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# The Management Accountant

## The Journal for CMA's

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# Cost Accounting Models for Pricing


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Shri M. Gopalakrishnan, President of the Institute addressing members and guests on 'Union Budget-2012' held at SIRC on 18.03.12. Seen (from L to R) Shri M.R. Sivaraman, Former Revenue Secretary, GOI, Shri B.R. Prabhakar, Chairman, SIRC, Shri B.S. Gnanadesikan, Hon'ble Member of Parliament and Shri K.M. Ravindran, Addl. DG, Press Information Bureau, GOI.

Shri M. Gopalakrishnan, President of the Institute in a discussion with Shri M.R. Sivaraman, Former Revenue Secretary, GOI and Shri B.S. Gnanadesikan, Hon'ble Member of Parliament. Also seen Shri B.R. Prabhakar, Chairman, SIRC.


Shri B.S. Gnanadesikan, Hon'ble Member of Parliament, delivering his speech on 'Union Budget-2012' held at SIRC on 18.03.12. Seen (from L to R) Shri M.R. Sivaraman, Former Revenue Secretary, GOI, Shri B.R. Prabhakar, Chairman, SIRC, Shri M. Gopalakrishnan, President of the Institute and Shri K.M. Ravindran, Addl. DG, Press Information Bureau, GOI.


Shri K.K. Rao, Vice Chairman, Hyderabad Chapter speaking at the Members meet on 'Revised Schedule-VI - The Ministry of Corporate Affairs (MCA-21)' held at Hyderabad on 11.02.12. Seen (from L to R) Shri B.L. Kumar, Secretary, HCCA, Shri G.V.S. Subrahmanyam, Vice Chairman, SIRC, Dr. P.V.S. Jagan Mohan Rao, Council Member, Shri A.S. Nageswar Rao, Chairman, HCCA and Shri K. Chandrasekhar, practising Company Secretary.

A cross section of practising members and delegates attending the seminar on Cost Accounting Record Rules and Cost Audit Report Rules 2011 held at Hotel Express, Baroda on 11.02.12.

Smt. Geetaben Goradia, President, Federation of Gujarat Industries, lighting the lamp at a seminar on Cost Accounting Record Rules and Cost Audit Report Rules 2011 organized by Baroda Chapter on 11.02.12. Also seen are Shri Rakesh Singh, Vice President of the Institute, Shri R.K. Patel Secretary, BCCA and Shri S.S. Puranik, Chairman of the Chapter.

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# The Management Accountant

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

**Volume 47 ◙ No. 4 ◙ April 2012**


## C O N T E N T S



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❏ 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.

## MISSION STATEMENT

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

## VISION STATEMENT

*"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."*

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

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# From the Editor's Desk

As we gear up to bring out the fully coloured journal in this issue - something that our members have been cherishing for long and share the views of the experts on the Union Budget 2012, our Hon'ble Finance Minister's momentous Budget for the financial year 2012-13 would have been discussed and analysed thread bare by industry experts, financial analysts and the general public. Budget, in India, is not just a cartload of figures in black and white, but they also represent myriad lights and shades of India's life, the contrasting tones of poverty and wealth, and hopes and despairs of the teeming millions. From the Prime Minister to the pauper, everybody waited in rapt attention to see the great balancing act of the Finance Minister. There were expectations and promises - some are fulfilled, some are not. While the Budget 2012-13 will always remain a subject of intense debate for many years to come, the kind of reaction from the gold and jewellery industry by resorting to strike to protest harsh measures taken in the budget proposal has hardly been seen before. The retrospective amendments to the Income-tax Act - probably fallout of the Vodafone case, have been resented by the captains of the Indian industries. But what else can the government do to rope in the tax evaders who are in unending competition with the tax collectors with ingenious subterfuge in the tax havens like the Cayman Islands?

The 'renaissance in cost accounting' is definitely attributed to the twentieth century American Industrial Revolution triggered by the Scientific Management

Coming back to the task at hand, this issue of the Management Accountant is focused on Cost Accounting Models for Pricing. Cost accounting has a very ancient root. When double entry book-keeping was a nascent discipline, the essentials of cost accounting were found to be practiced at the Arsenal of Venice in the medieval Italy. Modern features of cost accounting system like numbering and warehousing of finished parts, assembly line of production system, personnel practices, standardisation of parts, control by accounting, inventory control and cost control were found to be practised in the Arsenal. However, evidence of systematic cost accounting could hardly be found before the Industrial Revolution in England and basic text books on the subject of cost accounting did not appear before Charles Babbage's "The Economy of Machinery and Manufactures", which was published in 1835. The 'renaissance in cost accounting' is definitely attributed to the twentieth century American Industrial Revolution triggered by the Scientific Management, when substantial improvement was noticed in the four major areas of activity: cost control techniques, accounting for overhead, costing for routine and special decision making, and standard costing. Indeed, the development of standard costing in the United States was a direct consequence of F.W. Taylor's Scientific Management, when engineers attempted to standardize and simplify production processes to promote efficiency in the use of direct labor and direct materials.

In the field of cost and management accounting the Americans continued to dominate the scene till 1970s when the Japanese model of cost and management accounting entered the scene. Target costing, Kaizen costing and Just-in-Time inventory techniques brought some fresh breeze in the field. It needs to be recognized that the traditional cost accounting models were developed decades ago when product diversity was low, production processes were largely driven by direct labour, and information processing costs were high. But in a technologically advanced and globally competitive environment, new methods like the activity-based costing, life-cycle costing and similar techniques must be invented and tried by the managers in order to remain competitive and relevant.

I hope that the contributors to this issue will leave indelible mark of their scholarship by apprising our readers exactly what is going on in the field of cost and management accounting.

Wish you a very happy reading!

> **"The blameless wealth from fairest means; Brings virtue and also bliss"**
> **—Thirukurral by Thiruvalluvar (550 AD)**

M. Gopalakrishnan, President

Dear Professional Colleagues,

Sustainability has been a theme, which has often been looked upon as mere English and nothing beyond. The ancient wisdom that wealth creation by any means never stays with you and wealth earned through fair and virtuous means is the one which stays with you for ever, explains the logic of sustainability. The term "Shubh Labh", used by the Indian business from small to big, puts it in a succinct way. The wisdom which has been with us for centuries, is now gaining credence in the business circles as it comes with an international hue now.

The month of March has been one of the busiest months with a series of National and International events some of which have been held for the first time in the history of the Institute. All these initiatives have been taken up by the Council in order to showcase the skills and the knowledge which the CMAs are capable of delivering.Any knowledge which a professional possesses does not come into the public domain unless it is also put across by regional and national events. The ancient message is—the glow of the fire enlightens larger area when it is put on the top of the hill rather than inside a pot.

Starting with the Students Convocation which was held on 1st March, 2012 at Kolkata and continuing with the IFAC-PAIB meetings and the National Cost Convention followed by the Regional Conference point out to this aspect of the profession. The IFAC- PAIB meeting which was a real eye opener to the members of the International Accounting community where they could identify the tremendous strive our profession has not only in India but also helping the other countries in the regional block to spread this knowledge in the Region. The sharing of knowledge by the heads of finance from the industry with the PAIB Committee members will enable them to chart a course of action so that the intellectual efforts which are made at the International level has a region specific hue.

**National Cost Convention, 2012**

The test of competence for a professional body is the innovation and new thought process it is able to trigger in the national events. In addition to the deliberation on the usual practice areas in the series of workshops and events held throughout the year in various places, it is also important to discuss topics, which define our role as value creators. The theme of the National Cost Convention 2012 **'Sustainability Framework, Integrated Reporting, Imperatives for CMAs'** was chosen, by the Technical Committee headed by Shri. A.K.Awasthi, Dy. CAG, Govt of India keeping in view this hot topic which is emerging as a game changer in the emerging business reporting framework. As creators of value, we need to develop practical tools and techniques to take care of the bi-dimensional aspects of this key concept and guide in its implementation.

In the inaugural speech, **Hon'ble Minister of State for Corporate Affairs, Shri R.P.N. Singh** showcased his charming personality in making a complicated subject look simple, by calling upon professionals to help in making the business reporting system easily understandable by the common man. Shri Naved Masood, IAS, Secretary, Ministry of Corporate Affairs in his special address, highlighted the aim of the Ministry to develop responsible corporate citizenship, with the help of all the three professionals administered by his Ministry. Shri Kashi Balachandran, Prof. Stern School of Business, NY, USA made the connect between Alaska and India, when he talked about polar bears swimming larger tracts of water produced by global warming than ever before, which addresses the need to reduce the carbon footprint. Shri S. Jayaraman, Member, CERC, dwelled upon the link between tariff policies and the need and emerging practice embedding the sustainability costs in them

The IFAC-PAIB Committee led by the Chairman, PAIB, Mr. Roger Tabor, and members Dr. Vittorio Lusvarghi and Mr. Stathis Gould, were able to test some of the issues that were highlighted by the Committee in its deliberations during the convention on the topic. The SAFA representation through Mr. Lakshman Watawala, President, ICMA Sri Lanka who shared his past experience as the Chairman of Board of Investments, laid a practical emphasis on this emerging topic. Since the details will be available to the members on the discussions and takeaways, I am stopping with highlighting the key discussions. To sum up, the convention enabled the profession to keep the key issues of sustainability in their vision, when advising on the business decisions. As preservers of value we may have to eschew short term reporting focus and look at long term stakeholder value for business sustainability.

**PAIB Committee of IFAC**

As members may be aware, IFAC has several international boards and committees, one of which is Professional Accountants in Business (PAIB) Committee. Through the work of the PAIB Committee, IFAC seeks to achieve global recognition of professional accountants in business as organizational leaders and strategic partners in building long-term sustainable organizational success. After a long gap, we could get our representation in the PAIB Committee in 2010. Due to persistent efforts by the previous Council we could convince IFAC-PAIB Committee to hold its first ever meeting in India, which fructified when they hosted the meeting at New Delhi during 13th -14th March, 2012. I am pleased to inform that our views on the issues considered by the Committee was acknowledged by the Chairman of the PAIB Committee of IFAC, Mr. Roger Tabor, who also paid handsome complements on the organizing and interaction arranged by us with SAFA members and CFOs from industry. I am sure that the high level discussions and outputs originated in the meeting are going to change the face of the profession towards more responsible reporting.

**Board/Committee Meeting of SAFA**

Institute hosted the meetings of Committees and Board of SAFA on 13th March, 2012 and 14th March, 2012 respectively at New Delhi. The SAFA Board discussed the next steps on implementation of the action plan which was evolved in the previous year through the SAFA Strategy Matrix. The Board also decided to form a Task Force for the challenges and risks being faced by member bodies of SAFA, vis-à-vis the foreign bodies establishing their presence in SAFA region. I am happy to inform that Shri Rakesh Singh, Vice President will be representing the Institute in this important Task Force under the Chairmanship of Mr. Abdul Rahim Surya, Past President of Institute of Chartered Accountants of Pakistan.

**Organization of SAFA-EFAA Joint webinar**

Members will also be pleased to know that the efforts which started in the previous year on the SAFA-EFAA co-operation was strengthened further, when we organized a joint webinar with participation from the countries of Asia and Europe on 23rd March, 2012. I extend my congratulations to the IT Directorate for this pilot venture, which will enable closer connect across the world by professional bodies, saving both, time and expense on travel.

**Events in the Regions and Chapters**

I could participate in the conference conducted by the Eastern India Regional Council on 24th March 2012 at Durgapur. I had the privilege to inaugurate the Vapi-Daman-Silvassa Chapter of our Institute on 29th March 2012. I was particularly impressed by the enthusiasm shown by our members from industry in developing the profession in the industrial belt. The industrialists, who participated in the meet, highlighted the dire need for Cost Accountants amongst the industries, especially MSMEs, who have to be cost competitive to survive on long term.

**Student's Matters**

The students may be pleased to know that the suggested answers for December 2011, has been hosted on the website and is available for download to registered students of the Institute. The Examination notice for June 2012 examinations has been issued and the students can also file the application on line. As a part of encouragement to this e-governance initiative, the application form fee of Rs. 50/- is waived for those students who are filing on line application.

Starting from 16th April 2012, the registered students will be directly receiving the study materials from the Directorate of Studies, through the Logistics Associate (M/s. Fedex) of the Institute. This is to address the stock out issues the students have faced in various Regional Councils and Chapters, with some stock points piled with materials whereas some other places witnessing severe shortage. The Centralized system has been made possible, real time availability of student registration information through the Integrated Education Processing System, which has been implemented in all the Regions and Chapters who are eligible to conduct the coaching.I complement the Directorate of Studies for this landmark initiative. I am sure that more student friendly measures can be expected from the Directorate.

**Technical Directorate**

In coincide with our efforts on ESG issues, I am happy to state that the CASB in its 51st meeting held on 5th March 2012 has approved the Cost Accounting Standard on Pollution Control Cost (CAS – 14). The same has been approved by the Council in its meeting held on 31st March 2012. The Board has also approved the release of the Exposure Draft of Guidance note on CAS – 9 on Packing Material Cost. The same shall be uploaded on the website of the CASB for comments shortly. It is very important for members to study the same and send their comments to CASB for consideration.

**Training and Placement Directorate**

I am happy to inform that the Campus Placement programme for December 2011 final pass outs has been scheduled during the month of April 2012 in four Regional Councils. This is the second Placement programme conducted in an integrated manner.

I complement the Directorate's proactive efforts on providing employment opportunity for a differently abled final passed student within few hours of coming to know of his case. I am also happy that the initiative for hosting resumes of experienced CMA professionals has also started with reasonable success. The Institute has also started advertising in business dailies for the campus placement efforts so that the connect between the demand and supply can happen.

**Certificate in Accounting Technicians (CAT)**

I feel happy to inform that the Council has decided to change the Examination pattern of CAT Level I from the conventional pattern to Multiple Choice Question pattern to be answered in OMR sheets, effective from June 2012 Examination. CAT Directorate has taken many initiatives in terms of hosting the model question papers in the Institute's web site and conducting mock tests in the OMR answer sheets in various Chapters/ROCCs in the month of May 2012 to familiarize the CAT students. This, I am sure, will go a long way in boosting the CAT students.

**Professional Development Directorate**

I am happy to mention that with the continued efforts started by the previous Council and the present Council, CBEC vide Circular No 01/ 2012-Customs dated 5th January, 2012 has provided further avenues to practicing CMA in the matter of certifying of refund claims of additional duties of Customs under Circular No. 18/2010-Customs dated 8th July 2010-Special Drive for clearance of pending 4% SAD. Now the Cost Accountants can issue certificate correlating the payment of ST/VAT on the imported goods with the invoices of sale and also to the effect that the burden 4% CVD has not been passed on by the importer to the buyer. For details, the members may refer to the Institute website.

**CEP-I Directorate**

As its continued efforts to upgrade the skill and value addition of finance professionals, the CEP Directorate organized an exclusive "IFRS" training programme for the Senior officers of ONGC Ltd, a programme on "Cost and Contract Management" for the Senior Naval Officers and an exclusive programme on "Revised Schedule VI" for the officers of LANCO Group of Companies.

**CEP Directorate (2) for the Month of March 2012**

I am pleased to inform that Professional Development Directorate and Continuing Education Programme Directorate has brought out a comprehensive publication on Cost Accounting Records Rules, 2011 and Cost Audit Report Rules, 2011. We believe that this handbook will be very useful to the professionals and Industries.

The CEP-2 Department organized a training programme for Trainers on 'Cost Accounting Records Rules, 2011 and Cost Audit Report Rules, 2011' on 1st March 2012 at Chennai for the nominated members from the Southern India Regional Council of the Institute and the Chapters in the Southern Region. A good participation was received for the programme that shall further enhance the task of disseminating information amongst the members on the recent developments taking place in our profession. In order to make the exercise more meaningful, all the participants have been asked to conduct at least 2 (two) such programmes at their respective Regional Council/ Chapter in the next six months. I request the members to take full advantage of the training.

The Department is also organizing a similar Programme for Trainers on 'Cost Accounting Records Rules, 2011 and Cost Audit Report Rules,2011' at Mumbai for Western India Regional Council of the Institute and the Chapters in the Western Region and at Kolkata for Eastern India Regional Council and Chapters in the Eastern Region. The Department has announced a two day Seminar on 'Risk Based Internal Audit of Banks' (RBIA) during 26-27 April 2012 at Hyderabad Centre for Excellence of the Institute. The Institute and Confederation of Indian Industry (CII – ITC Centre of Excellence for Sustainability Development) will jointly organize a five day Training Course on 'Certified Sustainability Assurance Practitioner' (CSAP) during $14^{th}$ $18^{th}$ May 2012 at Chennai.

I am also happy to inform that the department is in a process of having CEP Portal for our members to facilitate them to get the updated record of CEP hours awarded for each programme attended by them.

On behalf of the Institute, I wish members on the occasion of Ram Navami, Mahavir Jayanti, Easter Sunday, Bengali New Year, Ambedkar Jayanti and other festivals during the period.

With warm regards,

CMA M. Gopalakrishnan
President
The Institute of Cost Accountants of India
$1^{st}$ April, 2012

# Towards a Sustainable Cost Accounting Model: The Emerging Role of the CMAs as Friend of the Earth

**Dr. Sujit Kumar Roy**
Associate Professor & Head of the Department of Accountancy, Goenka College of Commerce and Business Administration, Kolkata

## Introduction

The debate about the anticipated limit of the global ecosystem to sustain growing environmental impact of human economic activities is not new. Following the publication of the *Limits to Growth* (Meadows et al., 1972), it was subjected to both extensive discussions and criticisms appropriate to so fundamental a theme. The resurgence of the debate in the late 1980s (e.g. WCED, 1987), in the 1990s (Earth Summit 1992), and more recently in a McKinsey Report (See Roy, 2012), however, suggests that the earlier concern about the environment expressed in the *Limits to Growth* cannot be entirely dismissed. On the contrary, the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC, 2007) sounded red alert that if the trend of environmental destruction is allowed to continue, it may disrupt the global ecological balance, jeopardising not only the possibilities of continued economic growth but also the life-sustaining qualities of the Earth and lead to an ecological catastrophe.

Amidst such real concern for the environment, no less important is the role of business and its concomitant economic growth philosophy that regards environment as a commodity to be expended freely. Environmental disruptions ensuing from such an attitude has resulted in more radical suggestions such as zero growth economy. But as against such extreme suggestions, the World Commission on Environment and Development (WCED 1987), in a more balanced and optimistic approach (see Table 1) suggested that the environment and economic growth can be made compatible through its strategies of sustainable development.

**Table 1 : Critical Objectives for Environmental and Developmental Policies that follow from the Concept of Sustainable Development**

- Reviving growth
- Changing the quality of growth
- Conserving and enhancing the resource base
- Making environment and economics in decision-making
- A production system that respects the obligation to preserve the ecological base for development
- A technological system that can search continuously for new solutions

***Source : WCED (1987), pp. 49, 65***

The practical articulation of the strategy for sustainable development was espoused in Agenda 21 (UN, 1992) and its offshoot, the Business Charter for Sustainable Development (ICC, 1992). These documents suggested a number of pro-environ-mental changes including environmental accounting, to be a part of, and implemented by, business. This marked a fundamental change in approach towards environmental problems and paved way for a business case for sustainable development, as opposed to the vitupera-tive attack of the following type, for example, on accounting and economics from the deep green platform :

"There is no polite way to say that business is destroying the world" (Hawken, 1993 : p.3); and

"The 'firm' was an innovation in bookkeeping techniques just as the 'corporation' was a legal gimmick. Both were man-made and both are imaginary; yet together with the industrial revolution they have made it possible, even likely, that we have already passed the point of no return in environmental pollution… Establishment of the 'firm' was a bookkeeping decision that in calculating profits by subtracting 'costs' from 'income', 'economic costs' would be included but 'social costs' would not be counted" (Carroll Quigley, 1970 : p. 9).

No surprise that since the Earth Summit in 1992, one of the growth areas within accounting has been accounting for the environment (Mathews 1997, p. 481), which has spawned an extensive corporate environmental disclosure practices in Europe, North America, Australia, New Zealand and Japan on voluntary basis. The most recent developments in this area include a widely accepted third generation corporate environmental reporting framework by the Global Reporting Initiative (2006); UN Global Compact's norms on human rights, labour, environment and anti-corruption; environmental management standards like ISO 14000 series; auditable standard for social accountability : SA 8000; Stakeholder Engagements Guidelines: AAA1000 and International Auditing and Assurance Board's Assurance Engagements in areas other than Audits or Reviews of Historical Financial Information: ISAE 3000 . In some countries legislation is in place paving way for mandated disclosure of environmental protection measures taken up by the companies, while the Socially Responsible Indexes of the Johannesburg Securities Exchange have required public reporting on the key sustainability issues. Similarly, the Dow Jones Sustainability Index has become the first global index which tracks financial performance of the leading sustainability-driven companies worldwide (KPMG, 2005). These developments demonstrate that environmental accounting creates a process that holds corporations accountable. Consistent with this idea, hundreds of companies around the world pledging their support for the GRI guidelines have embraced non-financial accounting techniques. The push for application of non-financial accounting techniques stems from rising concerns over the environmental and social behaviour of corporations and the resulting pressure, especially on large companies, to become more transparent and accountable on these issues (Palenberg, Reinicke and Write, p.6). Non-financial reporting is also seen as a powerful instrument to promote sustainable development.

However, on the face of these developments, it needs to be made clear that, in general, environmental reporting has not been part of the financial reporting package; rather, financial reporting and environmental reporting are often assumed to be distant cousins without much in common. Second, environmental accounting is mostly considered as separate form of accounting, which, due to its predilection for non-financial basis, leaves out of picture the full spectrum of costs. The costs so left out or incorrectly attributed to goods and services militate against the market that is supposed to play a ubiquitous role under the pale green perception spearheaded by the WECED (see Table 1). Financial accounting and environmental accounting, when treated as a disjoint subject, fail to provide the requisite signals to the whole gamut of stakeholders. As we shall discuss in greater details in a separate section of this paper, the Yorktown refinery of Amoco Oil Company had initially estimated its environmental costs at 3 percent of the operating costs, found after six months of extensive search that these costs appeared to be 22 percent. Such distortions being commonplace in the costing matrix of most organisations, investors are perforce to make decisions based on incomplete information. Arguably, many mainstream financial analysts find these environmental accounting data to be devoid of significance in the evaluation of their portfolio decisions. In fact, in one recent study titled, *Knowing the Price but* Also *the Value*?, PriceWaterhouseCoopers, the author of the study, has found that although most financial analysts value extra-financial information, in the absence of a clear financial implication the social and environmental information are not included in their valuation. Others have put it rather euphemistically that they use social and environmental data as a "tiebreaker" in cases where all else is equal. It appears that the hegemony of monetary measure is strong enough and that non-financial environmental accounting techniques might not be adopted as the first choice of the managers and the investing community unless the environmental costs of non-prevention and the economic benefits of pollution prevention could be seen by the business managers making the decision.

The broad proposition of this paper is that accounting is not just number crunching or bean counting job—as the profession is sometimes disparagingly referred to. The fundamental strength of accounting lies in its ability to make visible and discipline performance, and it clearly envisages a role in the emerging agenda for corporate environmentalism where accounting information could be a way of looking at what constitutes good or bad organisational performance.

Since environmental problems have their origin in the way society makes its choice, the role of the accountant lies in making bare the facts and providing the signal by accurately calculating the cost of their consumption and force the society into a decision-making frame of mind. They can help develop the much needed information system to assist corporate organisations in responding at the micro-level to the various macro-level initiatives taken for meeting societal needs. Cost measurement being the forte of the CMAs, who else but the CMAs can do the job better? Their role in this matter remains unassailable.

### Activity-based Costing as a Tool for Sustainability

Managers in the organizations selling multiple products and services have to take important decisions about pricing, product mix, and in many important areas impinging both the resource allocation decision and the bottom line of the organisation. Cost and management accounting information are the staples for such decision-making. In an intensely competitive situation, the ability to identify cost of products and operations stands between survival and doom for many organisations. Without accurate cost information, companies can hardly make informed decision. As a corollary, distorted cost information may very often derail the management from their pursuit of the coveted goals. The situation becomes even worse for lack of understanding how rising environmental costs and their misallocation act as a Trojan horse to confuse and render ineffective the pursuit of management to achieve best possible economic results from the resources currently employed or available. For example, the US Environmental Protection Agency (1992) in one of its projects had compared traditional cost analysis (that instead of tracing environmental costs to their origin treated them as part of general overhead) with total cost analyses (that took both avoidable and unavoidable environmental costs into consideration) in two paper pulp mills and found that for one mill the net present value (NPV) of $1.7 million pollution-prevention expenditure shifted from $6,00,000 under the traditional cost analysis to $1.8 million under a total cost analysis; the internal rate of return increased from 6 percent to 36 percent and the payback period dropped from 11.4 years to 2 years. Similar changes were noted in the case of the second mill. To drive home the lessons from this example, in this section we shall first discuss the methodology of this cause-effect based cost allocation system and then extend its essential principles to the environmental costs and their absorption in the cost of goods and services. The essence of the idea is that activities consume resources and cost objects consume activities. In the context of sustainability the importance of correctly attributing costs to goods and services lies in the fact that in a ubiquitous market economy price is the mechanism through which scarcity is managed and mitigated through demand supply adjustments.

Writing first on such a subject that later got greater prominence as the Activity-based Costing (ABC), Peter Drucker (1963) suggested that the major responsibility of the managers was "to direct the resources and the efforts of the business towards opportunities for economically significant results…" But the problem is that, in most cases, the management remains ineffective in this stated goal because of misallocation of resources. Drucker, therefore, suggested that managers should review how resources have been allocated and how they should be allocated in future to support the activities of great opportunity. Cooper and Kaplan, who made practical articulation of Drucker's idea, have documented the topology of how costs are distorted. The illustration (Cooper and Kaplan, 1988) involves two ball pen factories of identical size: Plant I makes one million blue pens. Plant II also produces blue pens, but only 100,000 a year. To fill the plant, keep the workforce busy, and absorb fixed costs, Plant II also produces a variety of similar products: 60,000 black pens, 12,000 red pens, 10,000 lavender pens, and so on. In a typical year, Plant II produces up to 1,000 product variations with volumes ranging between 500 and 100,000 units. Its aggregate annual output equals the one million units of Plant I, and it requires the same total standard direct labour hours, machine hours, and direct material. However, despite many similarities in products and outputs, Plant II is characterised by larger production support staff — to schedule machines, perform setups, inspect items after setup, receive and inspect incoming materials and parts, move inventory, assemble and consign orders, expedite orders, rework defective items, design and implement engineering change orders, negotiate with vendors, schedule materials and parts receipts, and update and program the much larger computer- based information system. Plant II also operates with considerably higher levels of idle time, overtime, inventory, rework, and scrap.

But interestingly, Cooper and Kaplan observed that, like most companies, Plat II allocates the factory support costs in a two-step process: first, well in conformity with other companies, they collect the costs into categories that correspond to responsibility centres (production control, quality assurance, receiving) and assign these costs to operating departments. But the second step, tracing costs from the operating departments to specific products, is done rather simplistically – using either direct labour or materials-related expenses as an allocation base. In highly automated environment, machine hours or processing time are used as a proxy for the former. A corollary of this simplistic allocation base is that, in Plant II, blue pens, which represent 10% of output, will have about 10% of the factory costs allocated to them. Similarly, lavender pens, which represent 1% of Plant II's output, will have about 1% of the factory's costs allocated to them. In consequence, the reported production cost of the high-volume blue pens greatly exceeded the costs of those produced in Plant I. In fact, if the standard output per unit of direct labour hours, machine hours, and materials quantities are the same for blue pens as for lavender pens, the two types of pens will have identical reported costs notwithstanding the fact that lavender pens, which are ordered, fabricated, packaged, and shipped in much lower volumes, consumes far more overhead per unit.

