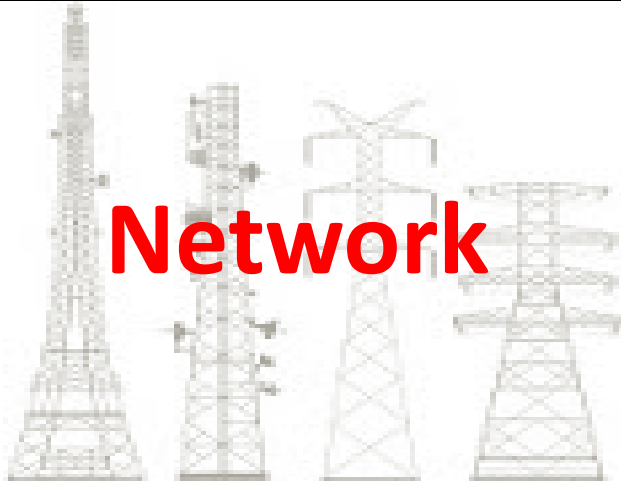
Leaseline Expenses

Port Charges

Managed Services

AMC Expenss

COST LINES



Network



**Sales &
Distribution**



Manpower



**CUSTOMER
SERVICE**



COST LINES

Trade Margin
Commission
Incentive



**Sales &
Distribution**

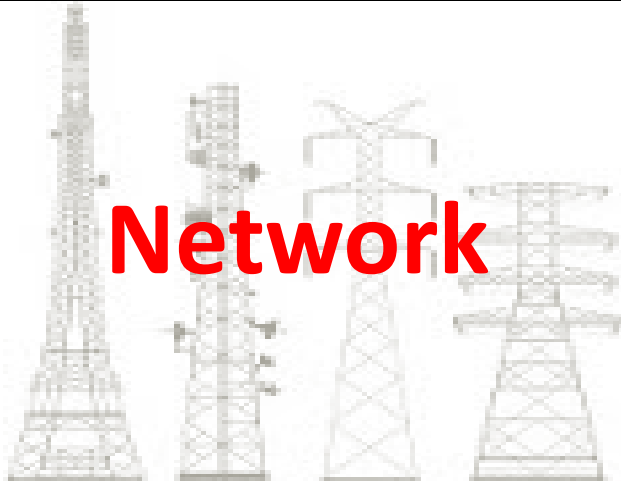
Sim Cost

Customer Verification Cost

Warehousing Exp

Recharge coupon
Printing cost

COST LINES



Network



**Sales &
Distribution**



Manpower



**CUSTOMER
SERVICE**



COST LINES

Employee
Salary

Office Rental

Travel Conveyance



Welfare exp
Pantry
Tea coffee etc

Office Exp
Energy
Security
Maintenance

PC exp
Lan Cabling
Other IT support

COST LINES



Network



**Sales &
Distribution**



Manpower



**CUSTOMER
SERVICE**



COST LINES

Call Centre Exp

Billing Exp

Collection Exp

Doubtful Debts

Branding exp

TV Commercial

Radio



FEES PAYABLE TO GOVERNMENT

One time Spectrum purchase :- It is one time charges payable to government at the time of Spectrum allocation.

Qtly Licence Fee :- Charge payable to Government every quarter for using the Licence provided for telecom service . (It is appx 8% of Adjusted Gross Revenue)