Cooper and Kaplan thus argue that an activity-based cost system would not only avoid distortion of cost information, but would paint a picture radically different from the data generated by traditional system. To cut a wide swath between traditional volume-based overhead allocation system and those done under their activity-based cost system, Cooper and Kaplan offered more persuasive example (Cooper and Kaplan, 1988) of a hydraulic valve manufacturer: where, under the old cost system, the overhead charge per unit did not differ much among the seven valves, ranging from $5.34 to $8.88. Under the new system, which traces overhead costs directly to factory support activities and then to products, the range in overhead cost per unit widened dramatically, from $4.39 to $77.64. With four low-to medium-volume products (valves 2 through 5), the overhead cost estimate increased by 100% or more. For the two highest volume products (valves 1 and 6), the overhead cost declined. Cooper and Kaplan went further to demonstrate that, under the traditional system, with 47 percent gross margin, valve 3 was considered the most profitable product of all the seven types of valves. But under the activity-based cost system the gross margin turned out to be (–) 258 percent – a whopping drain on the company's resources!

## Environmentally Benign Cost Allocation

The benefits of activity-based cost system have been widely extolled in the strategic cost and management accounting literature. Information generated by activity-based cost system encourages companies to redesign the products to their best advantage, as the engineers are exhorted by the managers for incorporating necessary change. Likewise, activity-based costing help the managers to evaluate new process technologies, streamline the manufacturing process to reduce setup times, rationalise plant layout to lower material handling costs—ultimately leading to improved quality and reduced post-production inspection (Kaplan and Cooper, 1988: p. 103).

The system has also been found quite useful by many organisations with rising environmental costs, which otherwise got muddled up in a welter of cost allocation under the traditional cost accounting system (see Table 2). Arbitrary cost allocations not only lead to incorrect accumulations of product costs, but when environmental costs are, instead of being separately recognised, aggregated in a common cost pool and then allocated to products, those products that have lower environmental costs provide a cross-subsidy to the products with higher environmental costs (Kreutze and Newell, 1994, cited in Burritt, 1997). In other words, in the absence of cost drivers, i.e. allocation base that correlate well with the incurrence of environmental cost (see Table 3), products that are relatively environmentally benign are discriminated against those having detrimental effects on the environment. Failure to attribute environmental costs to the products can also have serious social consequence in the sense that companies will fail to adopt measures that would reduce environmental effects.

In the penultimate section of this paper we bring up the highlights of the famous Green Ledgers case studies to further gain insight into how environmental costs occur and the relevance of environmental cost information in complex product mix decisions. The case studies, particularly the one on Amoco Oil Company, underscore the importance of identifying and tracking environmental costs to better understand how much is being spent and why.

**Table 2 : Business Activities Creating Environmental Compliance Costs, Compliant Oversight Costs, and Non-environmental Costs**

The costs of activities in the left-hand column have traditionally been traced to specific process; environmental compliance and oversight costs have usually been allocated to overheads

| Costs Traditionally Traced | Environmental Compliance | Related Oversight Costs |
|---|---|---|
| **Depreciable Capital Costs** | **Receiving Area** | **Purchasing** |
| Engineering | Spill response equipment | Product/vendor research |
| Procurement | Energy response plan | Regulatory impact analysis |
| Equipment | **Raw Material Storage** | Inventory control |
| Materials | Storage facilities | Engineering |
| Utility connections | Secondary containment | Hazardous analysis |
| Site preparation | Right-to-know training | Sampling and testing |
| Facilities | Reporting and record keeping | **Production** |
| Installation | Safety training | Employee training |
| **Engineering Expenses** | Safety equipment | Emergency planning |
| Start-up | Container labels | Medical monitoring |
| Training | **Process Area** | Rework |
| Initial raw material | Safety equipment | Waste collection |
| Working capital | Right-to-know training | Disposal management |
| Raw material | Waste collection equipment | Inspection and audits |
| Supplies | Emission control equipment | **Marketing** |
| Direct labour | Sampling and testing | Public relations |
| Utilities | Reporting and record-keeping | **Management** |
| Maintenance | Solid and Hazardous wastes | Regulatory research |
| Salvage value | Sampling and testing | Legal fees |
| | Containers | Information systems |
| | Labels and labelling | Penalties and fines |
| | Storage areas | Insurance |
| | Transportation f ees | **finance** |
| | Disposal fees | Credit costs |
| | **Air and Water Emission Controls** | Tied-up capital |
| | Permit preparation | Accounting |
| | Permit fees | Accounting system development |
| | Capital costs | Accounting system maintenance |
| | Operating expenses | |
| | Recovered materials | |
| | Inspection and monitoring | |
| | record-keeping and reporting | |
| | Sampling and testing | |
| | Emergency planning | |
| | Discharge fees | |

*Source : Hammer and Stinson (1992)*

**Table 3 : Examples of Environmental Compliance Costs Classified According to their Cost Drivers**

| Cost Driver | Compliance Requrement | Expected Relation of Compliance Cost to Cost Drivers |
|---|---|---|
| Hazardous substances (HS) used | Permit preparation and fees | Per HS per plant |
| | Inspection and monitoring | Per HS per plant |
| | Worker right-to-know training | Per HS per plant/per new worker per process |
| | Regular/Periodical traning | Per number of workers per plant |
| | Process safety equipment | Per process |
| | Process emission controls | Per process |
| | Emergency response planing | Per HS generating process per plant |
| Hazardous wastes (HW) produced | Permit preparation and fees | Volume related step function per HW |
| | Inspection and monitoring | Per HW per plant |
| | Filling and record-keeping | Volume related step function per HW |
| | Worker training equipment | Per worker |
| | Hazardous waste transportation | Per volume of HW |
| Regulated effluents (RE) produced | Permit preparation fees | Per Re volume per process |
| | Inspection and monitoring | Per Re per plant |
| | Record-keeping and reporting | Per Re-generating process |
| Non-hazardous solid waste | In-house storage costs | Per volume of RE |
| | Non-hazardous waste transportation and disposal fees | Per volume of RE |

*Source : Hammer and Stinson (1992)*

## Green Ledgers Case Studies

*The Green Ledgers: Case Studies in Corporate Environmental Accounting* (Ditz, Ranganathan and Banks, 1995), prepared under the aegis of the World Resource Institute, is a collection of fascinating case studies on environmental accounting and application of activity-based costing. It presents nine case studies derived from in-depth interviews and confidential information. The case studies, amongst other environmental management issues, demonstrate how ABC leads to both better management of environmental costs and better business decisions. The limitation of the conventional cost accounting methods in tracing environmental costs to their origin was noted at the very outset:

"From the board room to the shop floor to the marketplace, business decisions are skewed when environmental costs are hidden. Common accounting practices hide these costs in two ways: by burying them in "non-environmental" accounts and by failing to link costs to the activities that spawn them. As a result, managers are forced to make crucial business decisions—what products to manufacture, what technologies to employ, and what materials to use — without command of all the relevant facts" (p. v.).

The study provides detailed analyses of five large organisations, namely, Amoco, Ciba-Geigy, Dow Chemical, Du Pont, and Johnson. Many environmental costs were not noted in the conventional accounting system of those organisations. However, after careful scrutiny it turned out that —

- For Amoco Oil : Nearly 22 percent of operating costs (excluding feedstock) were considered environmental at the Yorktown Refinery.
- For Ciba-Geigy: The environmental component was estimated at over 19 percent of manufacturing costs (excluding raw materials) for one chemical additive.
- For Dow Chemical: Between 3.2 and 3.8 percent of the manufacturing cost for a polymer-based product was considered environmental.
- For Du Pont : Over 19 percent of manufacturing cost was identified as environmental for one agricultural pesticide.
- For S. C. Johnson Wax: Environmental costs identified for one consumer product were approximately 2.4 percent of the net sales.

The Green Ledger case studies are huge documents that give blow by blow account of environmental management efforts of the companies mentioned above. Some relevant facts from the Yorktown refinery of Amoco Oil Company are presented below as an evidence of the success of activity-based costing in tackling environmental costs and their management.

Although petroleum refinery has significant environmental problems, mainly involving air emission, waste water discharge, and solid wastes, the company had no dedicated environmental accounting system. Cost information was obtained from a number of distinct sources, including the General Financial System (GFS), which maintains the general ledger balances; the capital asset ledger; the Maintenance Management System (MMS); the budget; estimates from Economic and Scheduling; hydrocarbon loss information; and management's estimates from various refinery and general office staff department sources.

The investigation of environmental costs raised a number of significant practical questions regarding their identification and controllability. The company solved those problems in light of the EPA Pollution Prevention Benefits Manual and categorised those into the following hierarchy:

**Tier 0 :** Direct costs associated with capital expenditures, raw materials, other operating and maintenance costs, etc.

**Tier 1:** Hidden regulatory costs from activities such as monitoring and reporting, etc.

**Tier 2 :** Contingent liabilities arising from remediation of contaminated sites, fines and penalties for noncompliance, etc.

**Tier 3 :** Less tangible costs and benefits from consumer perceptions, employee and community relations, etc.

The primary approach taken in identifying the environmental costs were account analysis, but the accounting system to capture them being inadequate, it also used a number of other identifiable environmental activities and their costs.

The company had faced the difficulties in tracing the environmental costs to product or process, but it benefitted from ABC concepts to a greater extent. Before this project was carried out, Amoco not only failed to take into account many costs that are explicitly environmental, but those costs were routinely allocated by conventional measures of resource consumption, such as labour hours, machine hours, or production units. The company's earlier measure of environmental costs at around 3 percent now starkly contrasts with what is revealed at the end of the project (See Table 4) :

**Table 4 : Summary of Environmental Costs at the Yorktown Refinery of Amoco (Expressed as a Percentage of Non-curde Operating Costs)**

| | |
|---|---|
| Water Treatment | 4.9 percent |
| Maintenance | 3.3 percent |
| Product Requirements | 2.7 percent |
| Depreciation | 2.5 percent |
| Administration, compliance | 2.4 percent |
| Sulphur Recovery | 1.1 percent |
| Waste Disposal | 0.7 percent |
| Fees, Fines, Penalities | 0.2 percent |
| Total Recurring Expenses | 17.9 percent |
| Total Non-recurring costs | 4.0 percent |
| **Total Costs** | **21.9 percent** |

## Conclusion

The standard assumption in Economics is that most of the environmental problems have their origin in the absence of or thin market for the environmental services. Economists, therefore, sought to bypass the problem as externalities, hence outside the economic calculus of the firm. However, in consequence of heightened environmentalism, many firms have come to appreciate that the boundary between private and social costs are not rigid. Indeed, much of the pro-environmental policy bulwarks like Polluter-Pays-Principle (OECD, 1975), taxation, subsidies and incentives, and auction of pollution rights through tradable permits are attempts towards returning those external costs to their origin—the production and consumption of those environmental resources. The role of accounting in the current environmental crisis is not just passive. Accounting is fundamentally a measurement-communication device. Accountants measure economic events and then communicate the results of their measurement to the interested parties for taking decision. In the current ecological crisis the accountants would be playing a role as friend of the Earth if they develop information that result in efficient utilization of resources as well as conservation of resources. Activity-based costing and similar techniques hold the promise towards that goal. Indeed, if product costs reflect the true ecological costs of their production and consumption, many of them would not adorn the shelf of the departmental stores. ❐

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# Cost Accounting Models for Pricing

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Price has a variety of meanings according to the context. While buying a mobile anyone can ask " How much does it cost?" Here the word cost means the price. In the Oxford Dictionary the definition of the noun 'price' is the cost released or sacrificed of something in value. But in management technology, price of a product is not necessarily the same as cost.

There are many factors which affect the price of a product, which may be cost or non-cost factor. The former may be cost or non-cost factor. The former may be actual, imputed or replacement and the latter may include nature of industry, character of product, degree of competition, purchasing power of the customer, elasticity of demand and supply, management policies, inventory valuation, level of action, restrictions imposing by the government on price or imports or profession etc., availability of substitution, general economic condition and price agreement. Cost is the important factor which affects the price of a product in the long-run—this equates with cost plus profit to give a reasonable return on the capital employed. In the short-term, price is determined by the law of demand and supply. In the perfect competition management has a little say in price fixation, i.e. no concern can affect the price, although skill and knowledge of price fixing is desired in the imperfect competition.

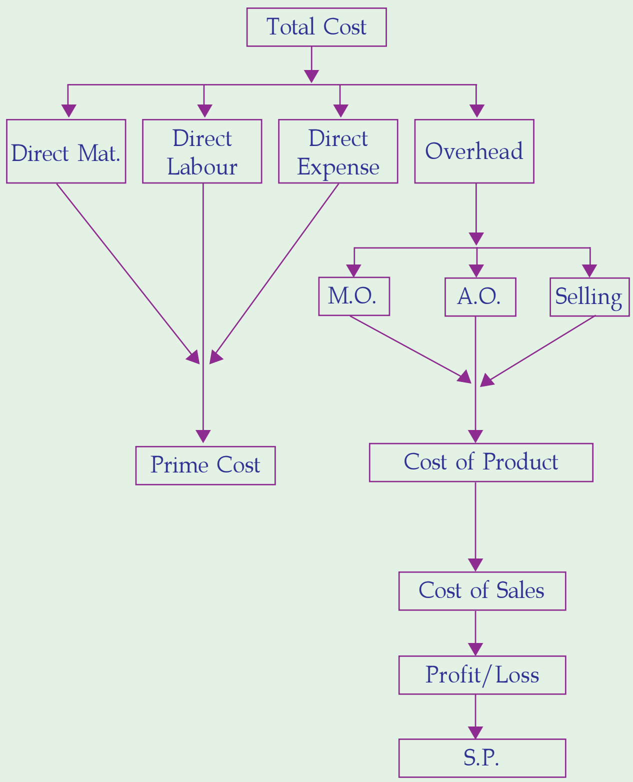
The influence of cost in fixing prices has a great important aspect although it doesn't control or regulate prices in short-period. Product cost varies according to the cost accounting procedure and to the standards accepted, whereas price is the aggregate of number. of diverse elements which is arranged in different ways. For price fixation purpose, cost may be treated as guides and references points. It may they major role in cost plus contract in times of competition. Prices are related to cost many times due to Government interference and regulation/control of prices.

Differential price policies also require the use of cost. There are some cost models which play a very important role in price fixation.

The price models are :

**PRICING**

- Full Cost Method
- Conversion Cost Method
- Return on Investment
- Marginal Cost
- Standard Cost
- Differential Cost




## Full Cost Method

By adding fixed percentage mark up to the full cost of product (Variable Cost + allocated share of Fixed Cost). Fixed percentage profit varies from firm to firm depending upon the desired rate of return on capital employed. Although it is the logical way to maximize profits in the long run, it not only ignores the demand of the product but also ignores the pricing based on future cost.

### Conversion Cost Pricing

It doesn't include non-manufacturing costs. It makes serious attempts to take percentage of sales i.e. selling and administration cost to be percentage of sales.

For example :

XYZ Ltd. sells A & B at a selling price Rs. 11per unit, Marginal Cost Rs 10 and mark up bench 10%, margin Re 1 from each product. Conversion cost will be :

| | A | B |
|---|---|---|
| Material Cost | 7 | 4 |
| Marginal Cost | 2 | 4 |
| Fixed Cost | 1 | 2 |
| Production Cost | 10 | 10 |
| Mark up 10% on Production Cost | 1 | 1 |
| Sales Price | 11 | 11 |

Conversion Cost is Rs 4 for A; Rs 6 for B.

Profit can be maximized if efforts are made to sell A more than B, although mark up is same, i.e. 10% of Rs 10 = Re 1.

### Contribution Approach

This approach recogonizes that the variable cost of product of sales and trends excess of revenue over such variable cost is margin or contribution.

It is appraisable :

(a) Case of evaluation of proposals for change in selling price.

(b) Selecting most profitable business when capacity is limited.

(c) Idle plant capacity.

(d) Additional sales at reduced price.

Although it is complex to break down some items of overhead costs into fixed and variable parts, it is easier and can accurately predict the practical price decision.

### Price for Return OC

After full cost is determined the ROI of capital employed is used to work out mark up figure to reach selling price:

$$N.V.P = \frac{(TC + RF)/V}{I\text{-}RW}$$

TC = Total Fixed Cost
V = no. of units sold
R = Rate of return ROI
W = Variable Capital
F = Fixed Capital on plant, building etc.

TC=500,000 R=25% F= 40,000

W= 30% ,V = 400,000

$$\frac{(500{,}000 + 0.25*40{,}000)/400{,}000}{1-0.25*0.30} = 1.38$$

### Standard cost for pricing

It is a model by which actual is compared for establishing bids, contracts of selling price. Cost elements at a normal capacity are fixed at a standard cost and variance is analyzed by necessary efficiency/ performance by various responsible centres.

The process of determining the prices on this is alone applicable for all the goods and services. Arm's length price should be valued on international transactions, i.e. a price which is applied between two unrelated persons and is transacted in uncontrollable situations.

To sum up, a good pricing system/model should foster a healthy competitive spirit among the uniform companies. By price mechanism/model the consumer, user of goods and services will be benefitted in national and international level. ❐

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# Cost Accounting Models for Pricing

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The long-term Profitability of a company depends, inter alia, upon its ability to obtain prices for its range of products which will, after covering all costs, leave a margin of profit. This Margin should be, in the long run, adequate to :

(a) give a reasonable and fair return to the owners for the use of their fund and risks undertaken by them in investing the fund;
(b) provide, when economic conditions are not unfavorable, for the normal expansion of the business;
(c) satisfy employees in respect of conditions of employment and creditors with regard to credit-worthiness of the firm; and
(d) Attract new capital as and when necessary.

It goes without saying that pricing is only one factor that influence sales and, hence, profitability.

Most companies make a tremendous effort to assess their costs and prices. They know if the price is too high, the sale will be lost to a competitor. Too low, and the firms earnings targets won't be met. But, some companies fall into a rut, continuing to price their products the way they always have in the past, even if it doesn't make sense.

### The General Approach to pricing

In the short term, price will normally be determined by the interaction of supply and demand. As for example, if there is an increase in demand, price will tend to come down and vice versa. On the other hand, in the long run, price will tend to equal costs plus reasonable profits. In monopoly, price is generally fixed above the Marginal Cost (MC). In case of monopolistic competition (i.e. existence of many fillers of similar but not necessarily identical products, with no single seller having a large enough share of the market to permit his competitors to identify the effects of his/her pricing decisions) the margin to be added is determined with vulnerability of demand in the context of availability of substitutes of closely competitive type.

### Product costing is helpful in all circumstances

Cost Volume Profit (CVP) Analysis in product Pricing :

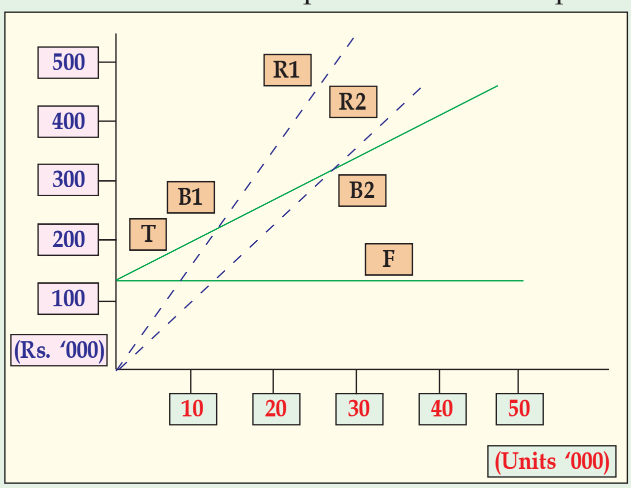
In microeconomic theory, optimum price refers to the price which yields the maximum profits (excess of Total Revenue over Total Costs).

The basic assumptions of pricing theory are

a. The firm's main objective is to maximize its profits.
b. The positions of demand and cost functions are duly considered
c. The firm produces only one product.

The economic theory of price can be analyzed under two different assumptions using CVP analysis :

- Sale of unlimited quantities at an uniform selling price per unit
- Sale of additional quantities at reduced prices




### Break Even Analysis in Product Pricing

The following steps are required to prepare a break-even chart as illustrated above :

- Calculate fixed cost (Curve F )
- Calculate Variable cost per unit
- Add variable cost to the fixed costs for the range of units, which may be sold to produce the total cost (T).

- Product total revenue curves on the basis of a given price per unit sold. In the example, two curves R1 and R2 have been drawn R1 for a price of Rs. 5.00 and R2 for a price of Rs. 4.00
- The Break-even point is where the total revenue curve intersects with the total cost curve at B1 and B2. Sales above this point will be profitable; below this print a loss will be incurred.

**Models of pricing based on costs**

**Model 1 : Cost-Plus Pricing**

Cost plus price mechanism under which a fixed percentage of profit is added to the cost means the full cost of current output and wage levels since these are regarded as most relevant in price determination.

This method of pricing is applied under the following conditions :

(a) It could be the only method possible when an enterprise is entering a new technological area, where the 'one-term cost' cannot be predicted accurately. The only rationale here is to cover the full cost of production plus a reasonable profit margin.

(b) Where the conditions has no choice but to accept the cost-plus price.

Government during World War II (1939-1945) extends into cost-plus contracts with suppliers for Government supplies. In certain cases, Government Departments like the Department of Supplies and Disposals entered into such cost-plus contracts for bulk purchases.

**Cost Determination**

For Cost Determination porposes, the following principles are adopted :

***1. Cost classification***

(a) Manufacturing, Administration and Selling & Distribution cost (or)

(b) Variable cost & Fixed cost.

***2. Size of the unit and scale of operation***

(a) Small manufacturers : An individual manufacturer may take his cost of production into account and arrive at a price at which the products are to be found in the concerned region.

(b) Medium and large manufactures: A manufacturer having several factories all over the country may determine the weighted average cost of the factories so as the arrive at a uniform ex-factory price for the country as a whole. If commodities are in short supply, high cost of individual units factories may have to be recognized during price determination. However, in the case of high cost producers, profit element may have to be reduced to encourage them to reduce their costs.

***3. Uniform costing for whole Industry***

(a) The selling price may be fixed after taking into account the cost of representative unit from the industry, which may fall within the range of lowest cost unit and the highest cost unit.

(b) The factories in the industry may be classified into (i) Small size (ii) Medium size (iii) Large size.

(c) Representative samples are drawn and costs are determined by reference to the distribution pattern of the factories. For example, the costs of medium size factories can be taken into account if this group form the greater part of the industry.

***4. Determination of fixed costs***

(a) Variable costs can be easily determined on a per unit basis. However, fixed costs per unit will have to be ascertained.

(b) Any assumption of low utilization may result in over-estimating the cost; conversely a high utilization assumption may result in under-estimating the cost.

(c) Fixed cost per unit should normally be based on the level of production and capacity utilization likely to be achieved i.e., normal capacity or capacity on sales expectancy.

***5. Depreciation***

(a) If a firm wants to survive and stay in business, it has to maintain its fixed capital intact so that its fixed assets may be replaced at the end of their useful life working life out of the funds generated for profits retained in the business.

(b) In a period of relatively stable price levels, depreciation based on Historical cost of fixed assets would be adequate for achieving this objective.

(c) In periods when price level is continuously changing, the firm may not be left with adequate funds generated out of accumulated depreciation at the end of life of the plant to replace it at a higher price.

(d) Hence, depreciation should be properly included as part of cost so as to leave sufficient profits for Asset replacement.

Format for computation of product selling price under Cost Plus method :

| | | |
|---|---|---|
| | Direct Material | xxx |
| | Direct Labour | xxx |
| | Direct Expenses | xxx |
| | | —— |
| | Prime Cost | xxx |
| Add : | Indirect Material | xxx |
| | Indirect Labour | xxx |
| | Indirect Expenses | xxx |
| | | —— |

| | | |
|---|---|---|
| | Manufacturing Cost | xxx |
| | Admin. Cost | xxx |
| | Selling Cost | xxx |
| | Total Cost | xxx |
| Add : | Profit Margin | xxx |
| | Product Selling Price | xxx |

### Cost Plus pricing and Activity Based Costing (ABC)

In the decision so far it has been assumed that the 'cost' to be used in Cost Plus Pricing has been calculated using conventional absorption costing. Of course this need not be the case and the cost could be derived using Activity Based Costing (ABC) principles. It is claimed that conventional absorption costing tends to over-cost high volume products and under-cost low volume items. The effort of this is that, using Cost-Plus Pricing, the low volume items will have lower selling prices then they should have.

#### *Advantages of Cost Plus Pricing Model*

1. Guaranteed contribution.
2. Assured profit.
3. Reduces risk and uncertainties.
4. Most suitable in long run.
5. Considers market factors.
6. Full recovery of all costs.
7. Price stability.
8. Simplicity.

#### *Disadvantages of Cost Plus Pricing Model*

1. Ignores demand.
2. Ignores competition.
3. Arbitrary cost allocation.
4. Ignores opportunity cost.
5. Price-volume relationships.

#### *Merits of Cost Plus Pricing Models*

(a) The contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract.

(b) It is useful particularly when the work to be done is not definitely fixed at the time of making the estimate.

(c) Contractor can ensure himself about the cost of the contract, as he is empowered to examine the books and documents of the contractor to ascertain the accuracy of the costs.

### Model II : Variable Cost (or) Marginal Cost Pricing

Under this method, fixed costs are ignored and prices are determined on the basis of marginal cost. A firm seeks to fix its prices so as to maximize its total contribution. Marginal cost is the change in total costs that results from production of additional unit of a product or service. Marginal costing is more effective than full cost pricing for the following reasons :

(a) Prevalence of multi-product, multi-process and multi-market concerns makes the absorption of fixed costs into product costs difficult.

(b) Constant development in science and technology makes the long run situation more uncertain and highly unpredictable. Long-run consists of series of short-run and we must aim at maximizing contribution in each short-run which will lead to profit maximization in the long run.

This method is generally adopted under following situations:

- When supply is in excess of demand
- pricing of new products
- Make or buy decisions
- Installed capacity is more than operating level of production
- Public utility of service
- When cut-throat competition is prevailing in the market
- Pricing of export products
- Pricing relating to special order.

### Model III : Rate of Return pricing (or) Return on Capital Employed Pricing (ROCE)

This method is used when each division is treated as an Investment centre. Determination of ROCE is one of the most crucial aspects in price fixation and performance evaluation of investment centers.

The firm should determine an arrange mark upon cost, which is necessary to produce desired Rate of Return on its investment. The issues to be considered are :

(a) Basis on which the capital employed is computed.
(b) Components to be covered in the return on capital.
(c) Fairness of the rate of return.

The Fairness of rate of return varies from industry to industry and from time to time and is primarily dependent on

(a) the risks involved
(b) the desirability of earning adequate profits to plough-back into business.

This method is commonly employed because it recognizes full cost of product plus reasonable return on investment.

For this purpose the following popular policies are followed :

- Maintain a Mark-up rate of profit over costs
- Maintain a Mark-up rate of profit over total sales
- Maintain a constant retain on capital employed.

Return on investment pricing attempts to link the mark-up to the capital employed, and so set a price which includes a return on capital employed. Research has shown that many firms have pricing policies which reflect a target rate of return. The formula used is as follows :

$$\text{Selling price} = \frac{\text{Total costs} + (\text{Desired \% return on capital} \times \text{Capital employed})}{\text{Volume of output}}$$

Capital employed consists of net fixed assets employed for production and net working capital. Rate of return pricing is a refined variant of full cost pricing. In case of multi-product pricing the quantum of required profit may be apportioned on the basis of investment utilized in different precuts. The target return pricing model suffers from two theoretical objections :

- Capital employed includes trade debtors, but these cannot be forecast until selling prices are known. In practice, this will not normally have a significant effect on what is already an approximate calculation.
- Where demand is price-sensitive, it is not possible to forecast sales value unit-wise, and at the same time forecasting prices.

**Model IV : Added Value Method of Pricing or Conversion Cost Pricing**

Unlike full cost pricing, Added value method of pricing (Conversion cost pricing) takes into account only the costs incurred by the firm in converting raw materials and semi-finished goods into finished goods. One of the limitations of full cost pricing is that where the firm is selling two products, which require different degrees of effort, to convert into a marketable state, no distinction is drawn between them.

**Model V : Differential Cost Pricing**

The differential cost is the additional cost incurred with the additional output or additional activity of the firm. When the firm is taking decision as to accept or reject a special order in addition to the normal activity then the price for the additional units will be the additional cost incurred for that order plus the desired profit from that special order. This differential cost pricing involves the comparison of the expected changes in costs and revenue relating to such special order.

**Model VI : Standard Cost pricing**

Standard cost pricing is based on the cost standard developed in management accounting systems. The standard variable cost per unit is calculated by adding the total variable cost of production, namely cost of materials and direct labour, and the cost of bought-in components, and dividing this sum by the number of units produced. The steps taken to establish a standard cost price are :

a. Calculate the standard variable cost per unit.

b. Calculate the fixed cost per unit (the running expenses, including administration and selling expenses of the business over a period of time divided by the number of units to be sold in that period).

c. Determine the profit required per unit during the same period.

d. Add (a), (b), and (c) together to give the provisional selling price.

e. Analyse the market prices for competitive products.

f. Adjust provisional prices as necessary to take account of market price levels.

**Model VII : Opportunity cost pricing**

Opportunity cost is the revenue foregone by not making the best alternative use. Opportunity cost of good or service is measured in terms of revenue, which could have been earned by employing that good or service in some other alternative uses. In Managerial pricing decisions, quite often it becomes necessary to consider not the actual cost of a product but its opportunity cost. The following examples will clarify the meaning of the concept :

1. If a firm receives an export order when its capacity is not fully utilized, the opportunity cost of using the plant for export production would be nil or zero since the unutilized capacity of the plant has no alternative use.

2. The opportunity cost of yarn produced by a composite spinning and weaving mill and used in the weaving section would be the price that could have been used in the weaving section would be the price that could have been obtained by selling the yarn in the market. This opportunity cost is different from the actual cost of producing the yarn in the spinning section. To determine the profitability of the weaving section of a composite textile mill, we have to consider the opportunity cost of the yarn and not the actual cost thereof.

**Model VIII : Experience Curve in Product Pricing**

The concept of experience curves was first introduced by the “Boston Consulting Group” as a result of its studies of extremely fast growing sectors of the petro-chemical and electronics industries. These studies showed how the costs and, subsequently, the prices of these products decline with experience in their production for three quite different reasons :

- Productivity gains resulting from repetitive standardized production. This is known as the learning effect.
- Technological improvements in manufacturing involving different production techniques and processes.
- Large-Scale manufacturing plants exhibiting economies of scale.

The benefit of study of experience curves is that they provide a formulized framework in which one can consider the likely future price response of a product as it penetrates a market, throughout the various stages of its life cycle.

**Model IX : Target Costing for Target Pricing**

Market based pricing starts with a target price. A target price is the estimated price for a product or service that potential customers will pay. This estimate is based on an understanding of customers' perceived value for a product or service, and how competitors will price competing products or services. Having this understanding of customers and competitors has become important for three reasons :

1. Competition from lower cost producers has meant that prices cannot be increased.

2. Products are on the market for shorter period of time, leaving less time and opportunity to recover from pricing mistakes, loss market share, and loss of profitability.

3. Customers have become more knowledgeable and demand quality products at reasonable prices.

Implementing Target pricing and Target Costing in brief

Step 1 : Develop a product that satisfied the needs of potential customers.

Step 2 : Choose a target price.

Step 3 : Drive a target cost per unit by subtracting target operating income per unit from the target price.

Step 4 : Perform Cost Analysis.

Step 5 : Perform Value Engineering to achieve target cost.

**Role of Cost and Management Accountants in pricing**

The Management Accountant plays an important role in formulation of pricing strategies and price fixation. Even then the pricing is the strategic issue of top management and marketing and sales management. The Management Accountant will also actively involve or associate in pricing decisions with them. The Management accountant will help the management by providing necessary cost and financial data for price fixation and will ascertain effect of changes in price on the profitability of the organization. His duty towards price fixation can be analyzed as :

- Ascertain marginal and total costs.
- Present reliable cost data and analyse it in evolving pricing policies and their implementation.
- On the basis of data furnished, Management Accountant has to verify from all angles and workout the actual as well as future cost of a product and estimate fair selling price, which will remain effective for the pricing period.
- Evaluation of various alternatives keeping in views the anticipated costs to make and sell the product and an anticipated profit.
- Presents the anticipated picture of the company so that all factors are considered by price fixation authorities while fixing fair selling price of the product.
- Assists in formulation of objectives, policies and procedures for fixation of product prices.
- Highlights all the relevant factors that will affect pricing decisions.
- Plays a vital role in cost control and cost reduction measures which will help in fixing competitive prices.
- Presents the management about the profitability of each product or service and overall profitability of the organization.
- Presents comparative picture of actual profits of each product or service with standard or budgeted profit.
- Assists in tender quotations.
- Ascertain the return on capital employed at various levels of activity and product lines.
- Analyses the inventories and their effect on product cost.

**Reference**

- Cost Management, Ravi M Kishore, Cost Accounting – A Managerial Emphasis, Charles T Hongren, Srikant M Datar, George Foster, Madhav Rajan, Christopher Ittner.

# Direct Tax Proposals in The Finance Bill, 2012—An Overview

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Direct tax proposals are as many as hundred and eight in number and the significant ones are briefly scanned.

**Personal taxation :** As regards personal taxation, the basic exemption gets enhanced from ₹1.8 lakhs to ₹2 lakhs. The income between ₹8 and ₹10 lakhs fall under the slab at 20% as against 30%. ₹5,000 more is available in addition to ₹15,000 for deduction under Section 80D for preventive check up. Insurance policies, which qualify for deduction, will now be those with premia at 10% of maturity amount for deduction under Section 80C as against the present limit of 20%. Corresponding exemption is also available for maturity amount of such policies under Section 10(10D). Section 80TTA would exempt savings bank interest, besides interest from postal savings and interest from cooperative institutions upto ₹10,000.

No advance tax is payable for senior citizens without business or professional income upto ₹5 lakhs. Income of investors from venture capital fund and venture capital companies, though undistributed, will be taxable in the hands of the investor as and when the income accrues to avoid tax deferral. Gifts from and to HUF would be retrospectively covered for exemption available for gifts from relatives.

A new scheme is proposed to grant deduction of 50% for new retail investors in equities for a period not less than three years upto ₹50,000 for those with income below ₹10 lakhs under the proposed Rajiv Gandhi Equity Savings Scheme.

**Non-resident taxation :** There is considerable concern regarding amendments made retrospectively from 1st April 1962, which seek to nullify the decision in Vodafone International Holdings B.V. v. Union of India (2012) 341 ITR 1 (SC). The definition of capital asset under Section 2(14), transfer under Section 2(47), amendment to enable "look through" in Section 9(1)(i), deemed agency for non-resident purchaser of assets with extension of time limit for action against such agent from two to six years with tax residency certificate not being conclusive evidence are some of the amendments which are draconian in character. Liability is proposed in respect of assets not located in India in a transaction between two non-residents by the process of deeming transfer, if the underlying assets are in India. Information for such transfers on regular basis leaving no trace in India is not going to be easily available.

Securities Transaction Tax gets reduced from 0.125% to 0.1%.

Software exports is proposed to be treated as royalty by an amendment to section 9(1)(ii). This proposal is inconsistent with the decisions of the Supreme Court in Tata Consultancy Services v State of Andhra Pradesh (2004) 271 ITR 401 (SC), Bharat Sanchar Nigam Ltd. v Union of India (2006) 282 ITR 273 (SC) and Sprint RPG India Ltd. v Commissioner of Customs (2000) 2 SCC 486 holding them to be goods and would seek to nullify the decisions of the Delhi High Court in Director of Income-tax v Ericsson A.B. New Delhi (2011) 16 taxmann.com 371 (Del).

Business restructuring will be deemed transfer nullifying the decisions of the Authority for Advance Ruling as for example in Dana Corporation, In re (2010) 321 ITR 178 (AAR) and Amiantit International Holding Ltd., In re (2010) 322 ITR 678 (AAR).

**Capital gains tax :** Tax rates on short term capital gains on sale of listed shares will be hiked from 10% to 15% under section 115E.

Abatement of tax on capital gains will be extended to Hindu Undivided Families (HUF) under Section 54B for reinvestment in agricultural lands. Abatement for investment in share capital of SME sector by individuals and Hindu Undivided Families is available under Section 54GB on sale of residential property.

**Deemed incomes :** Premia received in excess of fair market value will be deemed as income. Any addition made for unexplained credits, investments, or expenditure is proposed to be taxed at the flat rate of 30%.

**Transfer pricing rules :** Proposed extension of transfer pricing rules to domestic transaction is retrograde. Its history in application for cross-border transaction has not been expedient, nor has it expedited solutions.

**TDS :** There are some relaxations. The most welcome of which is to spare deductor from liability for tax failed to be deducted and other consequences apart from disallowance of payment under Section 40(a)(ia), if the deductee files a return on due date and pays the tax thereon. The only damage will be of interest for the period of delay in collection of the tax from the deductee from the date on which tax was deductible at source. The limit for tax deduction from interest on debentures is raised from '2,500 to 5,000' and for compulsory acquisition from '1 lakh to 2 lakhs'. Tax rate for deduction from interest on offshore borrowing for specified businesses like power and fertiliser is reduced from 10% to 5%.

But heavier burden is placed by requiring advance tax even on tax deductible amount, if tax has not been deducted. Tax deduction on payments to non-resident sportsmen will stand enhanced from 10% to 20%. Purchaser of immovable property will be required to deduct tax at source from sale consideration with reference to the guidelines value, where it is higher, at 1% for transactions above ₹20 lakhs and 2% for transactions above ₹50 lakhs—depending upon the location of the property. Section 195 relating to payment by residents to non-resident is geared up by requiring deduction of tax at source, whether the non-resident has residence, place of business, presence or business connection in India. For every transaction, compulsory reference for clearance will now be required to be made by the resident payer to the Assessing Officer before remittance, subject to notified exceptions. Director's remuneration—where it does not fall under the head "salary"—will be liable for tax deduction under Section 194J. Tax collection at source at 1% will now be extended to purchase of coal, lignite and iron ore and for cash sales of jewellery for ₹2 lakhs and above.

**MAT/AMT:** Exemption for Minimum Alternate Tax (MAT) for undertakings in Special Economic Zones (SEZ) will stand withdrawn. Amount directly credited to revaluation reserves will be made liable on retirement or disposal of asset revalued.

MAT in the new form Alternate Minimum Tax will be introduced under section 115JEE for all entities other than companies, if they have adjusted total income exceeding ₹20 lakhs and are availing exemption/deduction under Section 10AA and Chapter VI-A other than Section 80P.

**Incentive deductions :** Deduction of capital expenditure under Section 35AD is extended to business in freight stations, bee-keeping and storage of sugar. Time limit for starting business in cold chain facility, warehousing for agricultural produce, 100-bedded hospitals, affordable housing and fertilisers will be extended for another year. Similarly deduction under Section 80IA(4)(iv) for power projects will also get extended by another year. Weighted deduction will be available for scientific research expenditure at 200% and expenditure on agri-extension services and on skill development at 150%.

**Charities :** The amendment to section 2(15) from A.Y.2009-2010 is now specifically made applicable even for those exempt under Section 10(23C) of the Act.

**Procedural law :** General Anti-Avoidance Rule is now made mandatory with adjudication as to its applicability left to the Commissioner in consultation with approving authority consisting of three Commissioners. Where it is applied, the Assessing Officer will be entitled to ignore form and act on inferred substance. Time limit for reopening the assessment presently upto six years is now proposed to be extended upto sixteen years in respect of foreign undisclosed assets held abroad liable to tax requiring voluntary return under Section 139(1)(ii).

Time limit for assessment, revision etc. will be two years, restoring the pre-existing law.

Proposed extension of transfer pricing rules under Section 92CA to domestic transactions will place a larger burden in respect of compliance, but it is limited for aggregate transactions above ₹5 crores.

Intimation under Section 143(1) will not be possible after scrutiny notice under Section 143(2), while such intimation, where issued will be both appealable and rectifiable.

The limit for presumptive tax under Section 44AD will stand raised for business from turnover of ₹60 lakhs to ₹1 crore. Tax audit report will no longer be necessary for turnover up to ₹1 crore and gross receipts of profession upto Rs. 25 lakhs.

The newly notified Cost Accounting Rules under company law or Cost Accounting Standards could have been made a requirement of statutory disclosure either as part of return or as audit report for greater transparency and effective check of accounts, but then it has not been done.

## Conclusion

The above references to amendments are not exhaustive. What one regrets is that an opportunity has not been taken to bring unaccounted assets in India and abroad to the mainstream of the economy for infrastructure development. Publicity for and exercise of in-built amnesty provisions by way of waiver of penalty already available under Section 273A and waiver of interest under 119 delegated to Chief Commissioners for those incomes, which are disclosed voluntarily, would be even more effective than all the proposals in the Finance Bill. ❐

# Liability to pay Interest for Wrong Availment of CENVAT Credit

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## Introduction

Rule 3 of CENVAT Credit Rules ('Rules' for short) Rules, 2004 enumerates duties and cess in respect of which credit can be availed by manufacturer or producer of final products or provider of taxable services. Rule 4 deals with the subject of conditions for allowing CENVAT credit. Rule 9 enumerates document and accounts which are to be taken into consideration while deciding the issue regarding availment of credit. Rule 14 deals with the recovery of CENVAT credit wrongly taken or erroneously refunded. The said rule provides that where the CENVAT credit has been taken or utilized wrongly or has been erroneously refunded, the same, along with interest, shall be recovered from the manufacturer or the provider of the output service and the provisions of Section 11A and 11AB of the Excise Act or Sections 73 and 75 of the Finance Act, 1994, shall apply mutatis mutandis for effecting such recoveries.

### Conditions Relating to Taking Credit

There are some basic differences in conditions relating to taking credit in respect of inputs and taking credit in respect of input service. The payment of price and excise duty to supplier of inputs is not pre-conditions for taking credit. The requirement is that supplier has genuinely issued invoices with relevant particulars and in such cases, the recipients were entitled to take credit immediately on receipt of inputs. The payment of duty on the inputs will be monitored by the officers in charge of the factory of supplier of inputs. In case of services, the situation is slightly different. The payment of service tax by the service provider is linked to his receiving the service charges from the recipient of services. Therefore, as a corollary, the condition that the recipients are not entitled to take credit till they make payment of service charges and service tax has been prescribed.

From 01.04.2011 the position in respect of input service is changed. The CENVAT credit in respect of input service shall be allowed, on or after the day on which the invoice, bill or, as the case may be, challan, referred to in Rule 9, is received. In case of an input service where the service tax is paid on reverse charge by the recipient of the service, the CENVAT credit in respect of such input service shall be allowed on or after the day on which payment is made of the value of input service and the service tax paid or payable as indicated in invoice, bill or, as the case may be, challan.

In case the payment of the value of input service and the service tax paid or payable as indicated in the invoice, bill or, as the case may be, challan is not made within three months of the date of the invoice, bill or, as the case may be, challan, the manufacturer or the service provider who has taken credit on such input service, shall pay an amount equal to the CENVAT credit availed on such input service and, in case the said payment is made, the manufacturer or output service provider, as the case may be, shall be entitled to take the credit of the amount equivalent to the CENVAT credit paid earlier subject to the other provisions of these rules. If any payment or part thereof, made towards an input service is refunded or a credit note is received by the manufacturer or the service provider who has taken credit on such input service, he shall pay an amount equal to the CENVAT credit availed in respect of the amount so refunded or credited.

### Interest Liability only After wrongly Utilized?

CENVAT credit is first taken and utilized for making payment of excise duty or service tax. The question whether interest liability is from the date of availment of CENVAT credit or from the date of utilization is discussed with the decided case law. In the case of **'Commissioner of Central Excise, Delhi—III V. Maruti Udyog Limited'—2007 (214) ELT 173 (P&H)** has upheld the order of Tribunal wherein it was held that assessee is not eligible to pay interest in the case where credit was only taken but not utilized. The SLP against the order has been dismissed by the Hon'ble Supreme Court. In **'Indo-Swift Laboratories Limited V. Union of India'—2009 (240) ELT 328 (P&H)** the High Court held that Rule 14 of the CENVAT Credit Rules, 2004 has to be read down to mean that where CENVAT credit has been taken and/or used wrongly, interest should be payable on the CENVAT credit from the date the said credit has been utilized wrongly; and that interest cannot be claimed simply for the reason that the CENVAT credit has been taken wrongly taken, as such availment by itself does not create any liability of payment of excise duty. The High Court further held that, on a conjoint reading of Section 11AB of the Tariff Act and that of Rules 3 & 4 of the Credit Rules, interest cannot be claimed from the date of wrong availment of CENVAT credit and that the interest would be payable from the date CENVAT credit was wrongfully utilized.

In '**Indo Shel Mould Limited V. Commissioner of Central Excise, Coimbatore'—2010 (253) ELT 799 (Tri. Chennai)** the issue relates to payment of interest in respect of CENVAT credit wrongly taken but not utilized. The authorities below have held that in view of Rule 14 of CENVAT Credit Rules, 2004 interest is payable on CENVAT credit wrongly taken even if it is not utilized. The Department placed reliance on the Board's Circular No. 897/17/2009-CX, dated 3.9.2009. The Tribunal, following the judgment of P&H High Court in 'Indo-swift Laboratories Limited V. Union of India'—2009 (240) ELT 328 (P&H), held that the appellants are not liable to pay interest on the impugned CENVAT credit taken but not utilized.

In **'Philips Carbon Black Limited V. Commissioner of Central Excise'—2010 (253) ELT 812 (Tri. Kol)** the appellants availed the facility of CENVAT credit of their head office. Subsequently it was realized that the invoices were meant for another unit. Immediately the CENVAT credit was reversed and the same disclosed in the return. A show cause notice was issued by the Department demanding the duty for wrongly availed CENVAT credit.The Adjudicating Authority confirmed the demand with interest and penalty. The Tribunal found that the appellant has only taken the credit and not utilized the same. However the Commissioner, in his findings, has not clear cut findings whether the credit was only taken or utilized also. The Tribunal further held that the matter required for reconsideration and the matter was remanded to the Commissioner to decide the case afresh.

### Board's Circular Clarifying Liability Time

After the judgment of P & H High Court in 'Indo-Swift Industry' (supra) the Department received many references to re-examine in light of the above-said High Court Judgement. However, the Department issued a Circular No. 897/17/2009-CX, dated 03.09.2009, wherein it was clarified that, in light of clear and unambiguous provisions of Rule 14 of the CENVAT Credit Rules, 2004, the interest shall be recoverable when credit has been wrongly taken, even if it has not been utilized. The text of the circular is :

CBEC Circular No. 897/17/2009-CX, dated 3.9.2009

Sub : Liability of interest where CENVAT credit was wrongly taken but reversed by assessee before utilization—reg.

Representation has been received from the field formation stating that the decision of Hon'ble High Court of P&H in the case of 'Commissioner of Central Excise, Delhi – III V. Maruti Udyog Limited' — 2007 (214) ELT 173 (P&H) has upheld the order of Tribunal wherein it was held that assessee is not eligible to pay interest in the case where credit was only taken but not utilized. The SLP against the order has been dismissed by the Hon'ble Supreme Court. On the other hand, Rule 14 of the CENVAT Credit Rules, 2004 provides for recovery of credit taken or utilized wrongly with interest. In view of this conflict of legal provision and the decision of Hon'ble Supreme Court, a clarification has been required from the Board.

The matter has been examined. It is seen that the Tribunal decision and the judgement referred to above, was delivered in the context of erstwhile Rule 57-I of the Central Excise Rules, 1944 and that Supreme Court order under reference is only a decision and not a judgement. Since Rule 14 of the CENVAT Credit Rules, 2004 is clear and unambiguous in the position that interest would be recoverable when CENVAT credit is taken or utilized wrongly, it is clarified that the interest shall be recoverable when credit has been wrongly taken, even if it had not been utilized, in terms of the wordings of the present Rule 14.

### Show Cause Notice Necessary?

In complying with the principles of natural justice the law requires to issue show cause notice in tax matters. In many matters it has been decided that interest is automatic and, hence, no show cause notice is required to be issued. In **'Bisleri International V. Commissioner of Central Excise, Chennai'—2009 (241) ELT 556 (Tri. Chennai)** the impugned order affirmed the demand of interest for the delay in reversing CENVAT credit irregularly availed. The only ground that was raised by the appellant is that no show cause notice was issued before demanding interest. The Tribunal held that the accrual of interest is automatic and no separate notice of demand was required to be served in that respect.

### Reversal of Worng Credit Before Issue of Show Cause Notice

Once duty or service tax is paid before issuance of show cause notice no interest or penalty is liable to be paid by the assessee. In case of wrong availment, the assessee may reverse the entry. Whether the assessee is liable to pay interest and penalty if he reverses the wrong credit before the issue of show notice? In **'Commissioner of Customs & Central Excise, Meerut—II V. Rane Sugars Limited'—2010 (253) ELT 366 (All)** the manufacturer has taken CENVAT credit on the capital goods received for installation of their plant and machinery. Later on it came to know that the credit has been taken wrongly, and therefore—the manufacturer reversed the entry of credit and has not utilized such credit for payment of his excise duty. The Adjudicating Authority confirmed the interest demanded and also levied penalty. The Tribunal set aside the same on the ground that CENVAT credit taken wrongly has been reversed and the same has not been utilized and no question of interest and penalty arised. The High Court also held that, once before, the issue of show cause notice the CENVAT credit has been reversed and the same has not been utilized for the payment of excise duty—there is no question of demanding any interest and levying any penalty.

In **'Lanco Industries Limited V. Commissioner of Central Excise, Tirupathi'— 2012 (25) STR 206 (Tri. Del)** the Tribunal considered the question whether the assessee is liable to pay interest on CENVAT credit irregularly availed and utilized. The assessee irregularly availed CENVAT credit and voluntarily reversed prior to the issue of show cause notice. The Commissioner directed to pay interest under Rule 14 of CENVAT Credit Rules, 2004, read with Sec. 11AB of the Central Excise Act, 1944, on the amount of CENVAT credit up to the date of reversal. The assessee contended that no interest is liable to be paid since the same has been reversed voluntarily. The Tribunal held that reversal of CENVAT credit prior to issuance of show cause notice was not voluntary and it was done at the instance of the Department. Moreover, such a reversal of credit prior to issuance of show cause notice is not relevant to the rule providing for payment of interest. The appellant has to pay interest on the amount of credit from the date of utilization to the date of reversal.

### Wrong Availment on Capital Goods

In **'Commissioner of Central Excise and Service Tax, Bangalore V. Suprajit Engineering Limited'—2010 (253) ELT 369 (Kar)** the assessee, during 2000-01 purchased capital goods and availed 50% of CENVAT credit as per the prevailing rules and it has also availed depreciation under Sec. 32 of the Income Tax Act, 1961 in respect of remaining 50% of CENVAT credit which was not availed by it for the next financial year on the unavailed 50% claimed benefit. The Revenue contended that when the assessee had availed 50% of CENVAT credit for the relevant assessment year and, having claimed depreciation under Section 32 of the Income Tax Act, 1961, for the remaining unutilized credit, it was not open for the assessee to claim credit again in subsequent assessment year. The High Court held that the assessee cannot claim depreciation under Section 32 of the Income Tax Act, 1961, in respect of non-utilized CENVAT credit and claiming benefit for the relevant assessment year having claimed depreciation under the Income Tax Act. The High Court further held that the assessee reversed the entries before the issue of show cause notice, no interest or penalty is liable to be paid.

### Bona Fide Mistake

In **'Bosch Rexroth India Limited V. Commissioner of Central Excise, Bangalore'—2011 (274) ELT 423 (Tri. Bang)** neither the show cause notice nor the records available before the Court, nor the representatives of both sides could clearly show that exactly during which period wrong credits were taken. The appellant had submitted before the lower authorities that wrong credit was taken because the knowledgeable clerk was on leave and the person who looked after the work during the period made the mistake. Mandatory penalty to the extent of 100% is to be imposed on the ground of suppression or mis-declaration which is a serious matter. That being the position without verifying the claim made by the appellant that the regular clerk was on leave and this was a bona fide mistake, imposition of mandatory penalty cannot be justified. Further, it has not also been brought out anywhere in the records, even though the Department submitted that the omission occurred over a period of one year, no verification or any record is available to show that the omission occurred over a period of one year and not during the period when the regular clerk was on leave. That being the position, the claim of bona fide mistake because of a clerk being on leave seems to be justified. Further, the fact that the appellant always had more than the wrong credit taken in their CENVAT credit account also supports the submission of the appellant that there was no intention to avail wrong credit. The Tribunal held that imposition of penalty is not justified. As regards interest, the appellant is not challenging the same and shall pay the interest forthwith.

### Liability of Interest is Mandatory

In **'Interfit India Limited V. Commissioner of Central Excise'—2011 (274) ELT 443 (Tri Chennai)** the Tribunal observed that there is no dispute that the assesses were not entitled to credit which was reversed by them on being pointed out by the

Department, even prior to the issuance of show cause notice. According to Rule 15, where the credit has been taken or utilized wrongly, the same shall be recovered along with interest from the manufacturer and the provisions of Sec. 11A and Sec. 11AB of the Central Excise Act, 1944, shall apply mutatis mutandis for effecting such recovery. Hence payment of interest is a statutory provision and it is mandatory when CENVAT credit has been taken wrongly.

### Interest When Liable?

The Department filed an appeal against the order of High Court in 'Ind-swift Laboratories Limited V. Union of India' (supra) before the Supreme Court. In **'Union of India V. Indo-Swift Laboratories Limited' —2012 (25) STR 184 (SC)** the Supreme Court held that the High Court proceeded by reading Rule 14 of CENVAT Credit Rules down to mean that where CENVAT credit has been taken and utilized wrongly, interest should be payable from the date the CENVAT credit has been utilized wrongly for according to the High Court, interest cannot be claimed simply for the reason that the CENVAT credit has been wrongly taken—as such availment by itself does not create any liability of payment of excise duty. Therefore the High Court, on a conjoint reading of Section 11AB of the Act and Rules 3 & 4 of the Credit Rules, proceeded to hold that interest cannot be claimed from the date of wrong availment of CENVAT credit and that the interest would be payable from the date CENVAT credit is wrongly utilized. In the opinion of Supreme Court the High Court misread and misinterpreted the Rule 14 and wrongly read it down without properly appreciating the scope and limitation thereof. Rule 14 specifically provides that where CENVAT credit has been taken or utilized wrongly or has been erroneously refunded the same, along with interest, would be recovered from the manufacturer or the provider of output service. The issue is as to whether the aforesaid word 'OR' appearing in Rule 14 twice, could be read as 'AND' by way of reading it down as has been done by the High Court. If the aforesaid provision is read as a whole the Supreme Court found no reason to read the word 'OR' in between the expressions 'taken' or 'utilized wrongly' or has been erroneously refunded as the word 'AND'. On the happening of any of the three aforesaid circumstances, such credit becomes recoverable along with the interest.

In C.B.E.C. Circular No. 942/3/2011, dated 14.03.2011 indicated that the Supreme Court endorsed the view taken by the Board in its circular dated 03.09.2009 and directed its subordinate officers to take immediate action to safeguard revenue in light of Supreme Court judgement.