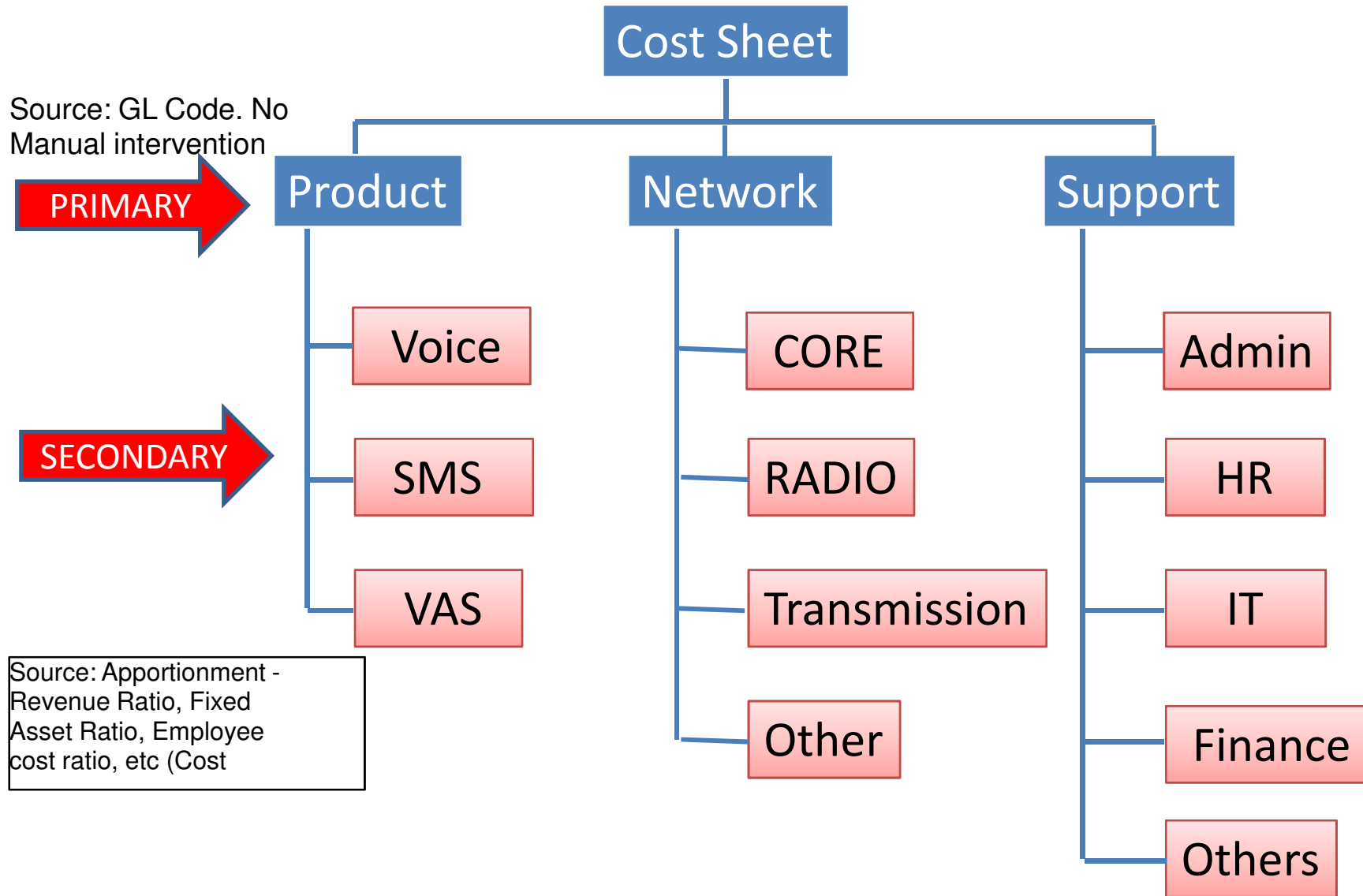
Qtly Spectrum Usage Charge :- Charge payable to Government every quarter upon revenue earned from allotted spectrum . (It is appx 5% of Adjusted Gross Revenue)

Service Tax :- Charges paid to government upon Postpaid and Prepaid subscriber revenue.