### Levy of Interest Arises Because of Enjoying Monetary Benefit

In **'Praveen Jain & Co. Pvt. Limited V. Commissioner of Service Tax, Delhi'— 2012 (25) STR 196 (Tri. Del)** the appellants have taken credit based on invoices from the service provider and without making payment of service charges and service tax. The order of the original authority records that the appellants have paid the service charges and service tax to the service provider after some delay. There is no allegation that the provider of service from whom the appellants have received the services are not genuine or that they are not registered with the excise department. The Tribunal held that, on subsequent payment of service tax to the service provider, the appellants shall be eligible for credit but, during this interim period i.e., between the date of taking credit and the date of payment to the service provider, the appellants have enjoyed the monetary benefit and, therefore, the demand of interest as held by the original authority deserves to be upheld.

In **'Printo India Graphics (P) Limited V. Commissioner of Central Excise, Delhi—I'—2012 (275) ELT 592 (Tri. Del)** the appeal was filed before the Tribunal by the appellant against the order of the Deputy Commissioner, New Delhi revoking the Central Excise registration issued to the appellants as the appellants were not engaged in manufacturing activity and had ordered recovery of wrongfully availed CENVAT credit including cess to the tune of Rs. 30,42,793/- while imposing equal amount of penalty. The Tribunal held that the manufacturer or provider of output service become liable to pay interest along with duty where CENVAT credit had been taken or utilized wrongly or has been erroneously refunded and that the provisions of Section 11AB would apply for effecting recovery.

### Conclusion

From the above discussion it is crystal clear that :

- Interest is liable to be paid for wrong availment of credit;
- Interest is liable to be paid even wrongly taken credit is not availed;
- If the credit is availed and utilized wrongly, interest is liable to be paid from the date of availment but not from the date of utilization;
- No show cause notice is required to be issued for levy of interest;
- Even reversal of entry, either voluntarily or at the instance of the department, interest is liable to be paid from the date of takin g the credit wrongly to the date of reversal. ❐

# The Tax Inundation—More taxes fall than monsoon rains in a year

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***"This is a question too difficult for a mathematician. It should be asked of a philosopher".***
***—Albert Einstein, about filling out his income tax form, 1944***

Well, ***1944*** was the year when the government consolidated and introduced the Central Excises and Salt Act and imposed it on the hapless tax payers. The Budget Proposals announced in the Budget on 16th March 2012 covering taxation have fallen like thunder and lightning to many, and as mystical or metaphysical as it appeared to Albert Einstein. Especially so in the areas of Service Tax and the retrospective amendment to the Income Tax Law targeting *Vodaphone-like* situations. The Proposals are far-reaching and the reverberations from the measures are bound to echo long into the future. In this Article, it is proposed to look at some of the changes contemplated in the area of Service Tax and the discussion will be confined to the following aspects:

- The proposed definition of Service.
- The proposed definition of Consideration.
- The proposed new Place of Provision Rules.

## The Coming Definition of Service

At present the Government has followed the concept of Tax Incrementalism in identifying Taxable Services. The Services falling into the tax are specified and enumerated individually in the Finance Act, 1994 as amended from time to time. This approach has stood the Government well by way of introducing and disseminating the spread of Service Tax in a manageable manner in a country like India with dispersed and disparate levels of economic activity. The result has been tax capacity-building and an increasingly familiar Service Tax. Now the Government thinks that the time has come to impose Service Tax across the board with the tax flood catching all segments that have so far remained immune from the Taxation under Service Tax Law. How has the Government attempted this will be clear from the proposed new definition of what is a Taxable Service. The brand-new nomenclature of Taxable Service vide clause (44) of new section 65B defines it as follows :

"Service" means any activity carried out by a person for another for consideration, and includes a declared service, but shall not include—

(a) an activity which constitutes merely,—

(i) a transfer of title in goods or immovable property, by way of sale, gift or in any other manner; or

(ii) a transaction in money or actionable claim;

(b) a provision of service by an employee to the employer in the course of or in relation to his employment;

(c) fees taken in any Court or Tribunal established under any law for the time being in force.

*Explanation 1.*—For the removal of doubts, it is hereby declared that nothing contained in this clause shall apply to,—

(A) the functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities who receive any consideration in performing the functions of that office as such member; or

(B) the duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or

(C) the duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or State Governments or local authority and who is not deemed as an employee before the commencement of this section.

*Explanation 2.* — For the purpose of this Chapter, —

(a) an unincorporated association or a body of persons, as the case may be, and a member thereof shall be treated as distinct persons;

(b) an establishment of a person in the taxable territory and any of his other establishment in a non-taxable territory shall be treated as establishments of distinct persons.

*Explanation 3.* – A person carrying on a business through a branch or agency or representational office in any territory shall be treated as having an establishment in that territory;

As can be seen, the definition goes too far and across and virtually all-encompassing. The great drawback in this new definition is that the word '*activity*' has not been defined in the Act. In the Guidance Note No. 2 attached to the Budget Papers, the Department apparently has banked on the possibility that this will be a term with a very wide connotation. The Guidance Note states that ***activity*** would include an act done, a work done, a deed done, an operation carried out, execution of an act, provision of a facility, etc. The controversial note states further that it would also include an act of forbearance, i.e., agreeing to the obligation to refrain from an act or to tolerate an act.

Interestingly the new definition of 'Service' *inter alia* excludes any activity that constitutes a transfer of title in immovable property by way of sale, gift ***or in any other manner***. This provision could be of significance in the real estate sector. Many promoters and developers of real estate own or have authority to transfer ownership of land and constructed structures. Such transfers can take place under a Joint Venture Agreement or under a composite agreement for construction and sale. It follows therefore when a promoter or developer owns the land and the constructed apartment and the transfer in title is effected under a composite agreement, ***otherwise than through sale***, the transaction would be outside the purview of Taxable Service.

### The Taxable Activity

By defining ***'Service'*** as any activity carried out by a person for another for consideration, etc., the Government has opened the flood gates of litigation. The all-encompassing definition of ***'Activity'*** is bound to be read down by the Courts in the course of time. By including even an obligation to do or not to do an act for a consideration, monetary or non-monetary, everything that a Society does appears Taxable. Even help between friends with mutual interest or a gaming on the golf course may bring Service Tax liability potentially. The Law has to make it clear that what is sought to be taxed is only commercial and not otherwise. There is a crying need for the Parliament to lay down clear Guide Lines on the scope and ambit of the so-called non-monetary consideration and its determination. Without proper Guide Lines in the Act, the executive discretion will be unfettered.

### The Place of Provision of Service Rules

An important area with considerable unsettling effect is the proposed New Place of Provision of Service Rules, 2012, the like of which has not been encountered so far. At present the Service Tax has been centrally and nationally administered and it did not matter ***where*** the assessee paid the Service Tax. Generally the assessee paid the Service Tax at the place they obtained Service Tax registration. The place of provision of service in the current scheme of Service Tax Law has been important only in the areas of Export of Services, Import of Services, Services provided to the Special Economic Zones and Services provided to and from Jammu and Kashmir. As already discussed in one of my previous Articles in this Esteemed Journal, the place of provision of service concept is about ensuring territorial justice also, especially when we remember that the part of Goods and Services Tax will devolve to the States in India as and when the GST is introduced. The New Rules is bound to have a profound influence on the pattern of business outsourcing. Now tax-cost on account of Service Tax is not an element in the pricing decisions on business outsourcing. After the promulgation of the New Rules, such tax costs will have to be factored into. The following are some of the important features of the proposed New Rules :

- The Place of Provision of Service Rules will determine the place where Taxable Service is deemed to have been provided.
- Consequently it will also determine the place where Service Tax has to be paid.
- The New Rules will replace the existing Rules on Export and Import of Services.
- The New Rules define the location of both the Service Provider and the Service Receiver. The definitions are as follows :

(h) "Location of the service provider" means—

(A) where the service provider has obtained a single registration, whether centralized or otherwise, the premises for which such registration has been obtained;

(B) where the service provider is not covered under sub-clause (A):

(i) the location of his business establishment; or

(ii) where the services are provided from a place other than the business establishment, that is to say, a fixed establishment elsewhere, the location of such establishment; or

(iii) where services are provided from more than one establishment, whether business or fixed, the establishment most directly concerned with the provision of the service; and

(iv) in the absence of such places, the usual place of residence of the service provider.

(i) "location of the service receiver manes:

(A) where the service receiver has obtained a single registration, whether centralized or otherwise, the premises for which such registration has been obtained;

(B) Where the service receiver is not covered under sub-clause (A):

(i) the location of his business establishment; or

(ii) where the services are received at a place other than the business establishment, that is to say, a fixed establishment elsewhere, the location of such establishment; or

(iii) where services are received at more than one establishment, whether business or fixed, the establishment most directly concerned with the provision of the service; and

(iv) in the absence of such places, the usual place of residence of the service provider.

*Explanation:.* For the purposes of clauses (h) and (i), "usual place of residence" in case of a body corporate means the place whether it is incorporated or otherwise legally constituted.

The Rules state that generally the place of provision of a service shall be the location of the service receiver, but where such location is not available the service provider's location will be the place of provision of service. The Rules have separate provisions for performance-based services, for which the location where the services are actually performed is the place of provision. Regarding immovable property-related services, including Architects and Interior Decorators, the place of provision will be location of such property. In respect of services relating to Events, the place where the Event is actually held counts. The Rules say that where any service provided at more than one location, the place of provision is that location where the greatest proportion of the service is provided. In relation to banking and financial services, telecommunication services, intermediary services and transport hiring services, the place of provision will be the location of the service provider.

## Conclusion

The proposed changes in the Service Tax arena have the effect of transforming the Service Tax into its GST version. As can be seen, it will be a long while before the new concepts are discussed and understood. Many of the provisions bristle with complexities and confusion. Several of them are guaranteed to lead to litigation. The Government should not be in a hurry to implement the new changes and defer them to the time when GST can be introduced in India. Till then the Government would do well to call for extensive and informed debate, so that the proposed changes can be better shaped up. Whether the Government will pause in its unremitting appetite for Revenue to enable this to happen is a matter on which have to keep our fingers crossed. ❐

# Views on Union Budget 2012-13

**Dr. Sanjiban Bandyopadhyaya**

Chairman, Direct Taxation Committee

The focus of this year's Budget is on domestic demand driven growth recovery, revival of high growth in private investment, addressing supply bottlenecks in agriculture, energy and transport sectors, tackling problems of malnutrition, black money and corruption, while implementing decisions to improve delivery systems, governance and transparency. The budget seeks to address structural issues as well as supply-side constraints in the economy. Despite positive triggers, Indian economy is in a slow lane. The focus is on containing the price pressures. There is a discouraged investment and consumption alongwith increasing global pressures that led to an outflow of FII, a weaker currency and slowing export growth that translated into an expanding current account deficit. The ballooning deficit is expected to further add to the pressure on the rupee. Any improvement in global conditions is however expected to play a role in easing current account deficit conditions. Overall, slowing economic growth has resulted in a higher fiscal deficit than estimated. GDP growth rate is 6.9% for 2011-12 as against 8.4% in 2010-11 and fiscal deficit has increased from 4.9% in 2010-11 to 5.9% in 2011-12.

On the revenue front, in the direct taxation, the Budget proposes various tax reforms which include working towards an early enactment of the much awaited DTC Bill, introduction of General Anti-Avoidance Rule (GARR) to avoid counter-aggressive tax avoidance schemes. The much awaited Advance Pricing Agreement (APA) programme is proposed to be introduced from July 1, 2012, which attempts to bring about certainty in the uncertain world of transfer pricing and help to resolve potential disputes in relation to determination of Arm's Length Price (ALP) of an international transaction through an upfront agreement. A small yet major step made by making suitable amendments in the definition of "international transactions" to specifically introduce business restructuring, intra-group financing arrangements, etc and applying transfer pricing provisions to specific domestic transactions, provided the aggregate value of such transactions exceeds Rs. 5 Crores during the year, would go a long way further to check evasion of tax.

The Finance Bill also seeks to retrospectively overcome many judicial decisions, notably the Supreme Court decision with regard to Vodafone and seeks to tax offshore transfers of shares or interest in a company outside India, if its value is derived substantially from assets located in India. The Bill also proposes to restrict grant of tax treaty benefits to only residents of foreign countries who can produce a Tax Residency Certificate (TRC) in a prescribed format from their respective governments. The Budget also has investor-friendly proposals for both small time investors and corporate groups.

The announcement to lay down a White Paper on procedures to bring back unaccounted money (i.e. Black Money) which rightfully belongs to the country, is a welcome measure. Overall, this budget demonstrates the Government's commitment to bring the country back on the path of sustainable and inclusive growth. We are confident that the "Cost Accountants" would also be given their long-standing and due recognition, through inclusion in the definition of "Accountant" under the Direct Tax Code Bill. Cost Accountants, measure performance and facilitate in compliance too. Expertise of "Cost Accountants" should be sought for, which apparently promises a major increase in revenue collection for the exchequer. Hence, the Ministry of Finance, should initiate involvement of our professionals, especially in conducting "Special Audits" all across manufacturing, trading or service sectors. A healthy proposition and due recognition of our professionals in the proposed Direct Tax Code Bill is much awaited. ❐

# Views on Union Budget 2012-13

**Manas Kumar Thakur**

Chairman, Indirect Taxation Committee,
The Institute of Cost Accountants of India

The Honourable Finance Minister Shri Pranab Mukherjee, presented the Union Budget 2012 under the shadow of his fiscal calculations going away for the Financial Year 2011-12. The expectation that GDP growth would revert to the pre-global financial crisis level at around 9 percent was dashed as the economy disappointedly grew only by 6.9 percent, mainly due to deceleration in industrial growth. GDP growth was salvaged by the services sector which grew at 9.4 percent from 9.3% in last year, and is now about 56 percent of India's GDP. Indian industry struggled under the twin burdens of persistent high inflation which escalated input costs and rising interest rates due to tightening of monetary policy by the Reserve Bank of India. Expectedly as tax collections and disinvestment programmes could not match the budgeted numbers on the Revenue side, the higher crude oil import prices resulted in much larger than anticipated subsidies on fuel, food and fertilizers on the Expenditure side. In the first nine months, total expenditures on this count, for the year were 13.9% as against the budgeted 4.9%.

On the indirect taxes front, the overriding need of fiscal consolidation seems to have driven the decision to increase the Excise and Service tax rates from 10 to 12 percent, which may stimulate inflation further. However, there has been a significant emphasis on expansion of the tax base, with proposed implementation of Negative List regime under Service tax, which is expected to have wide ramifications for the Industry. There is also a paradigm shift from "selective taxation" to "comprehensive taxation" by introduction of such Negative List. There is a revamp in the "Export and Import Rules", amendments in "Point of Taxation Rules, 2011" primarily to ease administrative hurdles, amendments in Valuation Rules, to provide specific inclusions and exclusions, self adjustment of excess tax paid, etc. There are also certain sweeping changes prescribed in the Reverse Charge mechanism, with joint liability of service provider and recipient of services in some specific cases. The provisions pertaining to prescribing Settlement Commission is a welcome move.

There is also an alignment to GST principles and simplification of compliances to reduce litigation. Introduction of EST-1, for Central Excise and Service Tax, is a major step to bring about harmonization between the tax laws.

With the increase in excise duty, the effective rate of customs duty has increased from 26.85% to 28.85%, though the peak rate of Basic Customs Duty (BCD) is retained at 10%. Education Cess on CVD (Countervailing Duty) exempted and marginal relief prescribed. There is also an abolition of 4% Special Additional Duty on Customs.

I place on records, that the submission from the Institute relating to items in Negative List, harmonization in compliance procedures and introduction of Special Audit for Services are considered by the Ministry of Finance, in affirmative. By making suitable amendments in the Finance Act, 1994, the Ministry has recognized the expertise and services of Cost Accountants also in conducting Special Audit by introduction of Section 72A of the Finance Act 1994.

With the proposed implementation of GST Network (GSTN) from August 2012, the Government seems to resolve to bring more fiscal discipline. It is expected to enable common PAN-based registration and other compliance procedures. This would definitely help to enhance transparency and check tax evasion. Issues which the Ministry of Finance would like to address are issues of TDS on Service Tax subject to the challenges in the path of its smooth roll out. The expertise of Cost Accountants would be gainfully employed further by the Government, in the GST regime. ❐

# Global Financial Crisis : Causes

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Financial Crisis is said to have happened when some financial institutions or assets suddenly lose a large part of their value. It directly results in a loss of paper wealth and need not necessarily result in changes in the real economy unless a 'recession' or 'depression' follows. Banking panics, recessions coinciding these panics, stock market crashes, currency crisis, sovereign defaults are few examples of financial crisis.

**A 'systemic banking crisis'** results in major financial crisis as during this crisis, almost all of the banking capital in a country is wiped out. The resulting chain of such bankruptcies has all the possibilities of causing 'economic recession'. Banking crises generally occur after periods of 'sub prime' lending and heightened loan defaults. The recession in US during 1990-91 is mainly attributed to the credit crunch due to 'savings' and loan crisis of the 1980s. Banking crisis lead to bank runs and few of the most serious such runs include the run on Bank of United States in 1931 and the run on Northern Rock in 2007. Also, the collapse of Bear Stearns, an investment bank, in 2008 is a bank run in the recent past.

### Asset Liability mismatch

**Asset Liability mismatch** occurs in situations where the terms of raising liabilities and the terms of deploying them do not match, whether it is currency or period, or otherwise. The currency mismatch arises when the bank borrows in, say, US Dollars entirely and lends in other currencies. When the value of a currency appreciates or depreciates vis-à-vis the value of the other currencies, the bank's loss would be directly in line with the movement in exchange value between these currencies during a given period of time. At times, it might lead to even 'bankruptcy'. Similarly, situations of 'maturity mismatch' such as long term assets vs short term liabilities (or vice versa) and Floating vs Fixed interest rates also have serious implications. Asset-liability mismatches can be controlled, mitigated or even hedged.

### Regulatory failures

Regulations by the authorities and regulators subjecting banks and financial institutions to strictly follow certain guidelines are hallmarks for effective governance of their functioning.

Many a times, the banking crisis and financial crisis have been attributed to insufficient and inefficient regulations of the Governments. Transparency, Reserve requirements, Liquidity and Leverage are some of the very essential requirements to mitigate and avoid banking crisis. Transparency requirement is for their regular reporting under standardized accounting procedures. Institutions must have sufficient assets to meet their contractual obligations, through reserve requirements and capital requirements. Also, the financial leverage has to be within the prescribed limits and not unduly large.

Strauss Kahn D, the Managing Director of IMF, in his article, 'A systemic crisis demands systemic solutions' in *The Financial Times* dated September 25, 2008 has blamed the financial crisis of 2008 on regulatory failure. Likewise, *New York Times* in an article, 'Don't blame the new deal' on September 28, 2008 pointed out the deregulation of credit default swaps as the cause of financial crisis. Also, it has to be understood in this context that equally excessive regulation also will act as a deterrent in many ways.

### Corporate and Banking Frauds

In the four years before 'Enron's bankruptcy', J. P. Morgan Chase engaged in seven prepays that lent US $ 2.6 billion to the company, while Citigroup lent it a total of US $ 3.8 billion over two and a half years. The banks set up companies, many of them off shore.

Enron then sold them gas, oil or other products to be delivered in the distant future but for which Enron was paid immediately. There was never any intention to actually deliver the gas. It was simply a loan arranged so that Enron could declare it as 'sales' instead of 'debt'. By another entry at a later date the companies sold the gas back to Enron and the loan got repaid.

'Sub Prime Crisis' is not the crisis of a single corporate but it led to the demise of many other corporate. The repercussions can still be felt throughout the US and even Europe. It has had an adverse effect on most of the banks and financial institutions and has led to large scale reform in the financial sector's rules and regulations. This organized corporate fraud has gone through stages.

First, during late 2007, over 100 mortgage lending companies went bankrupt as sub-prime mortgage-backed securities could no longer be sold to investors to acquire funds. Second, starting in Q4 2007 and in each quarter since then, financial institutions have recognized massive losses as they adjust the value of their mortgage backed securities to a fraction of their purchased prices. These losses as the housing market continued to deteriorate meant that the banks have a weaker capital base from which to lend. Third, during Q1 2008, investment bank, Bear Stearns was hurriedly merged with bank JP Morgan with US $ 30 billion in government guarantees, after it was unable to continue borrowing to finance its operations.

Fannie Mae & Freddie Mac, USA—before their collapse in 2008, these two companies owned more than half of USA's US $ 12 trillion mortgages. In a major investigation of FBI, Fannie Mae and Freddie Mac were charged for fraud in connection with the September 2008 economic crisis on Wall Street. Millions of investors have seen their portfolios and retirement accounts devastated by the collapse of Fannie Mae and Freddie Mac, which should have been prevented. In 2006, Fannie Mae was fined US $ 400 million for using accounting procedures that gave a more optimistic picture of the financial health of the mortgage giant than was actually the case.

An American Insurance Company, AIG, went into a crisis mode when in 2008, its credit rating were downgraded to below AA levels and they were unable to access any funds to tide over their crisis. It was once the 18th largest company in the world and its financial losses and frauds led to its downfall. AIG acknowledged that it had improperly accounted for the reinsurance transaction to bolster reserves and detailed numerous other examples of problematic accounting. It also announced the delay of its annual 10-K filing and said the moves have inflated its net worth by up to US $1.7 billion.

Bank of Credit and Commerce International (United Kingdom)—audit firm Touche Ross reported that BCCI had a £ 5.6 bn deficit at the time of closure. It was the largest financial fraud in the world to that date. The Abu Dhabi government tried to rescue the bank with a £ 1.8 bn cash injection proposal. It later emerged that BCCI had stolen £1 bn from the personal account of Sheikh Zayed of Abu Dhabi

### Contagion

It is believed that financial crises may spread from one institution to another, as bank run spreads from a few banks to many others. Financial crisis spread across countries as a result of international linkages in this post-globalization era due to currency crises, sovereign defaults, stock market crashes etc. Systemic risk threatens the stability of other institutions when one institution fails. Thai Crisis of 1997 resulted in crisis in South Korea.

### Financial crisis and Recession

Not all crises lead to recession resulting in declining growth in other sectors and the rest of the economy. Wall Street Crash of 1987 did not have much recessionary effect. There are several theories associated with this cause and effect. Some of the most popular theories are 'Marxist theory', 'Minsky theory', 'Herding models', 'financial accelerator', 'flight to quality', 'flight to liquidity' etc.

### Recession and Depression

Negative GDP growth lasting two or more quarters is called a 'recession'. And, prolonged recession is called a 'depression'. However, a long period of slow (need not be a negative growth) is called 'economic stagnation'. These are much more than financial crisis as they cover other sectors as well. All is well so long as the negative trend does not continue for long and reverses as the case of the recent economic crisis of Greece. So is the hope of every citizen of each country. ❐

# Foreign Exchange Risk—Forward Contracts vs Options

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Companies in India are expanding their operations worldwide. This leads to companies dealing with many suppliers abroad for imports and many customers abroad for exports. With liberalization of Indian economy exports and imports have become more smooth and easy. While these global business operations provide huge opportunities, on the other hand exposes these corporations to various risks.

Foreign exchange risk is one such risk which many companies in India have to face with. Foreign exchange risk arises due to foreign exchange exposures that the company creates. Take an example of a company which books an import purchase worth USD 100,000 as of today. Let us assume that today's currency conversion rate is 1 USD = Rs. 45. This gives the booked value of imports to the tune of Rs. 4,500,000. Now if the payment terms with the supplier is three months and after three months the currency conversion rate becomes, say, 1 USD = Rs. 50. This will mean a cash outflow of Rs. 5,000,000 thereby creating a foreign exchange loss of Rs. 500,000. Similarly if a company books exports worth USD 100,000 at a currency conversion rate of 1 USD = Rs. 45. After two months the company realizes the amount from the foreign customer when the currency conversion rate becomes, say, 1 USD = Rs. 42 thereby realizing Rs. 4200,000. This gives a foreign exchange loss of Rs. 300,000. Alternatively, the reverse may also happen in both cases—which may give rise to foreign exchange gain.

The aim of foreign exchange risk management is not to eliminate the risk but rather to manage the risk to an accepted level. Exporters/Importers constantly look for profitable opportunities while hedging their positions in foreign exchange markets. The need for foreign exchange management is all the more important due to volatility of Rupee against other foreign currencies like USD, Euro, GBP etc.

Treasury managers in most corporations today face strong pressures to minimize the foreign exchange losses and at times to churn out profits too. This article looks into two popular methods of hedging foreign exchange risks—forwards contracts and options. Many companies use these two methods with their banks to manage their foreign exchange risks.

## Forward Contracts

The fixing of exchange rate for a future transaction at a time earlier than the date of actual transaction is known as forward contract. For example a company has imported goods worth Euro 100,000 via sea and it will retire its import bill after two months, i.e when the shipment will reach India. The company—if it feels that the exchange rate at the time of retirement of the bill after two months will not be favorable—may choose to fix an forward contract rate with the bank. The bank may quote a forward contract rate of say 1 Euro = Rs. 67 and, if it is felt by the company the rate which may prevail at that time may be worse than the forward contract rate, then the company may book the forward contract for that transaction. The losses which might have happened may be reduced by fixing a forward contract. A forward contract, once signed, cannot be cancelled. These rates are binding. Standard forward contract maturities are for one/two/three/six/nine/twelve months. A forward exchange rate can be lower or higher than the spot rates prevailing at that time.

## Options

Option is a financial contract where the buyer of the option has the right to buy or sell a currency at a prespecified rate on or up to a specified date if he chooses to do so. There is no obligation on part of the option buyer and he can simply let his right lapse by not exercising his option. The option buyer has to pay a fee for receiving such one-sided privilege and this is called option premium.

An option can be a call or put option. A call option gives the buyer the right to purchase one currency against another currency while a put option gives the option buyer the right to sell one currency against another currency. For example, if a company for retiring its import bill after two months worth USD 100,000 enters into an options contract with the bank at a price of 1 USD = Rs. 45 at an option premium of Re 1. Before two months, if the company feels that the currency exchange rate prevailing is 1 USD = Rs. 50 and, therefore, it can exercise the option and save Rs. 4 per USD after deducting the option premium. This gives the company a saving of Rs. 400,000.

In case the currency exchange rate moves to 1 USD = Rs. 42 then the company may not exercise the option and it will pay at Rs. 42 to the supplier plus Re 1 as the option premium but still makes Rs. 2 per USD or Rs. 200,000 as net foreign exchange gain.

### Forward Contracts vS Options

How does an organization which wants to hedge the currency exchange risk choose between the two? Both have their merits and demerits. The following may be noted :

- Forward contract is binding and cannot be cancelled while, under options, one can decide not to exercise the option.
- Forward contract rates may be better than the rates under options.
- The foreign exchange gains and losses under forward contracts are generally higher than the one under options.

  So to choose between the two, the companies may follow the following :
- If treasury department of an organization can predict the movement of the currency exchange rates more accurately then the company should choose forward contract.
- If a company is not sure of exchange rate movement in future then it should go for options.
- In case of high volatility in—exchange rates—both upwards and downwards it is better to choose options as one may decide in adverse circumstances not to exercise the option.

In India, the corporates approach the banks and opt for either of these two popular modes of hedging foreign exchange risk. The companies have to take a cautious approach in tackling the risks associated with foreign exchange. ❐

**Statement about ownership and other particulars about The Management Accountant, required to be published under rule 8 of the Registration of Newspaper (Central) Rule, 1956**

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I, M. Gopalakrishnan hereby declare that the particulars given above are true to the best of my knowledge and belief.

Sd/- M. Gopalakrishnan
Signature of Publisher

Dated 1st March, 2012

# Simplified Accounting System (SAS) for a Small Business—A Case Study

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## Introduction

It is seen that a lot of expense and time are wasted in the so called double entry book-keeping in order to find out the end result of the business, more so of a small business. Due to IT revolution, all the complicated accounting systems can be dispensed with by introducing a "SAS".

### Scope of SAS

SAS requires a computer, loaded with Excel Program. SAS can be operated with a simplified cash and bank account in the columnar form, one page for receipts and another for payments, allotting a code to each ledger account for receipts as well as for payments. At the end of the day/week/month/ annual one can find out the ledger account balances by clicking the code number allotted.

### Case Study

Drs. Willy & Zelly, hereafter termed as W&Z, planned to operate the business of medical clinic to provide medical services. They floated a Private Limited Company in the name of Willy & Zelly (Pty) Ltd, registered with the Registrar of Companies. When the promoters approached for the secretarial services, they found the fees to be paid for the accounting services are exorbitant and they approached the author to help them to provide them a simplified accounting system which can be operated by a non-accountant who has no basic knowledge of accounting system. The promoters were asked to specify the nature of work, the source of income and expenditure so that the sources of revenue and expenditure could be classified into Investment, Revenue and Cost Centres.

It is seen that the W&Z Co planned to operate only on cash basis; hence it was suggested not to use the complicated double entry book-keeping system. As the source of revenue and expenses are restricted to a few variables, the following head of accounts were created based on four investment, one revenue and nine cost centres and each head was given a meaningful title and code numbers and further classified & codified. The same is presented in Table 1 :

**Table 1 : Classification of Investment, Revenue and Cost Centres with codes allotted for ledger Accounts**

| Code No | Name of Ledger Account | Nature of the Centre |
|---|---|---|
| *V91* | *Capital contributed* | *Investment Centres* |
| V91-1 | Capital contributed by Dr.Willy | |
| V91-2 | Capital contributed by Dr. Zelly | |
| *V92* | *Long term creditors* | *Investment Centres* |
| V92-1 | Loan by Stringy (outsider) | |
| V92-2 | Loan by Zelly | |
| V92-3 | Loan by Willy | |
| *V50* | *Balance Sheet Items: Fixed Assets* | *Investment Centre* |
| V50-1 | Land & building | |
| V50-2 | Medical equipment | |
| V50-3 | Office equipment | |
| V50-4 | Office fittings | |
| V50-5 | Office furniture | |
| V50-6 | Office vehicles | |
| V50-7 | Computers | |
| *V60* | *Current Assets* | *Investment Centres* |
| V60-1 | Stock of Medicines | |
| V60-2 | Debtors | |
| V60-3 | Cash in hand | |
| V60-4 | Cash at bank | |
| V60-5 | Outstanding cheques to be cleared | |
| V60-6 | Other current assets | |
| *T01* | *Consultancy & dispensing charges* | *Revenue Centres* |
| T01-1 | Medical Aid Society Andrew Co | |
| T01-2 | Medical Aid Society Bravo Co | |
| T01-3 | Medical Aid Society Charles Co | |
| T0I-4 | Medical Aid Society Dante Co | |
| T01-5 | Medical Aid Society Eagle Co. | |
| T01-6 | Cash Patients | |
| *T05* | *Cost of goods sold* | *Cost Centre* |
| T05-1 | Purchase of medicines | |
| T05-2 | Other trading items | |

| | | |
|---|---|---|
| ***T07*** | ***Transport Costs*** | ***Cost Centre*** |
| T07-1 | Fuel | |
| T07-2 | Vehicle maintenance | |
| T07-3 | Vehicle Insurance & Registration fees | |
| ***T08*** | ***Office maintenance charges*** | ***Cost Centre*** |
| T08-1 | Rent (Premises) | |
| T08-2 | Rates (Corporate Taxes) | |
| T08-3 | Water & electricity | |
| T08-4 | Office security | |
| T08-5 | Office insurance | |
| ***T09*** | ***Office & administrative expenses*** | ***Cost Centre*** |
| T09-1 | Printing & stationery | |
| T09-2 | Telephone & postage | |
| T09-3 | Travelling expenses | |
| T09-4 | Commission | |
| T09-5 | Legal fees | |
| ***T10*** | ***Wages & Salaries*** | ***Cost Centre*** |
| T10-1 | Wages | |
| T10-2 | Office Staff salary | |
| T10-3 | Directors' emoluments | |
| T10-4 | Staff welfare expenses | |
| T10-5 | Bonus payment | |
| T10-6 | Contribution to approved benefit fund (pension) | |
| ***T11*** | ***Professional fees*** | ***Cost Centre*** |
| T11-1 | Consultancy fees | |
| T11-2 | Audit fees | |
| ***T12*** | ***Marketing & Distribution*** | ***Cost Centre*** |
| T12-1 | Advertisement | |
| T12-2 | Sales promotion (other than advertisement) | |
| ***T13*** | ***Finance Expenses*** | ***Cost Centre*** |
| T13-1 | Interest | |
| T13-2 | Bank charges | |
| T13-3 | Donations | |
| T13-4 | Bad debts | |
| T13-5 | Provision for doubtful debts | |
| T13-5 | Foreign exchange loss | |
| ***T14*** | ***Depreciation (Allowances)*** | ***Cost Centre*** |
| T14-1 | Depreciation on Buildings | |
| T14-2 | Depreciation on Medical equipment | |
| T14-3 | Depreciation on Office equipment | |
| T14-4 | Depreciation on Office Fittings | |
| T14-5 | Depreciation of Office Furniture | |
| T14-6 | Depreciation on Vehicles | |

The above format could be used for preparing final accounts such as balance sheet, trading and profit & loss account.

As stated, cash account would have two Excel pages one for receipts and another for payments.

The following format is suggested. As an example, one item for each centre is used in Table 2 for receipts.

**Table 2 : Cash Book Receipts for the Accounting year ending 31 March 2011**

| Date | Received from | Nature receipt | Code (LF) | Ref | Cash $ | Bank $ |
|---|---|---|---|---|---|---|
| 2010.04.01 | Dr Willy | Capital invested | V91-1 | R001 | 50 | |
| 2010.04.02 | Stingy | Loan by Stringy | V92-1 | R003 | | 97,632 |
| 2010.04.25 | Andrew Co | Medical Aid dispensing | T01-1 | R125 | | 8,157 |
| 2011.03.31 | Cash patients | Consultancy & dispensing | T01-6 | R210 | 1500 | |

One Excel sheet is used for the payments. As an illustration one item in each Investment, Revenue and Cost Centre is displayed in Table 3 :

**Table 2 : Cash Book Payment for the Accounting year ending 31 March 2011**

| Date | Payments to | Nature of payments | Code (LF) | Ref | Cash $ | Bank $ |
|---|---|---|---|---|---|---|
| 2010.04.01 | ANC Medicals | Purchase of ultra sound machine | V50-2 | P001 | | 15,000 |
| 2010.04.02 | Trans Pharmacy | Purchase of medicines | T05-1 | P005 | | 12,000 |
| 2010.04.03 | Express Fuel Co | Fuel | T07-1 | P015 | | 500 |
| 2010.04.03 | Housing Board | Rent (Premises) | T08-1 | P024 | | 1,500 |
| 2010.04.04 | Trend Printers | Printing & stationery | T09-1 | P030 | | 250 |
| 2010.04.28 | Helen | Office Staff salary | T10-2 | P042 | 1000 | |
| 2010.04.30 | Dr. Eden | Consultancy fees | T11-1 | P051 | | 300 |
| 2010.04.30 | Clear Adv. Co | Advertisement | T12-1 | P055 | | 150 |
| 2010.04.30 | City Bank | Bank charges | T13-2 | P065 | | 60 |

At the end of the accounting period i.e 31 March 2011, Annual Allowance (depreciation) is charged as per the prevailing rates given by the department of Revenue i.e. at 25% on company vehicles, medical equipment and computers; at 15% on office equipment and fittings. Closing stock of medicines was valued at cost price on 31 March 2011.

## Training to operate SAS

Two hour session on the computer Excel spread sheet usage was given to Ms Ana, the lady accountant who had no prior accounting and computer experience. She was trained how to open the Excel program, loading the receipts and payments in the formatted spread sheets.

After entering the items in the cash book receipt and payments, she was asked to get the transactions to classify by code wise. This was possible for her by clicking "data" in the Excel "cash book page (s), then clicking "sort", then "A Z", click Column depicting Code. She was asked to get the totals of each code (investment, revenue and cost centre wise by dragging the cursor and press " for the totals for each Centre.

Within 15 minutes she got the results by centre wise which is presented in Table 3 which shows the consolidated total debits and credit transactions as on 31 March 2011. This Table will help the management to have an overview to locate how Investment, Revenue and Cost Centres are influencing the total finance of the organisation during the year.

**Table 3: Classification of Ledger Accounts based on Cost, Revenue & Investment Centres showing percentage influence of each centre over the performance for the year ending 31 March 2011.**

| Code No. | Total Ledger Bal | Centre | Debit | % | Credit | % |
|---|---|---|---|---|---|---|
| | | | $ | | $ | |
| T01 | Consultancy & Dispensing | Rev | | | 168,587 | 35.14 |
| T05 | Cost of goods sold | Cost | 50,874 | 11 | | |
| T07 | Transport costs | Cost | 13,914 | 3 | | |
| T08 | Office Maintenance costs | Cost | 88,194 | 18 | | |
| T09 | Office Administration costs | Cost | 18,049 | 4 | | |
| T10 | Staff Costs | Cost | 64,548 | 13 | | |
| T13 | Finance Costs | Cost | 570.59 | 0.1 | | |
| V50 | Fixed Assets | Invest | 166,822 | 35 | | |
| V60 | Current Assets | Invest | 76,849 | 16 | | |
| V91 | Capital | Invest | | | 100 | 0.02 |
| V92 | Creditors | Invest | | | 311,132 | 64.84 |
| | | | **479819** | **100** | **479819** | 100 |

Then the lady was asked to prepare the detailed Trial Balance at the end of the year 31 March 2011. Table 4 highlights the Trial Balances with relevant adjustments to make at the end of the year

**Table 4 : Trial Balances (detailed)**

**W&Z (Pty) Ltd Trial Balances at 31 MARCH 2011**

| | | Debit($) | Credit ($) |
|---|---|---|---|
| Capital Account | | | 100 |
| Consultancy & Medicines | | | 168587.2 |
| Creditors | Willy | | 210500 |
| | Stringy | | 97632 |
| | Zilly | | 3000 |
| Bank Charges Account | | 570.59 | |
| Debtors Account | | 10,714 | |
| Car Fuel, Repair & Insurance | | 13,913.53 | |
| Medical Aid Contribution | | 4,548.22 | |
| Medical Equipment Account | | 51,890.22 | |
| Medicines (purchases) | | 50,873.52 | |
| Office Equipment Account | | 2,040.7 | |
| Office Fittings Account | | 39,564.43 | |
| Office Furniture Account | | 15,681.5 | |
| Office Rent & Utilities Account | | 82,159.93 | |
| Office Security System Account | | 6,033.6 | |
| Salaries office Assistant | | 12,000 | |
| Directors salaries | | 48,000 | |
| Office Telephones & cell | | 78,44.53 | |
| Cash in hand | | 2,133.8 | |
| Cash at Bank | | 64,001.49 | |
| Office Car | | 57,644.8 | |
| Office Expenses | | 10,204.34 | |
| | | **47,9819.2** | **47,9819.2** |

The closing stock value of medicines as on 31 March 2011 was $8956-38.

It is agreed that office car and medical equipment are provided with annual Allowances (depreciation) at 25% of the book value. Office equipment and office furniture are to beprovided annual allowances at 15% of the book value,

Outstanding dues for consultancy and medicines dispensing from the medical aid Societies $129,79.29 for the year ending 31 March 2011.

**Trading & Profit and Loss Account W&Z (Pty) Ltd for the financial year ending 31 March 2011**

| | Note | $ | $ |
|---|---|---|---|
| Sales (Consultancy & Sale of medicines) | 2 | 168,587.2 | |
| Add outstanding dues from medical societies | 21 | 12,979.29 | **181566.49** |
| Less cost of goods sold (Medicines) | | | |
| Purchase of Medicines | 3 | 50,873.52 | |
| Less Closing Stock | 4 | 8,956.38 | 41917.14 |
| **Gross Profit** | | | **139649.35** |
| Less Expenses : | | | |
| Bank Charges | 5 | 570.59 | |
| Car Fuel, Repair & Insurance | 6 | 13,913.53 | |
| Medical Aid contribution | 7 | 4,548.22 | |
| Office expenses | 8 | 10,204.34 | |
| Office rent & utilities | 9 | 82,159.93 | |
| Salary Office Asst | 10 | 12,000.00 | |
| Salary Directors | 11 | 48,000.00 | |
| Office Tel & Cell | 12 | 7,844.53 | |
| Office Security | 13 | 6,033.60 | |
| Annual Allowances: | 14 | | |
| Office car P57644.8 × 25% | | 14,411.20 | |
| Medical Equipment P51890.22 × 25% | | 12,972.56 | |

| | | |
|---|---|---|
| Office Fittings P 39564.43 × 15% | 5,934.66 | |
| Office Furniture P15681.50 × 15% | 2,352.23 | |
| Office Equipment P2070.4 × 15% | 306.11 | |
| | 221,251.50 | 221,251.50 |
| **Net loss** | | **81,602.15** |

**Balance Sheet of W&Z (Pty Ltd) as at 3I March 2011**

| | | |
|---|---|---|
| ***Fixed assets*** | | |
| Medical Equipment | 15 | 51,890.22 |
| Office Equipment | 16 | 2,040.7 |
| Office fittings | 17 | 39,564.43 |
| Office Furniture | 18 | 15,681.5 |
| Office Car | 19 | 57,644.8 |
| | | **166,821.65** |
| ***Current Assets*** | | |
| Stock of medicines | 4 | 8,956.38 |
| Debtors (NAP rent paid two months deposit) | 20 | 10714 |
| Account Receivables (Medical Societies) | 21 | 129,79.29 |
| Cash in hand | | 2,133.8 |
| Cash at Bank | 22 | 64,001.49 |
| Total value of current assets | | **98,784.96** |
| Less current liability | | 0 |
| Excess of current assets over current liability | | 98,784.96 |
| Net Loss of the current year | | 81,602.15 |
| **Net Asset Value** | | **347,208.76** |
| Contributed by: | | |
| Share Capital | 23 | 100 |
| Long term creditors | 24 | 311,132 |
| Provision for Annual Allowances | 14 | 35,976.76 |
| **Capital Employed** | | **347,208.76** |

## Notes to the financial statements for the year ended 31 March 2011

### 1. Accounting Convention

1.1 The financial statements are prepared on historic cost convention.

1.2 Costs incurred whose effect less than one year written off as expense.

1.3 Fixed assets are shown at book value in the Balance Sheet

1.4 Annual allowances are shown as expense and accumulated provision.

| | | |
|---|---|---|
| Office car | 25% | 14,411.20 |
| Medical Equipment | 25% | 12,972.56 |
| Office Fittings | 15% | 5,934.66 |
| Office Furniture | 15% | 2,352.23 |
| Office Equipment | 15% | 306.11 |
| Total Annual Allowances provided | | **35,976.76** |

2. Sales : Consisting of the receipts for services rendered by resident doctors & dispensing directly transferred to Company Bank Account and also cash received from patients for services & dispensing.

3. Purchased medicines by payment both by bank cheques and cash and no credit purchase.

4. Physical Stock of medicines were taken on 31 March 2011 and valued at cost.

5. Charges of Bank for operation of Company Account.

6. Car Fuel, Repair & Insurance related to the car for office work used

7. Medical Aid contribution : relates to net of medical aid contribution for resident doctors employees.

8. Office expenses relate to day to day expenses to run office administration.

9. Office rent & utilities paid to the land lord through bank transfer on 1 day of every month.

10. Salary Office Asst paid on monthly basis at the end of each month.

11. Salary Directors: paid to two directors through Company Bank Account.

12. Office Tel & Cell: for office use and to contact patients, societies, other government officials for running the surgery.

13. Office Security: Paid in advance for one year ending 31 Mar 2011 at discount.

14. Annual Allowances :

25% Office car on the book value.

25% Medical Equipment based on the life of equipment and usage.

15% Office Fittings based on the life and usage.

15% Office Furniture as the furniture worn out by rough use of patients etc.

15% Office Equipment : mostly electronic equipment worn out quickly.

14. Fixed Assets

| Nature of the asset | Cost Asset | Allowance | Total Allowance | Net |
|---|---|---|---|---|
| 15. Medical Equipment | $51,890.22 | $12972.56 | $12972.56 | $38917.66 |
| 16. Office Equipment | $2,040.70 | $306.11 | $306.11 | $1734.59 |
| 17. Office fittings | $39,564.43 | $5934.56 | $5934.66 | $33629.77 |
| 18. Office Furniture | $15,681.50 | $2352.23 | $2352.23 | $13329.27 |
| 19. Office Car | $57,644.80 | $14411.20 | $14411.20 | $42233.60 |

20. Two months' rent deposit paid in advance & kept as security by land lord office Bld.

*(contd. to page 418)*

# Critical Analysis of Workforce Management in BPO and IT Sector

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As we all know about 50% of a total cost in BPO and IT sector relates to staff costs—either directly or indirectly. Thus the staff cost has a considerable impact and ability to influence the overall profitability of the organization. At times, even marginal leakages in the productivity of workforce have the potential to alter the financial performance of the company drastically. It can swing from profitability to negative performance from quarter to quarter if the same is not controlled efficiently with the help of technological advancements.

In an era where the workforce is more knowledge-oriented with facilities like Work from home, Work during travel, etc exists simultaneously, the task of productive utilization of workforce and its management poses a serious challenge to workforce intensive sector like the BPO and IT.

In any organization across industries, the operational excellence will revolve around several key business initiatives like increasing productivity, controlling costs and enhancing the quality of service. For many industries—be it retail, manufacturing, healthcare—all of these outcomes are highly, if not entirely, dependent on the quality of the workforce and how it is managed. Yet for many organizations, workforce management remains a manual and decentralized process that limits the quality and consistency of customer service and hinders organizational visibility and control of labor costs.

Customer service starts with ensuring that the right number of employees with the right amount of work experience, right skills is scheduled to work in the correct work area for the required period of time. And this is possible through workforce management solutions.

Let us analyze the role of work force management solutions in saving costs and improving the bottom line. Although the general leakages in workforce management productivity is estimated to be around 4-6%, considering conservative approach and taking 2% as the leakages in productivity of workforce, a staggering INR 270 crores will improve the bottom-line of Infosys if the leakages are fixed completely on productivity.

| Head | 2,011 | 2,010 |
|---|---|---|
| Revenue (INR Cr) | 27,501 | 22,742 |
| Aggregate Employee costs/ Total Revenue (%) | 49.08% | 48.96% |
| Employee costs (INR Cr) | 13,497 | 11,134 |
| Work force Trigger: Idle costs assuming 2% leakages (INR Cr) | 270 | 223 |

*Source: Above figures based on the published financials of Infosys.*

Today the complex work environment and demanding clients make the task of managing workforce productivity more cumbersome for the organizations. The tough challenges being faced today are :

- What's the best way to schedule and utilize my staff?
- How can I manage them more effectively?
- How can I measure and improve employee effectiveness?
- How can I accurately and efficiently pay them?
- And, why isn't there one simple, single-source to answer all my needs?
- Why complex multi-vendor software solutions need to be bought and integrated in order address a single workforce management productivity issue?

Every organization needs to be accurate to the last possible extent in order to ensure how many people required for each project and what sort of skills they need, etc in order to drive optimum utilization of resources in a cost effective way which ultimately, drives and improves the bottom-line performance of the organization which is becoming more and more critical due to quarter on quarter performance evaluation of companies by investors and analysts.

Unfortunately, traditionally Indian organizations have ignored the relevance of workforce management in the profitability analysis of a company. All that the

Indian corporate—particularly the IT and BPO—were of the understanding that "Attendance capturing "is sufficient way of workforce Management. However capturing attendance does not resolve the issues surrounding workforce management productivity and rather in a way covers up the bigger issue of productivity till the time when the things reaches unrepairable stage.

Workforce management tools and solutions can play a significant role in helping managers to schedule and organize the workforce in an optimal manner. Scheduling tools typically work closely with forecasting software, which gather statistics about service levels. The software cannot provide best results unless it is customized to suit your unique needs based on SLAs.

If systems can bring this intelligent balance between forecasted customer load and the required employees' strength with defined skills then the productivity of the managers would increase as the manager can then focus on managing the floor for better customer service and not spend time on creating and recreating the schedule of employees. And if the product can extend to send the information to the employees inbox or enable them to see the information at some Kiosk/Device then it eases the communication issues also.

The life blood resource for operation of the BPO and IT sector is Workforce. Any sort of inefficiency or leakage in labour costs certainly will have unwarranted and undesired financial implications on the bottom-line driving out the organization in the long run from the highly competitive market. As the customers in BPO and IT sectors looking at Low cost bidder for granting projects without compromising on quality and deliverables, the role of workforce management has a direct correlation on the customer business being won, on the bottom-line results of the organization and the way the workforce is managed internally in a organization.

Having understood the relevance of workforce Management in streamlining the operations aiming to achieve cost effectiveness and higher productivity, let us understand the broad areas which need to be taken care while deciding which solutions to go for in a crucial market where multiple players like Kronos, SAP, PeopleSoft, etc operate.

- Any software so selected should able to offer complex scheduling capability. It should provide the flexibility to managers and employees to view and modify the schedules as required and as authorized.
- The software solutions should be flexible enough to absorb the frequent changes that are needed in workforce schedule at short notice. Once the changes are effected, the concerned reports should reflect the revised/updated reports on real time basis.
- The software should be capable of forecasting the pattern of call traffic based on algorithms, which becomes a crucial input for agent scheduling.
- It helps if the tool displays the statistics that agents and managers use frequently. For instance, managers' dashboards can display schedule adherence or shrinkage figures for the day whereas agents only get to see their own adherence figures. ❐

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*(contd. from page 416)*

21. Bill for the Month of March are still outstanding from Societies as :

| | $ |
|---|---|
| Andrew | 3,397.19 |
| Bravo | 5,090.3 |
| Charles | 2,720.31 |
| Dante | 1,771.49 |
| Account Receivables | **12,979.29** |

22. Bank Balance as per cash Book tallied with Bank Account as on 31 March 2011.

23. Shares subscribed by two directors of the company.

24.Balance of Long term creditors as at 31 Mar 2011 :

| | |
|---|---|
| Willy | 210,500 |
| Stringy | 97,632 |
| Zelly | 3,000 |
| Total outstanding long term loans: | **311132** |

## Conclusion

As stated earlier, the objectives of this paper is to save sweating, time and money on simplification of accounting system to the small business entrepreneurs. They need not depend on the qualified cost, management and chartered accountants if they follow the above SAS. ❐

# Role of CMAs in Government

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## Introduction

There are around 2,000 practicing members all over the country playing a crucial role in the national economy. Besides more than 50,000 qualified Cost and Management Accountant professionals are in employment as well. There has been increasing awareness amongst the business entrepreneurs about the vital contributions of cost and management accountants in the attainment of business objectives. This has resulted in increasing demand for cost and management accounting services in all the sectors of economy.

In other countries, Cost Accountants are recognized as "Management Accountants" and they are the sought after professionals for strategic management and cost competitiveness in all kinds of enterprises and also in the Government sector, banking & finance sector, development agencies, education, training & research sector, service and public utility sector and the relative fields.

Realizing the importance of the profession of Cost and Management Accountancy, the Central Government had constituted an all India cadre known as Indian Cost Accounts Service (ICAS) at par with other Class I services such as IAS, IFS etc., to advise the government in cost and pricing and in framing the appropriate fiscal and tax policies.

Currently available professional Cost Accounting support under the Indian Cost Accounts Service and/or MCA is mainly to serve as an independent agency of the Central Government catering mainly to the objectives of Cost-Benefit Studies and costing and pricing studies on government projects. There is an imminent need for strengthening, widening and enhancing effectiveness of the existing support to advisory role to Ministries and Government Undertakings on Cost and Management Accounting practices and cost investigation work. More specifically, some of their work also includes cost and management audit of industrial undertakings, concurrent audit of escalations claims of manufacturing units, subsidy determination and verification of claims, cost accounting system for departmental undertakings/autonomous bodies etc.

CMAs' role in Government has to be repositioned and reinforced to strengthen the existing role either by way of augmented ICoAS (Indian Cost Accounts Service) or otherwise. India, being the largest democratic country with the second largest population in the world, annually spends around Rs. 11,00,000 crores or more of public funds on its economic development and another ICoAS could be seen as totally inadequate for the huge Government administrative system.

Prosperity and growth of any entity—irrespective of whether it is a nation or a business organization—depends on the way in which the resources of the organizations are utilized, managed and disposed. In the backdrop of competitive and globalized economy, this growth and prosperity has got tremendous importance. The managerial strategies have occupied a crucial place and these strategies can deliver fruitful results only when they are backed up by a sound information system with appropriate and quality information. In this context, the profession of cost and management accounting commands its place of pride. The occupation has acquired a place of an organized profession offering a yeoman service to business houses in particular and society and general, with its origin at the time of World War II (1939-1945).

In March 2010, speaking at a seminar "Global Meltdown and after—Managing Growth" organized by Durgapur Chapter of ICWAI, the then Union Minister of State for Corporate Affairs, Mr. Salman Khurshid, stated that the global requirement of cost and management accountant professional would be about one million. He also stated that Indian companies were making global footprints by acquiring overseas companies and it was high time country's CMAs showed their worth before the world.

## Regulatory Standards for Government

Public demand for transparency, increased use of RTI, budgetary pressures to reduce public spending etc. have forced the Government to improve accountability for the way it provides goods and services. 'Cost and Management accounting' is one tool officers in Government need to demonstrate accountability, improve program performance, and reduce program costs.

Best practices of Cost and Management Accounting in Government could cover the following areas : (1) Cost Accounting Strategy (2) Agency Culture, Management attitudes and Core Competencies (3) Project Implementation Practices and (4) Commitment to the Processes.

Financial Accounting, Budgeting, and Management Accounting are three essential ingredients of accountability in the Government. Managerial cost accounting is one tool managers needed to demonstrate accountability, improve program performance, and reduce program costs. Cost accounting information supports all three aspects of accountability and cost information supports decision making in a variety of different business environments, such as :

***1. Management Accounting :*** to assist government organization report users in evaluating service efforts, costs, and the accomplishments of the reporting entity;

***2. Planning and Budgeting :*** to plan and make resource allocation decisions;

***3. Managing achieving end-results :*** This is fulfilled by the role of Management Accounting to manage resources in the accomplishment of broad program purposes, to manage the unit cost of output to ensure that units of output are produced as inexpensively as possible, and to set fees. In each of these environments, management must know the cost of their activities in order to make good business decisions and to report financial and performance information to external parties such as Congress and the public.

In each of these environments, management in Government must know the cost of their activities in order to make good business decisions and to report financial and performance information to Government Ministries and the public. In this context, it is interesting to observe that the Thirteenth Finance Commission has in some ways a unique terms of reference when compared to its predecessors. For the first time they have been asked to examine "the need to improve the quality of public expenditure to improve outputs and outcomes".

**About Government Accounting Standrads**

Government Accounting and financial reporting in India have a history of several centuries. Our current government accounting system, both in the Union and the States, derives its form and substance largely from cash based book keeping procedures, which were introduced during British era. We have, of course, modernized the system of data collection but have continued to remain essentially on cash basis. Being primarily focused on inputs, the cash based system cannot be used effectively to fix accountability for performance. The result of these deficiencies is that it is difficult to keep an accurate track of assets and it is easy to understate liabilities.