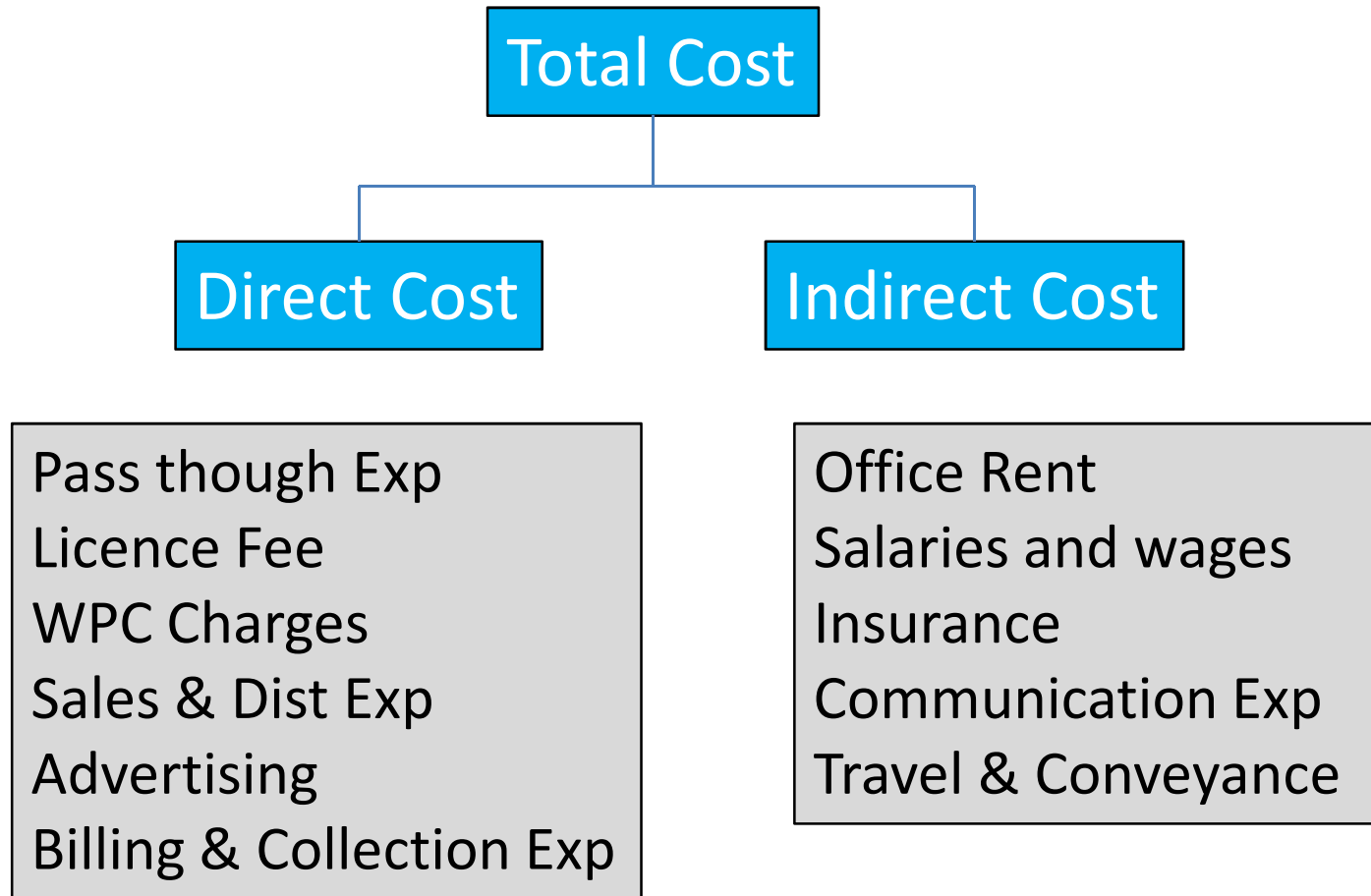


Cost Accounting Accounting Separation

COST IDENTIFICATION



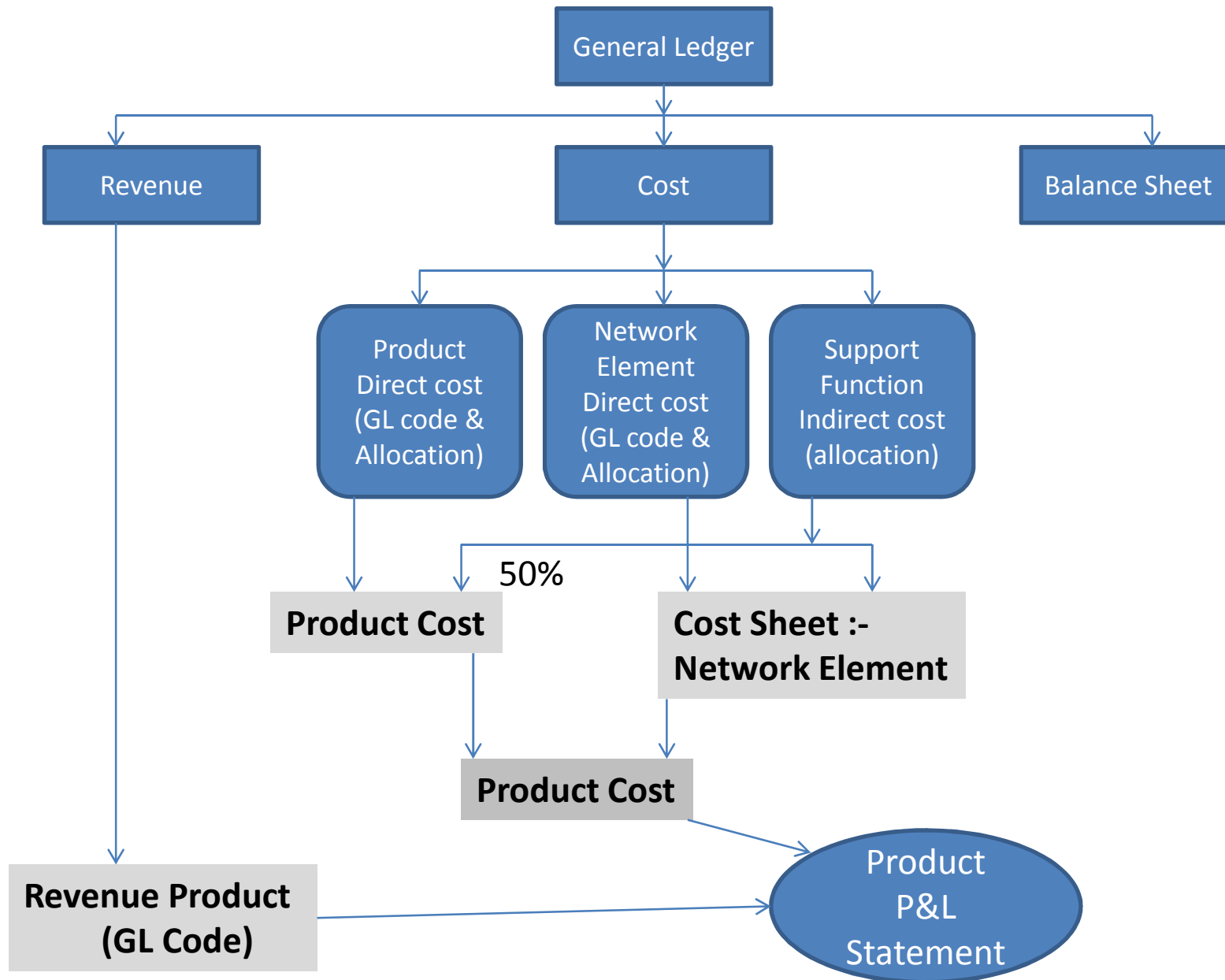
Allocation Methodology



Direct cost are directly attributable to a service , that are collated from General Ledger

Indirect cost , that are not allocable to one service , are allocable using cost centre

Allocation Workflow



Financial System



- ✓ All Companies follow single Chart of Account (uniform across entities)
 - ✓ Each License area is separated by a “Business Area” in Financial accounting system (e.g SAP , Oracle etc) and separate books of accounts are maintained at Business Area/License level
-
- ✓ Transactions are recorded at Business area level (Circle, Region and Corporate) and separate Trial balance maintained at Licence Level.
 - ✓ No expense could be posted without inputting relevant cost centers
-
- ✓ Cost Centers are created and Maintained in accounting system at License Area & function level
 - ✓ Cost centers are mapped with specific GL codes (Commitment item), thus error of wrong input is minimized