In August 2002, Comptroller and Auditor General (CAG) of India established a Government Accounting Standards Advisory Board (GASAB) under the chairmanship of Deputy Comptroller and Auditor General. The members of the Board include Controller General of Accounts, Financial Commissioner Railways, Controller General of Defence Accounts, Additional Secretary (Budget), Government of India, Deputy Governor of RBI, and President of ICAI, Director General of NCAER, and Principal Finance Secretaries of four States (by rotation). Director General (AEC) in the office of CAG is the Member Secretary of the Board. The mission of the Government Accounting Standards Advisory Board is to establish and improve standards of State and local Governmental accounting and financial reporting that will result in useful information for users of financial reports. The mission of GASAB is to formulate and recommend Indian Government Accounting Standards (IGASs) with a view to improving standards of Governmental accounting and financial reporting that will enhance and strengthen the quality of decision-making and public accountability.

GASAB has issued five standards (of which IGAS 1 and IGAS 2 have been notified in Gazette) on the following subjects :

**IGAS 1 :** Guarantees given by Governments: Disclosure Requirements (notified Dec 2010)

**IGAS 2 :** Accounting and classification of Grants-in-Aid (notified May 2011)

**IGAS 3 :** Cash Flow Statements

**IGAS 4 :** General Purpose Financial Statements of Government

**IGAS 5 :** Loans and Advances made by Governments

In addition to the above, seven more Standards are under development.

GASAB has two-fold mission improvements in the existing cash basis accounting system, and facilitating an eventual migration to accrual basis accounting. GASAB develops accounting standards under cash basis known as Indian Government Accounting Standards (IGAS) for the existing accounting system and standards for accrual basis under the nomenclature of Indian Government Financial

Reporting Standards (IGFRS). The latter is essentially to facilitate pilot studies and the ongoing applied research on accrual basis accounting in Government.

**Need for Government Cost & Management Accounting Standards**

On the lines of MCA that approved Cost Accounting Standards which have been remarkably developed by ICWAI for the Industry, it is absolutely necessary to consider similar Cost and Management Accounting Standards for the Government. In the 1990s, for example, some of the countries in other parts of the world have introduced similar standards (for example, in US, Federal Accounting Standards Advisory Board (FASAB) issued a new standard, Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Standards).

The proposed Cost and Management Accounting Standards for the Government will have be suitably aligned to the Financial Accounting Standards for the Government and this, complementary to each other, will be effectively put in place.

**What is Ailing the Government Machinery?**

The need for such a GCMAS (Government Cost and Management Accounting Standards) can be better understood in the context of critical issues at the macro-level and at the micro-level in the public governance in India. The several key concerns of the people in power —politician or administrator—could be traced to causes arising from one or more than one of the following which can be termed "barriers to good governance".

1. Need to provide antidote to government policy inaction.
2. Fear of ill-effects on career on possible post-decision probe.
3. Fear of corruption accusation.
4. Decision errors and possible probe for mala-fide intention.
5. Need to have more cost-effective and efficient supply chain and public distribution system for essential commodities, goods etc.
6. Effective and timely utilization of grants, specific fund allocation etc.
7. Timely execution, efficient utilization, effective end-use of budget allocation.
8. Making aid work.
9. Need to move focus from planning to execution (or intention to implementation).
10. Compelling need to show strong growth with weak institutions and structure.
11. Need to constantly reduce the 'cost of bureaucracy'.
12. Need to move from 'babu' culture to 'serve the public' culture as a true public servant.
13. Culture of showing pride in following 'rules in letter' rather than 'in spirit'. Public good results only if decision takes place complying rules in 'letter' and 'spirit.

When we discuss efficiency and effectiveness in governance, it is difficult to ignore the need to remove existence of 'policy paralysis' or 'governance deficit'. Even the perception that it exists does have a dampening effect on economic development and on the mindset of the people called 'government servants' through whose hands all implementations take place.

**CMAs Role in Governnance**

Let us look at the crucial role of the Cost and Management Accounting professionals to support a transformational initiative ("Parivarthan") or BPR (Business Process Re-engineering) in Government.

Government organization/departments (for example, public health care or Government schools) do face constantly challenges to improve performance in a resource constrained environment. Faced with the challenges of management of huge amount of grants, public spending, budgetary allocations effectively and efficiently on a time-bound manner, the departments/organizations end up with 'less-than optimum' fund-use and huge wastage or cost of service in the process. One key to achieving this goal is a detailed understanding of activity to be performed in support of the organization's outputs, programmes, mission and the specific volume and cost of resources consumed by these activities. To gain this, detailed insight and to be able to trace Unit cost per output back to original source costs, a robust cost and management accounting system is essentially required. This is lacking in the current context of Governance in India.

Government agencies/departments are constantly challenged (if not, should be challenged in public interest) to efficiently and effectively utilize resources which are always scarce. This will increase transparency, expand constituent services, and improve performance. Key to resolve this challenge is a detailed understanding of the resources needed for management and employees to make decisions that will effectively utilize resources and improve programmatic performance while at the same time increasing transparency.

CMAs role would be to help them with a system to accumulate and timely analyze accurate and auditable cost information that is tied to programmatic outputs and delivered services. Despite admiringly significant progress in computerization of our governance system, confusion and inaccuracy do exist due to (i) multiple silos of data and multiple report and analytic platforms, (ii) people concerns (including resistance to or fear of change), and (iii) process issues including the challenge of fully defining an organization's output by activity/ output.

### CMA as a Catalyst in Dynamic Indian Economy

It is, therefore necessary to introduce a comprehensive cost management programme (including policy, practice and system improvements in the accounting, budgeting and management areas) to improve the ability to accurately track government spending, analyse cost and performance drivers on time. The intention is not 'fault-finding' but 'fault prevention' before it occurs. It is also not to fix a 'government official' but to fix a problem. In Government we do face 'safe players', who take no risk, do no work and hence make no mistake. We need officials who work and take calculated risk (with bona fide intentions) complying the 'rules of the game' supported by a well developed cost and management system. Implementing an integrated cost and management system can provide the required 'system capability enhancements' for sustainable long term performance improvements. The benefits could be classified into three components viz.,

***a) Statutory/Regulatory compliance*** : Improved statutory and regulatory compliance include decreased regulatory oversight and reduced political pressure. This also results to huge cost saving in bureaucracy.

***b) Improvement in managerial information and decision making*** : Better quality decisions results in minimum error in judgment and timely benefits percolating to the 'aam admi' and more effective monitoring/evaluation system.

***c) Continued funding and effective use of scarce resources of the nation*** : Funding requests are supported by detailed cost justification tied to performance goals are likely to be approved faster and safer—thereby permitting better allocation of funds to other areas of government attention.

In short, a professional culture gets developed where all voices explicitly or implicitly that the use of government resources must be properly tracked and tied to an organization's performance goals. Cost and Management accounting system is a recommended method of achieving this goal.

### Conclusion

There is undoubtedly a strong case for developing a Government Cost and Management Accounting Standards (GCAMAS). These Standards are expected to play a powerful role in the cost management in Government making the entire government machinery capable of responding to the various dynamic challenges being thrown up in the volatile economic scenario. More than this, it can be a guiding tool to administer the entire system efficiently and effectively making happen what should happen and preventing happenings that should not happen. Thus, as a result, post-audit issues or unproductive post-mortem activities for the audit bodies such as CAG and others would reduce. The GCAMAS could be developed for specific areas coming under the responsibilities of the Central Government as well as State Governments. Some of these areas include public healthcare, education, land utilization, agriculture production, infrastructure creation and management, disaster prevention management, disaster crisis management, transport construction and management (road, rail, metro, monorail, sea port and airport) costing and pricing system, airwave pricing (or telecom), infrastructure development and management, development of different models for PPPs, emerging modern industry-specific cost management practices also for public media, film, entertainment, management of Municipalities, Municipal Corporations, Panchayat, event management in government such as election, census, publicity and communication etc. In the next stage these standards would also help in giving directions for performance benchmarking and best practices within the country as well as inter-state levels. The other side of the essential requirement would be for strengthening the supply side of Institute's CMA professionals in terms of quality as well as quantity. Efforts should be immediately on for necessary actions to sharpen the tools and imparting the skills appropriate to the application area and getting the actions right. The Government and the Institute—reposing faith in and supporting each other can create the capabilities as required. This is to strengthen the existing efforts with intention to empower and re-orient existing manpower and not to replace anyone.

Undoubtedly, people of India deserve a governance and delivery mechanism far more superior than what is currently capable of. With the individual capabilities and advancement in technology Indians have achieved, this is absolutely a 'do-able' proposition. We can do it. In the global race being witnessed, we cannot afford to wait any more. Speed matters. Let us take these ideas forward and succeed. ❐

# Instructional Design and Delivery for Strategic Cost Management to Learners with Diverse Intelligence

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## Introduction

Cost Accounting has been tied, in the past to the concepts of score keeping, attention directing, and problem solving, but the expectation from the Cost & Management Accountants in today's world have changed dramatically, extending well beyond these concepts. The Management Accountant is no longer viewed as a technical and procedural expert only, but as a business advisor, one who helps the organization to develop and implement its strategy. Accounting is often characterized as subjects stuffed with structured definitions of technical vocabularies and complexities, uninteresting number crunching and the concepts and techniques (Springer and Borthick 2004) and Strategic Cost Management is no exception to it. Accounting students are widely criticized for their inflexibility in problem-solving (Deleo and Letourneau 1994) and insufficient communication skills (Andrews & Sigband 1984). Accounting Education Change Commission (AECC, 1990) has called for educational reform in the accounting courses curriculum, balancing the conventional content teaching with skills teaching, constructivism learning and importantly preparing the students and capabilities need to be acquired by them for the ever changing work environment (Francis et al. 1995) and to give the students the needed confidence in taking up corporate responsibilities.

## Review of Literature

**Edward J.Blocher (2009)** in his study "Teaching Strategic Cost Management: A strategic emphasis" has taken the strategic approach and shown why and how it can be applied to teaching cost management. The "Why strategy? Question is answered by reference to a set of survey findings, a discussion of the potential errors in non strategic decision making, and changes at the Institute of Management Accountants and within the CMA exam that reflect a greater emphasis on strategy. He concludes that strategic approach of teaching cost management changes the attitude of students as they see that how this course helps organization become more competitive and successful.

**Chang Chee Fei (2008)** in his study "Teaching Accounting to learners with Diverse Intelligence" discusses the practicality of alternative pedagogies in the teaching of accounting courses, following the eight distinct intelligences described in the Multiple Intelligence (MI) theory. The author concludes that 'number smart' students are more receptive to accounting knowledge as compared to students with other intelligences.

**Melissa Walters and Teresa M.Pergola (2009)** in their study "An Instructional Case : Cost Concepts and Managerial Analysis'' stress that case method of teaching helps working understanding of fundamental cost concepts and the proper use of cost data for managerial analysis purposes. The author concludes that the set of questions designed at the end of the case stimulate critical thinking and interactive class discussions.

**LeeAnn Griggs, Sally Barney et.al. (2009)** in their article "Varying Pedagogy to Address Student Multiple Intelligences" inquired to determine if the teaching methodologies most often used by the participant instructors were aligned with the intelligence strength from which their students worked. They conclude that students in each class exhibit certain strengths that do not align predominantly with lecture and notes method of instruction.

**Larry N.Bitner (1991)** in his study "A Framework for Teaching Management Accounting" provides a schematic framework that integrates all of the traditional management accounting topics into a single information network and concludes that the model assists in helping students bridge the gap between the traditional course coverage and the evolving changes likely to be in place through their careers.

## Need for the study

The modern business environment characterized by globalization is forcing many firms to question the effectiveness of many traditional business practices. In the light of the changes taking place, Universities are under constant pressure to meet employer's needs. Regulatory and accrediting bodies call for reforms in curriculum, balancing the conventional content teaching with skills teaching, constructivism learning, turning passive learning environment into a interesting and inspiring one and preparing the students to take on corporate responsibilities. In such a situation it becomes inevitable to know the demography of the entire classroom of students who possess diverse intelligence which would enable the educators to understand the strength of their students whom they can better prepare and groom by such pedagogies that correlate those strengths. Hence this study assumes importance.

## Multiple Intelligence Theory

Dr. Howard Gardner, a psychologist and professor of neuroscience from Harvard University, developed the theory of Multiple Intelligences (MI) in 1983. The theory challenged traditional beliefs in the fields of education and cognitive science. Unlike the established understanding of intelligence — people are born with a uniform cognitive capacity that can be easily measured by short-answer tests — MI reconsiders our educational practice of the last century and provides an alternative.

According to Howard Gardner, human beings have nine different kinds of intelligence that reflect different ways of interacting with the world. Each person has a unique combination, or profile. Although we each have all nine intelligences, no two individuals have them in the same exact configuration — similar to our fingerprints.

## Howard Gardner's Nine Multiple Intelligences

***1. Linguistic Intelligence*** **:** the capacity to use language to express what's on in one's mind and to understand other people. Any kind of writer, orator, speaker, lawyer, or other person for whom language is an important stock in trade has great linguistic intelligence.

***2. Logical/Mathematical Intelligence*** **:** the capacity to understand the underlying principles of some kind of causal system, the way a scientist or a logician does; or to manipulate numbers, quantities, and operations, the way an accountant or a mathematician does.

***3. Musical Rhythmic Intelligence*** **:** the capacity to think in music; to be able to hear patterns, recognizes them, and perhaps manipulates them. People who have strong musical intelligence don't just remember music easily, they can't get it out of their minds, and it's so omnipresent.

***4. Bodily/Kinesthetic Intelligence*** **:** the capacity to use your whole body or parts of your body (your hands, your fingers, your arms) to solve a problem, make something, or put on some kind of production. The most evident examples are people in athletics or the performing arts, particularly dancing or acting.

***5. Spatial Intelligence*** **:** the ability to represent the spatial world internally in your mind — the way a sailor or airplane pilot navigates the large spatial world, or the way a chess player or sculptor represents a more circumscribed spatial world. Spatial intelligence can be used in the arts or in the sciences.

***6. Naturalist Intelligence*** **:** the ability to discriminate among living things (plants, animals) and sensitivity to other features of the natural world (clouds, rock configurations). This ability was clearly of value in our evolutionary past as hunters, gatherers, and farmers; it continues to be central in such roles as botanist or chef.

***7. Intrapersonal Intelligence*** **:** having an understanding of yourself; knowing who you are, what you can do, what you want to do, how you react to things, which things to avoid, and which things to gravitate toward. We are drawn to people who have a good understanding of themselves. They tend to know what they can and can't do, and to know where to go if they need help.

***8. Interpersonal Intelligence*** **:** the ability to understand other people. It's an ability we all need, but is especially important for teachers, clinicians, salespersons, or politicians — anybody who deals with other people.

***9. Existential Intelligence*** **:** the ability and proclivity to pose (and ponder) questions about life, death, and ultimate realities.

## Objectives of the study

The purpose of the paper is to provide directions to Cost Management educators for the development of curriculum and appropriate teaching pedagogies which emphasize the importance of having students understand the competitive environment in which organizations function and for them to learn the strategic tools the organizations use to pursue in their competitive environment, following the nine distinct intelligences described in the Multiple Intelligence (MI) theory. Thus the study has the following objectives :

1. To ascertain the relationship between Multiple Intelligence profile test score and their continuous assessment test score.

2. To test the relationship between students' Multiple Intelligence profile test scores with continuous assessment test score achieved by them in theoretical and numerical questions in the test question paper.

3. To test the hypothesis that the number smart students will tend to perform better in Strategic Cost Management course due to their inborn capability in working with numbers, and reasoning.

## Methodology and Data Collection

To support the above objectives, a survey has been conducted to quantify the MI Profiling test among the final year students at the Master's level of the Business Administration numbering 105 who have registered for the course Strategic Cost Management as part of their Finance specialization.

These students were asked to complete a survey form (McKenzie, 1999) consisting nine sections in order to identify their MI profile. The MI test scores of each section collected from individual students were then totaled and regression tests were conducted, using the test scores of each type of intelligence as independent variables and students continuous assessment test scores as dependent variable.

## Results and Discussions

A total of 94 out of 105 (89.5%) usable responses were received from the students and the same has been processed for analysis. Table 1 shows the mean scores of the student's nine intelligences. The scores revealed that the students considered all the intelligences are important. However, they have considered Intra personal Intelligence, Visual Intelligence and Kinesthetic Intelligence and Existential Intelligence are most important.

**Table No. 1**

**Mean Scores of the Nine Intelligences**

| Intelligences | Mean | Standard Deviation |
|---|---|---|
| Naturalist | 65.43 | 16.95 |
| Musical | 66.28 | 17.90 |
| Logical | 67.13 | 15.63 |
| Existential | 73.51 | 15.36 |
| Interpersonal | 64.47 | 18.64 |
| Kinesthetic | 73.83 | 17.66 |
| Verbal | 62.45 | 20.30 |
| Intrapersonal | 75.96 | 16.81 |
| Visual | 75.85 | 17.19 |

***Source : Computed***

## Multiple Intelligence Profile Scores and Continuous Assessment Test Score

To ascertain the relationship between MI profile test scores and continuous assessment test scores, Pearson correlation and multiple regression analysis has been used. Continuous Assessment test (otherwise Internal Test) is conducted to all students once in a month by the course teachers. It has three sub-division – viz, Part A which tests the concepts, Part B which tests the knowledge and understanding and Part C has numerical problems. Table 2 below reflects the results of the analysis.

**Table No. 2**

**Relationship Between MI Profile Test Scores and Continous Assessment Test Scores**

| Intelligence | Correlation (r) | Coefficient of Determination ($r^2$) | Significance |
|---|---|---|---|
| Naturalist | 0.159 | 0.025 | Not Significant |
| Musical | 0.217 | 0.047 | *Significant |
| Logical | 0.236 | 0.056 | *Significant |
| Existential | 0.269 | 0.072 | **Significant |
| Interpersonal | 0.250 | 0.063 | *Significant |
| Kinesthetic | 0.106 | 0.011 | – |
| Verbal | 0.183 | 0.033 | Not Significant |
| Intrapersonal | 0.278 | 0.077 | **Significant |
| Visual | 0.162 | 0.026 | Not Significant |

***Source : Computed **Correlation is Significant at the 0.01 level***

*Correlation is Significant at the 0.05 level

From the above table 2 it is inferred that Intrapersonal Intelligence has showed a highest correlation with the continuous assessment scores, with $r^2$ value of 0.077. The Existential Intelligence shows the second highest correlation with the continuous assessment test scores, with $r^2$ value of 0.072.

The Interpersonal Intelligence has also recorded a relatively high $r^2$ value as compared to the other remaining intelligences. Although the Logical Intelligence has not demonstrated strong correlation with the continuous assessment test scores, it has recorded an $r^2$ value of 0.056 and is significant at 5 per cent level. Thus the result from this investigation has proved that number smart students will tend to perform better in Strategic Cost Management course due to their inborn capability in working with numbers, abstract patterns, relationships and reasoning. Thus it is inferred that students with higher scores in the MI profile test will probably score high in the continuous assessment tests.

## Structural Bias in the Question Paper

The author has made an attempt to study the pattern of question paper designed for the continuous assessment test to study the relationship between the students' MI profile test scores with the continuous assessment test score obtained by them in Theoretical and Numerical sections of the question paper.

Two Regression analyses were conducted to assess the scores obtained by the students in their MI profile test and the scores obtained in theoretical questions of continuous assessment test (Group I) and Numerical questions (Group II). This has been done to know whether there is any correlation in their Verbal and Logical Intelligence as reflected by r. Further, the Institute of Certified Management Accountants (ICMA) continuously reviews the content of the Certified Management Accountant (CMA) and Certified Financial Manager (CFM) programs, and recently revised the content of the CMA exam. These changes in the exam reflect an increased emphasis on "Strategic and critical thinking skills, able to link data, knowledge, and insight to provide quality advice for strategic decision making."

### Relationship between MI profile test scores and Continuous Assessment test scores of Theoretical Questions

Theoretical questions normally form part of any standard question paper either it is a University examination or a Professional examination. Under the theoretical sections, questions were designed to test the ability of the student in terms of their writing skills, understanding skills and knowledge skills and mostly includes fundamental and conceptual. The results of the analysis are shown in Table 3 :

**Table 3**

**Relationship Between MI Profile Test Scores and Continuous Assessment Test Sroces of Theoretical Questions**

| Intelligence | Correlation (r) | Coefficient of Determination ($r^2$) | Significance |
|---|---|---|---|
| Naturalist | 0.201 | 0.040 | *Significant |
| Musical | 0.247 | 0.061 | *Significant |
| Logical | 0.250 | 0.063 | *Significant |
| Existential | 0.286 | 0.082 | **Significant |
| Interpersonal | 0.279 | 0.078 | **Significant |
| Kinesthetic | 0.118 | 0.014 | – |
| Verbal | 0.173 | 0.013 | Not Significant |
| Intrapersonal | 0.285 | 0.081 | **Significant |
| Visual | 0.202 | 0.041 | *Significant |

***Source : Computed **Correlation is Significant at the 0.01 level***

*Correlation is Significant at the 0.05 level

From the table 3 it is inferred that students with the Existential Intelligence have registered the highest Coefficient of determination—that is $r^2$ value of (0.082)—followed by Intrapersonal Intelligence, and Interpersonal Intelligence. Verbal intelligence only comes in the eighth place. The continuous assessment questions which are aimed to assess the student's ability on the conceptual side (theoretical) have thus failed to gain any significant advantage. Therefore, it is inferred that "word smart" students have not done anything significantly compared to their classmates with other intelligences.

### Relationship between MI profile test scores and Continuous Assessment test scores of Numerical Questions

Strategic Cost Management as a course demands the computation skills from the students. They need to work out numerically and arrive at a decision based on the numbers. Numerical skills reflect the logical reasoning and competence with abstract patterns and relationships and problem solving (Gardner, 1983) students possessing these characteristics will be in an advantageous position to attempt and solve the numerical questions asked in the question paper. As these questions were specifically designed to test the student's ability to compute, classify and categorization. Thus in an effort to study the relationship between the MI profile test scores and the Continuous assessment test scores obtained by the students who have attempted the numerical section a regression test has been used. The results are furnished in Table 4 :

**Table 4**

**Relationship Between MI Profile Test Scores and Continuous Assessment Test Sroces of Numerical Questions**

| Intelligence | Correlation (r) | Coefficient of Determination ($r^2$) | Significance |
|---|---|---|---|
| Naturalist | 0.013 | 0.000 | – |
| Musical | 0.072 | 0.005 | – |
| Logical | 0.119 | 0.014 | Not Significant |
| Existential | 0.128 | 0.016 | Not Significant |
| Interpersonal | 0.082 | 0.007 | – |
| Kinesthetic | 0.023 | 0.001 | – |
| Verbal | 0.134 | 0.018 | Not Significant |
| Intrapersonal | 0.197 | 0.039 | * Significant |
| Visual | 0.004 | 0.000 | – |

***Source : Computed **Correlation is Significant at the 0.05 level***

It is inferred from Table 4 that Intrapersonal

Intelligence has dominated the numerical questions in the continuous assessment test with a $r^2$ of 0.039. It reflects those students who have a good understanding of themselves. They tend to know what they can and can't do. These students gain significant advantage compared to the students with other Intelligences. Although Logical Intelligence has demonstrated relatively a strong correlation with the test scores in computation section, it is still not statistically significant.

Outcomes from these regression tests has thus proved that students with Intrapersonal Intelligence are naturally more effective in learning strategic cost management, since they are those students who know what they can do and what they can't do.

### Dominant Intelligence

Dominant Intelligence denotes intelligence with the highest score recorded by individual student in the MI profile test. Only 10 students out of 94 students who took part in this study are logical intelligence dominant which means such students have in born competence with abstract patterns, identifying and establishing relationships and have more interest in problem solving. Similarly, 32 students out of 94 are verbal intelligence dominant. Therefore, the results show that there are only 10.6 percentage of number smart students and 34 percentage of word smart students. Thus it is suggested that, cost management educators to identify the students who have disadvantages in learning strategic cost management, and to develop and deliver an alternative teaching techniques that suits to the audience type to disseminate the costing knowledge to students with diverse intelligences.

### Implication for Teaching Strategic Cost Management

Teaching and learning cost management courses will be more effective only when the teacher learns to identify the learner deficiency and their diversity in terms of their intelligence. It is observed that learning by students is genetically linked to the way quantitative courses were being taught. Traditional higher educational institutions tend to focus essentially on content pedagogy assessing, and rewarding the number smart and word smart intelligences (Barrington, 2004). The conventional chalk-and-talk method of teaching is certainly insufficient, particularly when the course demands higher ability and complicated concepts (Becker & Watts 2001). Students can process information more effectively when the relevant material is presented in a format that matches their learning preference (Denig 2004). Undermining students self esteem arising from failure to deliver academic achievements will eventually conceal their true potentials (Campbell et.all 1996).

Teachers in higher classes in Master's or Professional courses mostly follow the lecture method with the convenience it offers. In the first place, a large number of students can be handled simultaneously. The teacher is in full control of the lessons. It is a good method for introducing a new topic and ideal for a pep talk. But it cannot be as the effective method of teaching. The students have little involvement, they are often mere passive listeners. Those with poor listening skills do not benefit much, if they do not take notes they will forget most of what they have heard. If the entire class happens to be like that, then teaching will be a disaster.

As a solution to some of the problems indicated above, the educator of Strategic Cost Management should ensure that strategic approach is critical to accounting and business education, begin a lecture on how companies use strategy to identify and obtain a competitive advantage. The Michael Porter framework of cost leadership and differentiation is a useful guide, it is simple and intuitive and will work well in the class room, besides, Porter framework has stood the test of time, as a defining point of reference in many discussions of strategy (Kaplan and Norton). The teacher can spend 20-30 minutes of class time in giving illustrations from prominent companies like Dell, TISCO, Maruti, etc., that use different type of strategy. Then go from simple to complex and from concrete to abstract. Often, use a natural conversational style that would prove to be more effective than styles of spellbinding oratory.

The next best thing the teacher can do is to draw out from the students what they know, rather than telling everything in the lesson or topic. The case approach is the most recommended teaching pedagogy for costing subjects. Case approach demands from the students to apply deep intellectual thinking on the subject matter. Students are driven to carry out a tremendous amount of research and forced to integrate knowledge across multiple areas. Cases may be distributed to the students well ahead of the class—normally at least 24 hours prior to its discussions—students may be asked to come prepared for the classes for discussion.

### Designing Suitable Pedagogy for Meeting the Learners' Diverse Intelligence Needs

Selecting and using the following approaches will add variety to classroom teaching and, more importantly, will assist the teacher concerned to handle diverse spectrum of learners :

1. Relate SCM concepts and techniques to corporate situations and enable the students to visualize it.

2. Try to bring out the students' strengths and integrate it with the topic being discussed.

3. Ask short questions to create enthusiasm among students – this will help the learning spirit going through out the sessions.

4. Distribute additional reading materials to the students and ask them to come read for the next sessions, this will give the student a clue about what will be dealt in the class by you next time.

5. Adopt Group learning approach for students with high interpersonal intelligence – Gardner (1983). This is one of the common pedagogy the author administers to the students, allow the students to work in groups and ask them to make presentations with inferences.

6. Davies (2000), in his research says persons with Intra personal intelligence should be given computer based assignments using MS-Excel or any accounting software as they are self smart students who prefer to work alone. The author in his teachings always insist the students to submit the assignments only in computer printout forms, and expose the students to various analyzing tools through MS-Excel which they do it interestingly.

7. The Visual-Spatial intelligence or otherwise 'Picture Smart' students prefer to learn through images and pictorial diagrams (Barrington, 2004). For such students the teacher should adapt to the process of externalizing, through drawings and diagrams and draw the mental connections and association of patterns that students make based on the topic learned (Angelo & Cross, 1993). Outcome from the research by Maas & Leauby (2005) proves that the usage of concept mapping in classroom has been positive and fruitful as measured by improved examination scores. The author supplements his teachings on the topic Balance Score Card through animated Power Point Presentations as a visual treat and it has impacted well among the students.

8. The Importance of Social cost analysis, Cost-benefit ratio, any strategic cost issues connected with Corporate Social Responsibility will interest the students of 'nature smart' students hence, the educators should plan and design curriculum to include such topics to instill interest among such students.

9. Student with Bodily-Kinesthetic intelligence show more interest in role-play, quizzes, games and business simulation (Cage 1997, Craig & Amernic 1994). Assigning special characters role plays gives them an opportunity to express their talents in public presentations and also it exposes them behavioral issues of accounting profession (Chang Chee Fee, 2008). The author had conducted a mock business meetings on Pricing Strategies which not only helped the student to internalize the Cost Management concepts but also accelerated the learning velocity of the students.

10. Students with Verbal-Linguistic, by themselves are very sensitive to the order and meaning of words, articulation and naturally show keen interest in discussing, debating and writing. Thus, Case based learning serves as an effective tool in reinforcing and connecting the theories into various aspects of business and hence enables student's critical thinking process and eventually encourages life long learning (Knechel 1992, Evans & Nunnally 2002, Deleo & Letourneau 1994, Hansen 2006). The author has experienced this by administering the Classic Pen Company: Developing an ABC Model – a case developed by Professor Robert S. Kaplan and it has worked well in the SCM class.

11. For the Musical-rhythmic intelligence students the author suggests to play soothing melodies at the beginning of each class and enable them to integrate the thinking process effectively to listen to the topics with more rapturous attention.

12. The Existential Intelligence student exhibit the ability and proclivity to pose (and ponder) questions about life, death, and ultimate realities-this was the ninth intelligence added to the mainstream MI theory by Gardner (1999). This type of students will be more interested in knowing the connectivity of the topics to the ultimate end, topics like Life Cycle costing will be of more interesting to them as it discuss about the entire life of the product and the stages it passes through and ultimately its end.

## Conclusion

It is concluded from the study that students of Strategic Cost Management exhibit certain strengths that do not align with lecture method of instruction. Certainly, times have changed and teachers of costing should consciously attempt to engage students in a variety of manners. In a situation where new advancements in Costing Curriculum is planned and executed by professional bodies like CIMA, (UK) ICAI (Kolkatta) progressively, the costing educators should understand and appreciate the need for a new active learning environment, they have to take the frontline to identify the fundamental abilities of each student before embarking on a particular form of pedagogy. In such a situation cost management education will become easy and simple. ❐

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# Impact of SC Judgement in Vodafone Case on Indian Economy

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## Introduction

This matter concerns a tax dispute involving the Vodafone Group with the Indian Tax Authorities [the Revenue], in relation to the acquisition by Vodafone International Holdings BV [VIH], a company resident for tax purposes in the Netherlands, of the entire share capital of CGP Investments (Holdings) Ltd. [CGP], a company resident for tax purposes in the Cayman Islands [CI] vide transaction dated 11.02.2007, whose stated aim, according to the Revenue, was "acquisition of 67% controlling interest in HEL", being a company resident for tax purposes in India which is disputed by the appellant saying that VIH agreed to acquire companies which in turn controlled a 67% interest, but not controlling interest, in Hutchison Essar Limited (HEL). According to the appellant, CGP held indirectly through other companies 52% shareholding interest in HEL as well as Options to acquire a further 15% shareholding interest in HEL, subject to relaxation of FDI Norms. In short, the Revenue seeks to tax the capital gains arising from the sale of the share capital of CGP on the basis that CGP, whilst not a tax resident in India, holds the underlying Indian assets. (Para 2 of SC Judgment)

## Facts of The Case

Vodafone International Holdings B.V. (VIHB), a Dutch based Vodafone entity, acquired a controlling stake in Hutchison Essar Limited [(HEL), name changed to as Vodafone Essar Limited VEL)], an Indian company, from Cayman Islands based Hutchison Telecommunications International Limited (HTIL) by acquiring shares of CGP Investment (CGP), a Cayman Islands company [which belonged to (HTIL)] in February 2007. CGP held various Mauritian companies, which in turn held a majority stake in HEL. In September 2007, the Revenue Authorities issued a show-cause notice to VIHB for failure to withhold tax on the amount paid for acquiring the said stake, as the Revenue Authorities believed that HTIL was liable for capital gains it earned from the transfer of shares of CGP, as CGP indirectly held stake in HEL.

VIHB filed a writ petition in the Bombay High Court challenging the notice, contending that the Revenue Authorities had no jurisdiction over the transaction, as the transfer of shares had taken place outside India between two companies incorporated outside India and the subject of the transfer was shares, the situs of which was outside India. However, the Bombay High Court dismissed the writ petition of VIHB. In appeal, the Supreme Court remanded the matter to the Revenue Authorities. Accordingly, Revenue Authorities passed the order which was challenged by VIHB by a Writ Petition, which was dismissed by the Bombay High Court (329 ITR 126) (Bom). Aggrieved by the order of the High Court, VIHB preferred an appeal before the Supreme Court.

## Sequence of Important Events

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| 2007 | • February – Vodafone buys 67% in Hutchison Essar $11.5 billion. Companyrenamed Vodafone Essar.<br>• April – FIPB clearsdeal subject to condition that minority shareholders can sell only to resident Indians.<br>• September – Income tax (IT) department slaps Vodafone with a tax demand of ₹11,000 crores. Says asset for which deal was done in India.<br>• October – Vodafone goes to Bombay High Court. Saying "it was a share transfer carried outside India" |
| 2008 | • February – Government amends Section 201 of IT Act, makes with holding tax mandatory with retrospective effect Vodafone becomes a Pan-India Player by acquiring licences in the 7 Circles it was not present in.<br>• December – HC dismisses Vodafone's petition, says IT department has right to investigate the case, Vodafone appeals to Supreme Court. |
| 2009 | • January – SC dismisses Vodafone's appeal, leaves decision on jurisdiction of deal to the IT Department. Also refers case back to Bombay HC.<br>• October – IT Department issues a new show cause notice.<br>• Minority Share Holders Analjit Singh & Asim Ghosh want to sell stake back to Vodafone.<br>• December – FIPB approves stake sales by Singh and Ghosh. |
| 2010 | • January – Vodafone replies to IT notice saying IT department does not have jurisdiction.<br>• April – Vodafone reaches 100 Million customers in India.<br>• May – Price wars in India cause Vodafone Group Plc to write down value of Vodafone Essar by £2.3 billion (₹15,157 cr)<br>• Vodafone pays ₹11,618 cr for 3G spectrum in 9 circles.<br>• June – Vodafone files petition in Bombay High Court challenging IT Departments' order that claims jurisdiction.<br>• September – High Court Says Vodafone must pay capital gains tax on the deal, Vodafone appeals to Supreme Court.<br>• November – Supreme Court asks Vodafone to deposit ₹2,500 cr and provide bank guarantees of ₹8,600 cr pending final verdict. |

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| 2011 | • March – Vodafone receives tax notice from IT Department asking it to explain why it should not be liable for penalities of up to 100% of the tax found due.<br>• April – Supreme Court stays IT Department from enforcing any liabilities until outcome of final hearing.<br>• May – Vodafone makes first ever profit in India of 1.5 Million Euros in 2010-11.<br>• Supreme Court begins hearing the Case.<br>• Vodafone sells 5.5% of India business Piramlal Healthcare for $6.40 million (around ₹2,890 cr) to comply with FDI rules. |
| 2012 | • January – Vodafone appoints Investment Bank NM Rothschild to manage initial public offering (IPO)<br>• January 20 – Vodafone wins tax case in SC, SC held that Transfer of shares of a Foreign Company through a Special Purpose Vehicle, which holds underlying assets in India, by a non-resident to another non-resident would not be liable to tax in India. |

### Contention of The Revenue

1. There is a conflict between Union of India v. Azadi Bachao Andolan (263 ITR 706)(SC) and McDowell and Co. Ltd. v. CTO (154 ITR 148) (SC) and hence, Azadi Bachao Andolan needs to be overruled insofar as it departs from McDowell.

2. Income from the sale of CGP share would fall within Section 9 of the Income Tax Act, 1961 (the Act) as that section provides for a "look through".

3. HTIL, under the Share Purchase Agreement (SPA), had extinguished its rights of control and management over HEL and consequent upon such extinguishment, there was a transfer of capital asset situated in India.

4. Introduction of CGL was only with intention to avoid tax and it had no business and commercial purpose.

5. CGP was a mere holding company and since it could not conduct business in Cayman Islands, the situs of the CGP share existed where the "underlying assets are situated", that is in India.

6. The transfer of the CGP share was not adequate in itself to achieve the object of consummating the transaction between HTIL and VIH and that there was a transfer of other "rights and entitlements", and these rights and entitlements constituted in themselves "capital assets".

7. As the transfer of controlling interest is taxable in India, VIHB should have deducted tax at source under Section 195 of the Act. HEL can be proceeded against as "representative assessee" under Section 163 of the Act.

### Apex Court's Observations

1. There is no conflict between McDowell and Azadi Bachao Andolan. Views expressed by Chinnappa Reddy, J. in McDowell case are clearly only in the relation to tax evasion through the use of colorable devices and by resorting to dubious methods and subterfuges. Thus, it cannot be said that all tax planning is illegal/illegitimate/impermissible.

2. The Revenue may invoke the "substance over form" principle or "piercing the corporate veil" test only after it is able to establish on the basis of the facts and circumstances surrounding the transaction that the impugned transaction is a sham or tax avoidant.

3. It is the task of the Revenue/Court to ascertain the legal nature of the transaction and, while doing so it has to look at the entire transaction as a whole and not to adopt a dissecting approach.

4. The Revenue cannot start with the question as to whether the impugned transaction is a tax deferment/saving device; but that it should apply the "look at" test to ascertain its true legal nature.

5. Every strategic foreign direct investment (FDI) coming to India, as an investment destination, should be seen in a holistic manner. While doing so, the Revenue/Courts should keep in mind the following factors :

*i.* the concept of participation in investment;
*ii.* the duration of time during which the Holding Structure exists;
*iii.* the period of business operations in India;
*iv.* the generation of taxable revenues in India;
*v.* the timing of the exit;
*vi.* the continuity of business on such exit.

In short, the onus will be on the Revenue to identify the scheme and its dominant purpose.

6. A legal fiction has a limited scope. It cannot be expanded by giving purposive interpretation. Section 9(1) (i) of the Act cannot by a process of interpretation be extended to cover indirect transfers of capital assets/property situate in India.

7. The DTC Bill, 2010, proposes taxation of offshore share transactions. This proposal indicates in a way that indirect transfers are not covered by the existing Section 9(1)(i) of the Act. Such proposal, therefore, shows that in the existing Section 9(1)(i) the word indirect cannot be read on the basis of purposive construction.

8. The question of providing "look through" in the statute or in the treaty is a matter of policy. It is to be expressly provided for in the statute or in the treaty. Similarly, limitation of benefits (LOB) has to be expressly provided for in the treaty. Such clauses cannot be read into the Section by interpretation. Hence, we hold that Section 9(1)(i) is not a "look through" provision.

9. There is a conceptual difference between preordained transaction which is created for tax avoidance purposes and a transaction which evidences investment to participate in India. In order to find out whether a given transaction evidences a preordained transaction or investment to participate,

one has to take into account the factors enumerated hereinabove, namely, duration of time during which the holding structure existed, the period of business operations in India, generation of taxable revenue in India during the period of business operations in India, the timing of the exit, the continuity of business on such exit, etc.

10. Applying these tests to the facts of the present case, it was held that the Hutchison structure has been in place since 1994. It operated during the period 1994 to 2007. It has paid income tax ranging from INR 3 crores to INR 250 crores per annum during the period 2002-03 to 2006-07. Thus, it cannot be said that the structure was created or used as a sham or tax avoidant. It cannot be said that HTIL or VIH was a "*fly by night*" operator/short time investor.

11. On the facts and circumstances of this case, under the HTIL structure, as it existed in 1994, HTIL occupied only a persuasive position/influence over the downstream companies qua manner of voting, nomination of directors and management rights. Hence, there was no extinguishment of rights as alleged by the Revenue.

12. The sole purpose of CGP was not only to hold shares in subsidiary companies; but also to enable a smooth transition of business, which is the basis of SPA. Therefore, it cannot be said that CGP had no business or commercial purpose.

13. Under the Indian Companies Act, 1956, the situs of the shares would be where the company is incorporated and where its shares can be transferred. In this case, the transfer of the CGP share was recorded in the Cayman Islands, where the register of members of the CGP is maintained and this ground is not controverted by the Revenue. Hence, the court is not inclined to accept the arguments of the Revenue that the situs of the CGP share was situated in the place (India) where the underlying assets stood situated.

14. The High Court ought to have examined the entire transaction holistically. The transaction has to be looked at as an entire package. The High Court has failed to appreciate that the payment of US$ 11.08 billion was for purchase of the entire investment made by HTIL. The parties to the transaction have not agreed upon a separate price for the CGP share and for what the High Court calls as "*other rights and entitlements*" (including options, right to non-compete, control premium, customer base etc.). Thus, it was not open to the Revenue to split the payment and consider a part of such payments for each of the above items.

15. In this case the transaction is of "*outright sale*" between two non-residents of a capital asset (share) outside India. Further, the said transaction was entered into on principal to principal basis. Therefore, no liability to deduct tax under Section 195 arises.

16. Section 163(1)(c) is not attracted as there is no transfer of a capital asset situated in India.

17. Certainty is integral to Rule of Law. Certainty and Stability form the basic foundation of any fiscal system. Tax policy certainty is crucial for taxpayers (including foreign investors) to make rational economic choices in the most efficient manner.

**Observations and Finding of Hon'ble Justice K.S. Radhakrishnan**

Although all the three judges has given an unanimous decision, however, Hon'ble Justice K.S. Radhakrishnan has passed a separate order, of which certain principles, observations and finding are of prime importance. They are :

1. Case in hand is an eye-opener of what we lack in our regulatory laws and what measures we have to take to meet the various unprecedented situations, that too without sacrificing National Interest. Certainty in law in dealing with such cross-border investment issues is of prime importance, which has been felt by many countries around the world and some have taken adequate regulatory measures so that investors can arrange their affairs fruitfully and effectively.

2. Corporate structure is primarily created for business and commercial purposes and multinational companies who make offshore investments always aim at better returns to the shareholders and the progress of their companies. Corporation created for such purposes are legal entities distinct from its members and are capable of enjoying rights and of being subject to duties which are not the same as those enjoyed or borne by its members.

3. Sound commercial reasons like hedging business risk, hedging political risk, mobility of investment, ability to raise loans from diverse investments, often underlie creation of such structures. In transnational investments, the use of a tax neutral and investor-friendly countries to establish a Special Purpose Vehicle is motivated by the need to create a tax efficient structure to eliminate double taxation wherever possible and also plan their activities attracting no or lesser tax so as to give maximum benefit to the investors.

4. There is a fundamental difference in transnational investment made overseas and domestic investment. Domestic investments are made in the home country and meant to stay as it were, but when the transnational investment is made overseas away from the natural residence of the investing company, provisions are usually made for exit route to facilitate

an exit as and when necessary for good business and commercial reasons, which is generally foreign to judicial review.

5. Revenue/Courts can always examine whether the corporate structures are genuine and set up legally for a sound and veritable commercial purpose. Burden is entirely on the Revenue to show that the incorporation, consolidation, restructuring etc. has been effected to achieve a fraudulent, dishonest purpose, so as to defeat the law.

6. Corporate governors can also misuse their office, using fraudulent means for unlawful gain, they may also manipulate their records, enter into dubious transactions for tax evasion. Burden is always on the Revenue to expose and prove such transactions are fraudulent by applying look at principle.

7. Many of the offshore holdings and arrangements are undertaken for sound commercial and legitimate tax planning reasons, without any intent to conceal income or assets from the home country tax jurisdiction and India has always encouraged such arrangements, unless it is fraudulent or fictitious.

8. Often, complaints have been raised stating that the Offshore Financial Centres (OFCs) are utilized for manipulating market, to launder money, to evade tax, to finance terrorism, indulge in corruption etc. All the same, it is stated that OFCs have an important role in the international economy, offering advantages for multi-national companies and individuals for investments and also for legitimate financial planning and risk management. It is often said that insufficient legislation in the countries where they operate gives opportunities for money laundering, tax evasion etc. and, hence, it is imperative that that Indian Parliament would address all these issues with utmost urgency.

9. Necessity to take effective legislative measures has been felt in this country, but we always lag behind because our priorities are different. Lack of proper regulatory laws leads to uncertainty and passing inconsistent orders by Courts, Tribunals and other forums, putting Revenue and tax payers at bay.

10. The business of a subsidiary is not the business of the holding company.

11. Controlling interest forms an inalienable part of the share itself and the same cannot be traded separately unless otherwise provided by the Statute. Controlling interest is not an identifiable or distinct capital asset independent of holding of shares and the nature of the transaction has to be ascertained from the terms of the contract and the surrounding circumstances. Controlling interest is inherently a contractual right and not a property right and cannot be considered as transfer of property and, hence, a capital asset unless the Statute stipulates otherwise.

12. Lifting the corporate veil doctrine can be applied in tax matters even in the absence of any statutory authorisation to that effect. Principle is also being applied in cases of holding company—subsidiary relationship—where, in spite of being separate legal personalities, if the facts reveal that they indulge in dubious methods for tax evasion.

13. Ramsay approach ultimately concerned with the statutory interpretation of a tax avoidance scheme and the principles laid down in Duke of Westminster, it cannot be said, has been given a complete go by Ramsay, Dawson or other judgments of the House of Lords.

14. DTAA and Circular No. 789 dated 13.4.2000, in our view, would not preclude the Income Tax Department from denying the tax treaty benefits, if it is established, on facts, that the Mauritius company has been interposed as the owner of the shares in India, at the time of disposal of the shares to a third party, solely with a view to avoid tax without any commercial substance.

15. No court will recognise sham transaction or a colorable device or adoption of a dubious method to evade tax, but to say that the Indo-Mauritian Treaty will recognise FDI and FII only if it originates from Mauritius, not the investors from third countries, incorporating company in Mauritius, is pitching it too high, especially when statistics reveals that for the last decade the FDI in India was US$ 178 billion and, of this, 42% i.e. US$ 74.56 billion was through Mauritian route.

16. Large amounts can be routed back to India using Tax Residency certificate (TRC) as a defence, but once it is established that such an investment is black money or capital that is hidden, it is nothing but circular movement of capital known as Round Tripping; then TRC can be ignored, since the transaction is fraudulent and against national interest.

17. Facts stated above are food for thought to the legislature and adequate legislative measures have to be taken to plug the loopholes, all the same, a genuine corporate structure set up for purely commercial purpose and indulging in genuine investment be recognized.

18. Certainly, in our view, TRC certificate though can be accepted as a conclusive evidence for accepting status of residents as well as beneficial ownership for applying the tax treaty, it can be ignored if the treaty is abused for the fraudulent purpose of evasion of tax.

19.Revenue cannot tax a subject without a statute to support and in the course we also acknowledge that every tax payer is entitled to arrange his affairs so that his taxes shall be as low as possible and that he is not bound to choose that pattern which will replenish the treasury. Revenue's stand that the ratio laid down in McDowell is contrary to what has been laid down in Azadi Bachao Andolan, in our view, is unsustainable and, therefore, calls for no reconsideration by a larger branch.

20. According to the Revenue, the substance of the transaction was the transfer of various property rights of HTIL in HEL to Vodafone attracting capital gains tax in India and at moment CGP share was transferred off-shore, HTIL's right of control over HEL and its subsidiaries stood extinguished, thus leading to income indirectly earned, outside India through the medium of sale of the CGP share. All these issues have to be examined without forgetting the fact that we are dealing with a taxing statute and the Revenue has to bring home all its contentions within the four corners of taxing statute and not on assumptions and presumptions.

21. Transfer of CGP share automatically results in host of consequences including transfer of controlling interest and that controlling interest, as such, cannot be dissected from CGP share without legislative intervention.

22. Agreements referred in this case, including the provisions for assignments in the Share Purchase Agreement, indicate that all loan agreements and assignments of loans took place outside India at face value and, hence, there is no question of transfer of any capital assets out of those transactions in India, attracting capital gains tax.

23. At times an agreement provides that a particular amount to be paid towards non-compete undertaking, in sale consideration, which may be assessable as business income under Section 28(va) of the IT Act, which has nothing to do with the transfer of controlling interest. However, a non-compete agreement as an adjunct to a share transfer, which is not for any consideration, cannot give rise to a taxable income. In our view, a non-compete agreement entered into outside India would not give rise to a taxable event in India. An agreement for a non-compete clause was executed offshore and, by no principle of law, can be termed as "property" so as to come within the meaning of capital gains taxable in India in the absence of any legislation.

24.The bare license to use a brand free of charge, is not itself a "property" and, in any view, if the right to property is created for the first time and that too free of charge, it cannot give rise to a chargeable income.

25.We conclude that on transfer of CGP share, HTIL had transferred only 42% equity interest it had in HEL and approximately 10% (pro-rata) to Vodafone, the transfer was off-shore, money was paid off-shore, parties were non residents and hence there was no transfer of a capital asset situated in India. Loan agreements extended by virtue of transfer of CGP share were also off-shore and hence cannot be termed to be a transfer of asset situated in India. Rights and entitlements referred to also, in our view, cannot be termed as capital assets, attracting capital gains tax and even after transfer of CGP share, all those rights and entitlements remained as such, by virtue of various Framework Agreements (FWAs), SHAs, in which neither HTIL nor Vodafone was a party.

26. Section 9 of the Income-Tax Act,1961 on a plain reading would show, it refers to a property that yields an income and that property should have the situs in India and it is the income that arises through or from that property which is taxable. Section 9, therefore, covers only income arising from a transfer of a capital asset situated in India and it does not purport to cover income arising from the indirect transfer of capital asset in India.

27. Source in relation to an income has been construed to be where the transaction of sale takes place and not where the item of value, which was the subject of the transaction, was acquired or derived from. HTIL and Vodafone are off-shore companies and since the sale took place outside India, applying the source test, the source is also outside India, unless legislation ropes in such transactions.

28. Substantial territorial nexus between the income and the territory which seeks to tax that income, is of prime importance to levy tax. Expression used in Section 9(1)(i) is "*source of income in India*" which implies that income arises from that source and there is no question of income arising indirectly from a source in India. Expression used is "*source of income in India*" and not "*from a source in India*".

29. On transfer of shares of a foreign company to a non-resident off-shore, there is no transfer of shares of the Indian Company, though held by the foreign company, in such a case it cannot be contended that the transfer of shares of the foreign holding company, results in an extinguishment of the foreign company control of the Indian company, and it also does not constitute an extinguishment and transfer of an asset situate in India. Transfer of the foreign holding company's share off-shore, cannot result in an extinguishment of the holding company right of control of the Indian company nor can it be stated that the same constitutes extinguishment and transfer of an asset/management and control of property situated in India.

30. Section 9 has no *"look through provision"* and such a provision cannot be brought through construction or interpretation of a word 'through' in Section 9. In any view, *"look through provision"* will not shift the situs of an asset from one country to another. Shifting of situs can be done only by express legislation. Section 9, in our view, has no inbuilt *"look through mechanism"*.

31. The expression *"any person"*, in our view, looking at the context in which Section 195 has been placed, would mean any person who is a resident in India. This view is also supported, if we look at similar situations in other countries, when tax was sought to be imposed on non-residents.

32. In the instant case, undisputedly, CGP share was transferred offshore. Both the companies were incorporated not in India but offshore. Both the companies have no income or fiscal assets in India, leave aside the question of transferring, those fiscal assets in India. Tax presence has to be viewed in the context of transaction in question and not with reference to an entirely unrelated transaction. Section 195, in our view, would apply only if payments made from a resident to another non-resident and not between two non residents situated outside India. In the present case, the transaction was between two non-resident entities through a contract executed outside India. Consideration was also passed outside India. That transaction has no nexus with the underlying assets in India. In order to establish a nexus, the legal nature of the transaction has to be examined and not the indirect transfer of rights and entitlements in India. Consequently, Vodafone is not legally obliged to respond to Section 163 notice which relates to the treatment of a purchaser of an asset as a representative assessee.

33. It is difficult to agree with the conclusions arrived at by the High Court that the sale of CGP share by HTIL to Vodafone would amount to transfer of a capital asset within the meaning of Section 2(14) of the Act and the rights and entitlements flow from FWAs, SHAs, Term Sheet, loan assignments, brand license etc. form integral part of CGP share attracting capital gains tax. *Consequently, the demand of nearly INR 12,000 crores by way of Capital Gains tax, in my view, would amount to imposing capital punishment for capital investment since it lacks authority of law.*

### Supreme Court's Ruling

Transfer of shares of a Foreign Company through a Special Purpose Vehicle, which holds underlying assets in India, by a non-resident to another non-resident would not be liable to tax in India.

### What it means to each Stakeholder?

In accordance with this Judgment the transfer of shares of a Foreign Company through a Special Purpose Vehicle, which holds underlying assets in India, by a non-resident to another non-resident would not be liable to tax in India. The Apex Court also reaffirmed the validity of India-Mauritius Tax Treaty in case of *Azadi Bachao Andolan*.

Here is an analysis what does this judgment mean for each of the stakeholders in the Indian economy.

***(i) For Vodafone :*** This is the end of a long drawn legal battle for Vodafone and its battery of lawyers. The SC has asked the revenue to return the tax collected along with interest of 4% p.a. and vacating the bank guarantee. There must be a feeling of justice delayed but not denied in the Vodafone camp.

***(ii) For other Litigants :*** Encouraged by the success in the preliminary round of litigation, the revenue has raised tax claim in several other cases where shares of overseas companies have been sold. This judgment is now law of the land. The revenue may not be able to collect tax on transfer of offshore holding companies with similar fact pattern. These companies will be spared of agony and legal costs. However, the SC has left a window open for the revenue to *'look through'* the structures in case of sham.

***(iii) For FDI Investors* :** They can heave a sigh of relief. The SC has upheld the separate entity principle and recognised the need for holding structures. By enunciating the 'look at' principle this judgment asks that the revenue should look at the entire transaction to ascertain its true legal nature. Further, the onus has been placed on the revenue to identify a scheme and its dominant purpose. So, if an investor exits at the holding company level, it cannot be taxed in India on the basis that the underlying investment is in India. It is time to focus on building value in the business and not lose sleep over taxes.

***(iv) For Mauritius Investors*** *:* While the treaty was not the issue before the SC, The judgment sets to rest the controversy about *Azadi Bachao Andolan* case. In the absence of Limitation of Benefit provisions, treaty must be respected and the tax residency certificate cannot be ignored unless the treaty is abused for fraudulent purpose of tax evasion.

This means that till the time treaty is amended, the capital gains tax exemption will be available to the Mauritius sellers. A word of caution for those who interpose treaty jurisdiction, as an afterthought, just before the exit. In such a case, it might be viewed as a preordained transaction and the revenue may challenge the treaty claim. Need for substance and razor sharp documentation cannot be undermined.

***(v) For Private Equity Investors*** **:** Assurance of treaty benefits will bring in a lot more certainty. The options for exit will increase as now the buyers may be willing to buy offshore holding companies. The pressure from the buyers who were insisting on withholding tax or obtaining a nil withholding certificate will reduce. The big booster will be the reading down of Section 195 which provides for tax withholding on payments made to non-residents.

The judgment says that where the contract is executed outside India and the payment is made outside India by one non-resident to another, withholding tax burden cannot be imposed.

***(vi)For M&A Aspirants*** **:** This would mean one less hurdle to cross before closing a transaction. Tax has been a deal breaker in several M&A deals. Negotiations around tax indemnities and escrows will reduce. Rule of law and clarity and certainty in tax policy will make India a worthy destination for new investors.