Allocation Method (Proforma Head wise)



Employee Cost	Primary	Secondary	Third Level
Salaries and Wages	Product / NE / SF in ratio of CTC of the respective Divisions	Post Paid / Prepaid in ratio of MoU. Network Elements in ratio of FA. Support Functions in ratio of CTC	Allocated to all products in ratio of their Revenue
Contribution to Provident fund and other funds	Same as above	Same as above	Same as above
Staff Welfare	Same as above	Same as above	Same as above
Training and recruitment	Same as above	Same as above	Same as above

Maintenance	Primary	Secondary	Third Level
Annual Maintenance charges	Network Elements	All NE in ratio of Fixed Assets	Allocated to all products in ratio of their revenues
Repairs and maintenance			
Buildings	Support Functions	All SFs in ratio of no. of employees	Allocated to all products in ratio of their revenues
Plant and Machinery	Network Elements	All NE in ratio of Fixed Assets	Allocated to all products in ratio of their revenues
Others	Support Functions	All SFs in ratio of no. of employees	Allocated to all products in ratio of their revenues

Allocation Method (Proforma Head wise)



Sales and Marketing cost	Primary	Secondary	Third Level
Advertisement and business promotion expenses	Product	Post Paid / Prepaid in ratio of revenue	Allocated to all products in ratio of their revenues
Sales Commission	Product	Identified heads for Prepaid & Postpaid exclusively. Remaining allocated to Post Paid / Prepaid in ratio of revenue	Same as above
Provision for bad and doubtful debts	Product	Postpaid only	Allocated to all products in ratio of their revenues
Bad debts write off	Product	Same as above	Same as above
Provision for doubtful advances	Product	Post Paid / Prepaid in ratio of revenue	Allocated to all products in ratio of their revenues
Billing & collection	Product	Postpaid only	Allocated to all products in ratio of their revenues
Sim cards issued	Product	Identified heads for Prepaid & Postpaid exclusively. Remaining allocated to Post Paid / Prepaid in ratio of revenue	Same as above
Others-SMS DATA/CONTENT-SERVICE CHARGES	Product	Post Paid / Prepaid in ratio of revenue	Allocated to VAS only

Common Cost



Nature of Expense	Primary
Rent/ Security/ HK	Ratio of space occupied/ratio of seats/ work stations occupied
Electricity	<ul style="list-style-type: none">• Where separate Meter is installed, actual cost to be booked for each function/Entity• Where separate meter is not there, allocation to be done basis load factor/ consumption rating/ technical estimate (where NW infra is collocated)• Where only space being shared and no equipments are installed, allocation to be done in the ratio of space occupied
Diesel cost	<ul style="list-style-type: none">• Where separate DG set is there, actual cost to be booked for each function/Entity.• Where separate DG set is not there, allocation to be done basis load factor/ consumption rating/ technical estimate (for allocation where NW infra is collocated)• Where only space being shared and no equipment are collocated, allocation to be done in the ratio of space occupied

Common Cost..... cont



Nature of Expense	Basis of Allocation
Rent/ Security/ HK	Ratio of space occupied/ratio of seats/ work stations occupied
Electricity	<ul style="list-style-type: none">• Where separate Meter is installed, actual cost metered• Where there is no separate meter, allocation on basis load factor/ consumption rating
Diesel cost	<ul style="list-style-type: none">• Where separate DG set is there, actual cost to be booked for each function .• Where separate DG set is not there, allocation to be done basis load factor/ consumption rating/ technical estimate
Marketing Expense	Revenue Ratio
IN VAS AMC and O&M	Revenue Ratio
SCCP link for Bulk SMS	Equally to all GSM circles (Link taken by ABS)



RMS

RMS in Telecom Industry



www.trai.gov.in

Revenue

airtel vodafone Aircel



All telecom operators file quarterly revenue to TRAI for each license area

Revenue from each operator is published on TRAI website for public consumption

Why RMS is critical??



RMS is the best way to measure operator's mark to market performance because reported revenue is most authentic and periodically available



RMS in Telecom Industry



Reported revenue is filed as operator's revenue to TRAI

Normalized revenue is derived by eliminating all non-core revenues such as ICR (income from other operators for leasing out assets) and other income

Normalized revenue is used for **like to like comparison** of RMS among all operators







how RMS is calculated in telecom industry...







RMS calculation in telecom



	Normalized revenue Q1	RMS - Q1	Growth	Normalized revenue Q2	RMS - Q2
 airtel	100 Mn	50%	20%	120 Mn	55%
 vodafone	70 Mn	35%	7%	75 Mn	34%
 idea	30 Mn	15%	-17%	25 Mn	11%
 Industry	200 Mn		10%	220 Mn	

RMS calculation in telecom

		RMS - Q1	Growth	RMS gain/loss	RMS - Q2
		50%	20%	5%	55%
		35%	7%	-1%	34%
		15%	-17%	-4%	11%
	Industry		10%		

Operator growing with **higher rate** than industry growth results **RMS gain**

Operator growing with **slower rate** than industry growth results **RMS loss**

how am I doing?



Key indicators to measure business performance -

financial -

Revenue



Profitability



market -

RMS



Telecom Highlight today



Net Neutrality

Call drop

Net Neutrality



Net Neutrality



- No discrimination on
 - User
 - Content
 - Site
 - Platform
 - Application &
 - Mode of communication

Means all traffic on Mobile Internet should treat equally

Zero Plan by one of telecom operator



Operator can't control which apps to use and which app not to..

Smaller enterprises will not be able to pay for operator's data fee. This will lead to an unhealthy collusion between big enterprises and the operator.

Against spirit of fair competition - Why should an operator dictate to the customer which sites to go to..

operator may block/ throttle the speed of non-participating enterprises

Zero Plan by one of telecom operator



Just like electricity and water ,should be the Internet . Electricity distribution companies charge consumers based upon the units they consume and not on the basis of whether they used those units for heating water or ironing clothes.

Net Neutrality.. TRAI Decision 8th Feb 2016



- No service provider can offer or charge discriminatory tariffs for data services on the basis of content
- No service provider shall enter into any arrangement, agreement or contract, by whatever name called, with any person, natural or legal, that the effect of discriminatory tariffs for data services being offered or charged by the service provider for the purpose of evading the prohibition in this regulation.

Net Neutrality



- Reduced tariff for accessing or providing emergency services, or at times of public emergency has been permitted.
- Financial disincentives for contravention of the regulation have also been specified
- TRAI may review these regulations after a period of two years.

TRAI said a fine of Rs. 50,000 would be levied per day, subject to a maximum of Rs. 50 lakh, for any violation of these regulations by the service providers. An exemption, however, has been made for offering emergency services.



Call Drop

Call drop..... TRAI guideline and impact



- Rs 1/- compensation for each call drop
- Rs 3/- per day per sub max compensation cap
- Compensation applicable only if it happened due to calling party network issue
- Operators approached Delhi High court and final decision pending
- Estimated Industry Penalty appx Rs 1000 Crore p.a

Call drop..... Operator views



- Licence conditions do not mandate operators to provide 100% coverage
- Licence conditions do not mandate operators to provide inside building coverage
- What happened, if call drop happens on uncovered areas
- What happened, if call drop happens inside building area



Finance Function @ Telecom



Discussion Flow



Global Telecom Market



India Telecom Market



Accounting in Telecom



Revenue lines

Cost lines incl profitability

Cost Accounting – Accounting separation



Mark to Market measurement – RMS



Telecom Highlights



Finance Profession in Telecom





Ask me no questions, and I'll tell you no lies



THANK YOU