***(vii) For Revenue*** **:** While the verdict might have come as a huge disappointment, the tax administrators and their counsels have become a lot more sharper and agile. They almost had everyone convinced that Indian law was wide enough to bring indirect transfers in the tax net. Now all the focus will be on the upcoming finance bill and how the source rules can be rewritten and taxing jurisdiction can be established.

***(viii) For Government*** **:** Certainty in law in dealing with cross border investment issues is critical in attracting foreign investment. In words of Justice Radhakrishnan, this case is an eye opener of where we lack in our regulatory laws and what measures need to be taken without sacrificing national interest.

We may see a renewed attempt to renegotiate the treaties and to bring in general anti avoidance rule or substance over form rule in the current statute.

***(ix) For Judiciary*** **:** This is a huge leap of faith. The judiciary's ability to interpret law without being swayed by the stakes involved will help India regain investor confidence.

***(x) For Professionals*** **:** The anxiety of foreign investors and aggressive stance of revenue had led many professionals to be circumspect of advising on tax planning. Most chose to err on the side of caution and the level of confidence in expressing an opinion was on a sliding scale. This judgment should be helpful in future once general anti avoidance rule is introduced.

## Conclusion

This decision is critical as it reiterates the first principles of interpretation of a taxing statute. It clearly brings out that where a transaction is ably supported by a legal framework outside India, and back by a commercial purpose, then such a transaction cannot be indirectly brought to tax in India, by purporting to use various legal doctrines to somehow fit the transaction in the Act, for e.g., by way of lifting of the corporate veil, look through provisions, purposive interpretation. As has been pointed out by Hon'ble Justice K. S. Radhakrishnan, the legislature will have to keep pace with the economic developments taking place outside India to enact the laws relevant to such developments.

This decision also emphasizes the importance of the business purpose test to be fulfilled by a taxpayer, to guard against the enquiry by the Revenue Authorities as to whether the transaction can be caught in the mischief of McDowell.

This decision also underlines the doctrine that the situs of shares, where the company is incorporated, where its shares can be transferred and where the register of members is maintained, and not the place where the underlying economic interests of such shares lies.

The most significant part of the judgment is its acceptance of investment structures in offshore tax-havens as genuine tax planning devices. Indeed, the verdict is a boost to tax planning through use of intelligent structures within the framework of the law so long as they are not outright sham structures conceived only to evade tax. The court held that a transaction between two foreign companies involving share acquisition is not taxable in India even if the underlying asset is located here. This knocked the base off the Income Tax Department's contention that the transaction was taxable as the asset — Hutch's telecom business — was located in India.

The judgment sends out an extremely positive signal to foreign companies and investors on the rule of law and the independence and fairness of the judiciary. The Supreme Court's observation that certainty and stability are the cornerstones of any fiscal system must have warmed the hearts of foreign investors who often complain of frequent changes in the tax laws.

Rather a silent spectator to the loss of revenues from such deals in future, the Government may possibly move to reinforce the relevant provisions in the new Direct Tax Code to specifically state that where the asset is situated in India, even deals between foreign companies involving share transfer in offshore entities will be liable to tax. ❐

# Right to Information Act 2005 : What we CMA's should know

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Throughout the world, the right to information is seen by many as the key to strengthening participatory democracy. Democracy requires that there should be an informed citizenry and transparency of information. This is also important for proper functioning of the democratic instrumentalities and to prevent and contain corruption & to hold the Government & its functionaries accountable and answerable to the citizens of the country. However where confidentiality of information is required in the public interest it is to be maintained.

It shall be the constant endeavour of every public authority to provide as much information suo moto to the public at regular intervals through various means of communication, including internet, so that the public have minimum resort to the use of this Act to obtain information. We the Cost & Management Accountants (particularly in service) occupy varied levels of Hierarchy in public sector & private Sector Organizations including Government Departments. Time to time, we have to furnish various time bound INFORMATION under the RTI Act 2005 to the Public Information Officers (PIO) so that there is no non-compliance under this very important piece of legislation.

This article intends to provide in a nutshell the important provisions of the RTI Act 2005 along with its uses & misuses which the CMA's should know. It may be noted that the right to receive information is a species of the right to freedom of speech and expression. The Right to freedom of speech and expression in Article 19 (1)(a) of the Constitution carries with it the right to propagate and circulate ones views and opinions subject to reasonable restrictions as mentioned under article 19(2) of the Constitution Of India. Basically the RTI Act 2005 provides an effective framework for effectuating the right to information recognized under Article 19 of the constitution.

Why an RTI Act ? During the NDA Government in 2002, the Government enacted Freedom Of Information Act . This law never came into force. The Presidential assent of RTI Act came on June 15, 2005. The RTI Act became operative from October 12, 2005. "The RTI Act 2005 will lead to Free flow of information from the Government to the people and will not only create an enlightened and informed public opinion but also render those in authority accountable"

### Objectives Of the RTI Act :

- To set out a practical regime of right to information for citizens
- To secure access to information under the control of public authorities
- To promote transparency and accountability in the working of every public authority
- To contain corruption
- To increase citizens' awareness and ability to exercise their other rights
- To equip them to participate meaningfully in the development process.

***Are We The First*** : No, India is not the first Country in the World to implement this type of Legislation. India is the $48^{th}$ Country to implement RTI. In USA there is Freedom of Information Reform Act, 1986. Sweden enjoys the right since 1810. For Australia there is Freedom of information Act, 1982. This type of legislation is also there in Canada, New Zealand, France, South Africa. Malaysia operates an on-line data base system known as Civil Services Link, through which a person can access information regarding functioning of public administration.

### Why RTI Act is so powerful?

- It extends to the whole of India (Except J & K)
- It covers all the "Public Authorities"ie

– Executive, judiciary, and legislature

– Central, state and local governments, all bodies owned, controlled or substantially financed by government.

– Non-government organization substantially financed, directly or indirectly by funds provided by Govt.

- It also covers Information relating to any private body which can be accessed by a public authority under any other law for the time being in force
- Independent and Non-judicial appellate mechanism
- Penalty for forfeiture of information

### Coverage

The RTI Act, 2005 Covers all **Public Authorities** which means :

- Any body constituted under the Constitution or a law made by Parliament or State Legislatures.
- Any body constituted by a notification or order issued by the Central and State Governments.
- Any body owned, controlled or substantially financed by the Central Government or the State Government.

**Exclusions :** Intelligence and security organizations established by the Central or State Governments, as notified from time to time. However, information relating to alleged corruption or human rights violations are not exempted from disclosure.

**Scope of the Right to Information**: Right to information includes the right to :

1. inspection of work, documents, records;
2. taking notes, extracts or certified copies thereof;
3. taking certified samples of material;
4. obtaining information in the form of diskettes, floppies, tapes, video cassettes or in any other electronic mode or through printouts where such information is stored in a computer or in any other device;

### Exemptions

Information which would prejudicially affect

1. sovereignty and integrity of India;
2. security/strategic/scientific/economic interests of the State;
3. relation with foreign State; and
4. Information which might incite an offence;
5. Information which is forbidden by a court;
6. information that causes a breach of privilege of the Legislature;
7. Information that would harm the competitive position of a third party;
8. Information which is held in fiduciary relationship, unless larger public interest warrants disclosure;
9. Information received in confidence from foreign Government;
10. Information that would endanger the life of any person;
11. Information that would impede the process of investigation;
12. Information that would involve an infringement of copyright;
13. Personal information which has no relationship to any public activity or interest;
14. Cabinet papers including records of deliberations of the Council of Ministers, Secretaries and officers.

Section 8 provides that personal information which would cause invasion of the privacy—unless larger public interest justifies it—shall not be disclosed.

Section 9 empowers the PIO to reject a request for information where an infringement of a copyright subsisting in a person would be involved.

It may be noted that as per Sec. 10 of the RTI Act, 2005, only that part of the record, which does not contain any information which is exempt from disclosure and which can reasonably be severed from any part that contains exempt information , may be provided. This is known as PARTIAL DISCLOSURE.

**Overridding Effect :** The provisions of the Act have an overriding effect over anything inconsistent contained in the Official Secrets Act, 1923, or any other law or instrument .

### Important Concepts & Definitions to Remember

Public Authority : [Sec. 2(h)] "Public Authority means any authority or body or institution or self-government established or constituted –

1. By or under the constitution.
2. By any other law made by the Parliament
3. By any other law made by the state legislature
4. By notification issued or order made by the appropriate Government.

**Record : [Sec 2(i)] "Record" includes**

1. Any document, manuscript and file
2. Any microfilm, microfiche, and facsimile copy of a document
3. Any reproduction of image or images embodied in such microfilm, and

4. Any other material produced by a computer or any other device.

**Information :** [Sec2(f)] Information means any material in any form including records, documents, memos, e-mails, opinions, advices, press releases, circulars, logbooks, contracts, reports, papers, samples, models, data materials held in any electronic form.

**Right to Information :** [Sec2(i)] Right to information means the right to information accessible under this Act which is held by or under the control of any public authority and includes the right to :

1. Taking notes, extracts, or certified copies of documents or records.
2. Inspection of work, documents, records
3. Taking certified samples of material
4. Obtaining information in the diskettes, floppies, tapes, video cassettes or in any other electronic mode or through printouts where such information is stored in a computer or in any other device.

**Obligations of Public Authorities : Pro-active disclosure (Sec 4)**

- Particulars of the organization, its functions and duties;
- Procedure followed in its decision making process;
- Norms set out for the discharge of its functions;
- Rules, regulations, instructions, manuals and records used by its employees for the discharge of its functions;
- Arrangement for consultation with or representation by the public, in policy formulation/implementation;
- Advice given by the boards, councils, committees etc.
- Directory of its officers and employees;
- Budget allocated;
- Details of the implementation of subsidy programmes;
- Particulars of recipients of concessions, permits etc.;
- Such information as may be prescribed.

**Designation of PIOs etc.**

- Designate Public Information Officer to provide information to applicants who have made an application under the Act.
- Also to designate APIOs at sub-divisional/ district level to receive the applications for information or appeals for forwarding the same to the Central or state Public Information Officers
- No bar on the number of such PIOs/APIOs
- Designate appellate authority for the first appeal within the public authority.

Publication of all relevant facts relating to important policies and decisions.

Provide reasons for administrative or quasi-judicial decisions to affected persons.

**Removal of Difficulties**

Central Government is empowered to issue orders to remove difficulties in the implementation of the Act.(Sec. 30)

Procedure for seeking information [Sec. 6]

- Application can be made in writing including through electronic mediums in English or Hindi or local official language of the area.
- Where request is not in writing, PIO to provide assistance to reduce it to writing.
- Reasons for seeking information need not be given.

**FEES : Section 7**

- Prescribed Fees to be paid along with the application. No fee for persons below the poverty line. Application fees, to be prescribed in the rules, shall be reasonable.
- Further fees, towards cost of providing information, to be intimated by the PIO.
- Applicant can seek a review of the fees through an appeal to the prescribed Appellate Authority.
- Applicant to be provided information free of cost in case of failure to comply with the response time-limit.
- For supply of information Application fee : Rs. 10.
  Cost of stationery : Rs. 2/each page of the information in A4/A3 size of paper and actual cost in case of larger size of paper.

Cost per floppy/CD : Rs. 50.

- For inspection of records
  No fee for first hour.
  Rs.5 for each subsequent hour and fraction thereof.
- Response Time : 30 days from the date of application.
- 48 hours if involves the life or liberty of a person.

- 40 days if involves the interests of a third party.

**Procedure for Obtaining Information**

PIO shall deal with requests from persons seeking information. If the information requested for is held by any public authority, the PIO shall transfer, within 5 days the request to that other public authority and inform the applicant immediately. PIO, on receipt of a request shall expeditiously as possible, and in any case within 30 days of the receipt of the request, provide the information on payment of such fees as may be prescribed. Where the information requested for concerns the life or liberty of a person, the same shall be provided within forty eight hours of the receipt of the request. No response on application within the time limit is deemed refusal.

Where a request has been rejected, the PIO shall communicate the following to the requester of information :

1. The reasons of such rejection;
2. The period within which an appeal against such rejection may be preferred; and
3. The particulars of the Appellate Authority.

**Information Commissions**

**Central Information Commission (CIC)**

**The Central Information Commission is** constituted by the central Government through a Gazette Notification. The Central Information Commission shall consist of the Chief Central Information Commissioner and Central Information Commissioners not exceeding 10 in number.

The Chief Information Commissioner and Information Commissioners shall be persons of eminence in public life with wide knowledge and experience in Law, Science & Technology, social Service, management, mass media or administration and governance. CIC shall not be a Member Of Parliament, or Legislature of any State or Union Territory. He shall not hold any other Office of Profit or connected with any political party or carrying on any business or pursuing any profession.

CIC shall be appointed for a term of 5 years or till he attains the age of 65 years, whichever is earlier. CIC shall not be eligible for reappointment.

**State Information Commissions (SIC)**

The State Information Commission will be constituted by the state Governments through a Gazette notification. The state Information Commission consists of one State Chief Information Commissioner (SCIC) and not more than 10 State Information Commissioners (SIC). The qualifications for appointment as SCIC/SIC shall be the same as that for central Commissioners.

**Powers of Information Commissions**

The CIC/SIC has a duty to receive complaints from any persons :

1. Who has not been able to submit an information because a PLO has not been appointed.
2. Who has been refused information that was requested.
3. Who has received no response to his/her information request within the specified time limits.
4. Who thinks the fees charged are unreasonable.
5. Who thinks information given is incomplete or false or misleading
6. Any other matter relating to obtaining information under this law.

If the commission feels satisfied, an enquiry may be initiated and, while initiating an enquiry, the Commission has same powers as vested in a Civil Court.

The Central/State Information Commission during the inquiry of any complaint under this Act may examine any record which is under the control of the public Authority and no such record may be withheld from it on any grounds.

**Appeals[ Section 19] :**

**Internal**

- First appeal to the officer immediately senior to Public Information Officer within 30 days of decision.

Appeal to be disposed of within a period of 30 days extendable up to a total of 45 days.

**External**

- Second appeal to CIC/SIC within 90 days of decision of Appellate Authority.

In both the appeals onus to justify denial of request shall be on the PIO. Decision of the CIC/SIC is final and binding.

**Penalty Provisions[Sec. 20] :**

PIO liable to a fine of Rs. 250 per day up to a maximum of Rs. 25,000/- for

- not accepting an application;
- delaying information release without reasonable cause;
- malafidely denying information;

- knowingly giving incomplete, incorrect or misleading information;
- destroying information that has been requested; and
- obstructing furnishing of information in any manner.

CIC/SIC empowered to impose penalty on PIO. They can also recommend disciplinary action against the PIO.

PIO will be given a reasonable opportunity of being heard before any penalty is imposed on him.

**Some Important Points to Note on Operational Parts of RTI Act, 2005**

1. All private bodies which are owned, controlled or substantially financed by the Government are under the ambit of this Act. Others may be indirectly covered. Though the Act does not define the words "Substantially Financed". Hence the concept and clarifications regarding what is substantially financed will evolve with passage of time & judicial interpretations & court orders/rulings.

2. The entire bare Act can be downloaded from www.persmin.nic.in

3. Though there is no prescribed form for application some state governments/departments/ PSUs have their own format of RTI application. But an application in plain paper is sufficient.

4. For mode of deposit of Application fees also the instruments vary from state to state. The common modes of depositing application fees are through Demand Draft, Postal Orders, Money Orders, Court fees stamp, bankers cheque, deposit through SBI Challan under appropriate Head Of account prescribed by the respective State Government.

5. Every Government Office has a designated Public Information Officer. (PIO). There are also many Asst PIO's. Their (ie APIO) task is to only receive the RTI Applications & forward it to the actual & right PIO.

6. We should remember that just because an application is received under PIO we should not divulge all or any INFORMATION because there are subjects listed under Section 8 of the act which are exempt. Hence this issue is to be handled very vigilantly & carefully.

**Misuses of The RTI Act, 2005 : Some points & issues to ponder**

There are various instances where we have seen that the RTI Act is being misused & it is on the rise. This is a cause of deep concern. Moreover the apathy in various organizations & PSUs in providing dedicated set up/staff for this purpose is a cause of deep concern. In a recent judgment the highest court of the country has said that "while the RTI is a formidable tool to fight corruption in Governance, it should not be allowed to be misused or abused to obstruct national development, or destroy the piece, tranquility and harmony among its citizens. It should also not be converted into a tool of oppression or intimidation of honest officials striving to do their duty.Indiscriminate and impractical demands on directions under the RTI Act for disclosure of all & sundry information which is totally unrelated to transparency and accountability in the functioning of the public authorities and eradication of corruption would be counter productive as it will adversely effect the efficiency of the administration and will result in the executive being bogged down in the non-productive work of collecting & furnishing information." The judgment of the supreme court has said "The nation does not want a scenario where 75% of the staff of Public authorities spends 75% of their time in collecting & furnishing information to applicants under RTI Act, 2005, instead of discharging their normal duties. The threat of penalties under the RTI Act & the pressure of the Authorities under the RTI Act should not lead to employees & executives of public authorities prioritizing information furnishing at the cost of their normal and regular activities."

It is my view that, as time will evolve there must be a provision in the Act itself to punish applicants without genuine intention. Sometimes it is seen that persons make applications not with intention to really know the facts but only out of curiosity and fun to see how the PIO reacts.

As a result of implementation of the RTI Act a number of applications for information and appeals are being received by public authorities. It is experienced that it has increased the work of the Officers who have been designated either as PIO's or others (like we CMA's in service sector) whose help is sought by the PIO in dealing with the RTI applications. This work is being managed within the existing set up & human resources in most of the cases. Hence all public authorities are now encouraged to put as much INFORMATION as possible in the public domain so that the number of RTI applications gets reduced in the long term.

No doubt the RTI Act, 2005, is a great boon/gift for democracy. At the same time, the Act should not be misused or abused. There are people for whom the misuse of this Act has become a hobby or a past-time. They keep shooting letters under RTI. For some others it is sadism that drives them. The third category are those who misuse the Act to harass someone whom they do not liken or have grudge or enmity.

### Conclusion

We must remember that the people at large have a right to know in order to be able to take part in a participatory development in the industrial life and democracy. Right to know is a basic right which citizens of a free country aspire in the broader horizon of the right to live in this age in our land under Article 21 of our Constitution. That right has reached new dimensions and urgency. That right puts greater responsibility upon those who take upon themselves the responsibility to inform. It is thus, a fundamental right, which cannot be denied, unless of course it falls within the exemption clause or otherwise is protected by some statutory provisions. The functioning of the State and its instrumentalities and functionaries under the cover of darkness leave the citizens ignorant about the reasons and rationale of any decision taken by the authorities or any policy made and the implications thereof, whereas the citizens have a guaranteed 'Right to Know'.

The legal and consequential corollary of the aforesaid right will be that a person getting the required information may move for redressal of the wrong done or any action taken, order passed or policy made by approaching the appropriate forum, as may be permissible under law.

The purpose and object of the act is not only to provide information but to keep a check on corruption, and, for that matter, confers a right upon the citizens to have the necessary information, so that appropriate action may be initiated or taken against the erring officers and also against the arbitrary and illegal orders.

The Supreme Court even before the advent of the Right to Information Act, 2005, had stressed upon the importance of transparency in administration and governance of the country and, for that matter time and again has entertained writ petitions requiring the State to disclose the information asked for. In a government of responsibility like ours, where all the agents of the public must be responsible for their conduct, there can be but few secrets.

His Lordship Justice Mathew, in a separate concurring judgment, in Para-74, observed as under "The people of this country have a right to know every public act, everything that is done in a public way, by their public functionaries. They are entitled to know the particulars of every public transaction in all its bearing. The right to know, which is derived from the concept of freedom of speech, though not absolute, is a factor which should make one wary, when secrecy is claimed for transactions which can, at any rate, have no repercussion on public security. To cover with veil of secrecy, the common routine business, is not in the interest of the public. Such secrecy can seldom be legitimately desired. It is generally desired for the purpose of parties and politics or personal self-interest or bureaucratic routine. The responsibility of officials to explain and to justify their acts is the chief safeguard against oppression and corruption."

As a result of constant demand of disclosure of information and to make the people know about the functioning of the Government, its authorities and functionaries and the manner in which, decisions are taken or even policy made, including their implementation and to uproot corruption, red tapism and delay in functioning of the State functionaries, apart from decisions taken in individual cases the central legislation in the shape of Right to Information Act, 2005 has been enacted, which prescribes the substantive as well as procedural provisions for securing the information by any person, who seeks that information, without requiring him to disclose the reason as to why this information is being asked for.

The RTI Act is a long awaited Law. It should be used for the purpose for which it has been enacted. Only after passage of time, the Government and the public may demand further refinements & tuning in the Act to make it more strong and for the purpose for which it has been enacted.

*The real Swaraj will come not by the acquisition of authority by a few but by the acquisition of capacity by all to resist authority when abused.*

***— Mahatma Gandhi*** ❐

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# Capital Markets—Overview

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It looks like the global uncertainty and even the disturbing political environment for some time now cannot deter India from its growth trajectory as the grown up Financial system in the Country in all probability has resilience against all odds.

Capital market is an engine of growth and is a catalyst for Capital formation in a Country. The GDP growth of a Country is directly linked to a robust Capital Market. The Country needs 1 trillion US$ in the next five years for various infrastructure projects. It means that the Market will grow further with strong strides though it has already grown in a big way since the liberalisation policies were announced in 1991.

Broadly there is a Financial market with two segments – (i) Capital market (ii) Money market. **While Capital Market** deals with long term market instruments, **Money market deals with** short term instruments (maturity period of less than 12 months). Though an instrument that has maturity period of more than 12 months is dealt with in a Capital market, Instruments with maturity period over 4-5 years will be ideal for a Capital Market.

## Investment Climate

Capital formation means the process of mobilisation of **Long term resources** by way of equity or Debt capital resulting in addition to physical assets of the Country. The process results in creating physical infrastructure which in turn generates regular income and employment for a Country.

In the life system the food we eat gets converted into blood and blood after certain cycles gets converted into bones. The bones form the skeleton infrastructure for human body. In a similar manner Capital, regarded as life blood of business, is converted into physical infrastructure for the economy by use of technology.

The investment climate and Capital formation in any country depends on :

1. Growth & quantum of **Domestic savings**.
2. Type & quantum of **Foreign Investment inflows**
3. Size of **Debt Market**.

## Domestic Savings

Domestic savings account for 440 Billion US$ (33% of GDP) and consists of

(i) Public sector savings – 7%
(ii) Private sector savings – 23%
(iii) House hold savings – 70%

**Household Savings** account for 300 billion US$ which is 2/3 of total Domestic Savings. Household savings can be classified into

(i) Physical Savings(investment in Land, Buildings, jewellery etc.)

(ii) Financial Savings.

Financial savings account for 150 billion $ which is 50% of total House hold savings. Financial savings are parked under various categories as :

| Financial Assets | Rs. in Crores | Rs. in Billion $ | % to total |
|---|---|---|---|
| Currencies | 92,640 | 19 | 12% |
| Deposits | 362,840 | 73 | 47% |
| Shares & debentures | 38,600 | 8 | 5% |
| LIC Policies | 154,400 | 31 | 20% |
| PF & Pension Funds | 77,200 | 15 | 10% |
| Others | 46,320 | 9 | 6% |
| Total | 772,000 | 154 | 100% |

## Break up of Domestic Savings

| Sl. No. | Item | 2007-08 Amount in Billion US$ | 2008-09 Amount in Billion US$ | Amount in Billion US$ | 2009-10 Amount in Rupees | Per of GDP |
|---|---|---|---|---|---|---|
| 1 | Household Saving | 224 | 266 | 307 | 1,536,000 | 24% |
| 2 | Private corporate sector | 94 | 88 | 106 | 532,000 | 8% |
| 3 | Public sector | 50 | 6 | 28 | 140,000 | 2% |
| | Gross Domestic Saving | 368 | 360 | 442 | 220,8000 | 34% |
| | Gross Capital Formation *of which :* | 379 | 395 | 469 | 2,345,000 | 36% |
| 1 | a) Public sector | 88 | 106 | 120 | 602,000 | 9% |
| 2 | b) Private corporate sector | 173 | 128 | 173 | 865,000 | 14% |
| 3 | c) Household sector | 108 | 146 | 153 | 765,000 | 12% |
| 4 | d) Valuables # | 11 | 14 | 23 | 113,000 | 1% |
| | Household Saving | | | | | |
| a) | Financial Assets | 116 | 120 | 154 | 772,000 | 12% |
| b) | Physical Assets | 108 | 146 | 153 | 765,000 | 11% |

## Foreign Investment Inflows

These inflows consist of (i) Foreign Direct investments (ii) Portfolio Investments :

***(i) Foreign Direct investment*** : It is a much talked about subject in India and gathered momentum in the last 10 years as India being a most favoured nation for FDI destination.

There are two ways in which FDI are facilitated in India — a) when Foreign investment is proposed to be made in a priority sector Industry identified by the Government and not more than 51% of equity is sought, the foreign investor can straight away bring in the money through RBI and invest in the Joint venture with an Indian Partner. Indian Partner will bring in the remaining percentage equity. With subsequent changes in the FDI policy, foreign investments are freely allowed n many sectors up to 100% equity participation by foreign investor.

b) Where the investment is proposed to be made in a sector which requires an industrial licensing or in a sector which is not open to Foreign investment or open subject to restrictions, the investment will be approved by the FIPB (Foreign investment promotion Board) on a case to case basis.

*(ii) Portfolio Investments :* Foreign institutional investor is allowed to invest in Indian stocks and this type of investor is not interested in management and control of the Company. As the FIIs sees an opportunity of earning dividend and capital appreciation, they bring in the money and will remain invested.Sooner the FII feels that market is no longer favourable, he will exit from the market. There are no restrictions on this money and they can come in any time and quit the market any time. For this reason this money is called the Hot money and the money can fly overnight and get invested in another global market. But the advantage of Portfolio investment is that they provide the much needed liquidity and boost market sentiments and for this reason Foreign portfolio investments are welcome.

## Debt Market or Bond Market

In advanced Countries, Debt market is significantly deeper than equity market. Debt Market is different from the Equity market as the rate of return on Instruments is fixed and Interest & return of Capital is risk free.

Indian debt market is the third largest in Asia.

***Debt market instruments***

(1) Money market instruments—Commercial Papers, Bills of Exchange, Promissory Notes.

(2) Long term debt instruments —

(i) Government Securities market—Securities of Central and State Governments.

(ii) Bond market—PSU bonds, Corporate Debentures.

Debt market consists of Domestic as well as External Debts. Total Long term Debt Market is estimated at 750 Billion US$ (50% of GDP)

Domestic debt market is put at 500 billion US$. External debt (Long term) is estimated at 250 billion US$. Long term External debt consists of ECBs (40%), NRI deposits (20%), Bilateral/Multilateral credits (30%), Loan from IMF etc.

Government share of External debt is 25%

Government is a major player in a Debt market and in infrastructure development. They also spend heavily on socio- economic development schemes. The size of Union budget is 250 billion US$ and government borrows around 30-40 % of the total budget amount every year to meet their plan expenditure and also to service the Loans already borrowed.

## Capital Markets

The evolution of JOINT stock Companies lead to channelizing small savings of invisible investors into Capital Markets. Both Businesses enterprise and the

**Foreign Investment Inflows**

(US$ billion)

| Item | 2003-04<br>1 | 2004-05<br>2 | 2005-06<br>3 | 2006-07<br>4 | 2007-08<br>5 | 2008-09<br>6 | 2009-10<br>7 | 2010-11<br>8 |
|---|---|---|---|---|---|---|---|---|
| A. Direct Investment (I+II+III) | 4.32 | 6.05 | 8.96 | 22.83 | 34.84 | 37.84 | 37.76 | 30.38 |
| I. Equity | 2.23 | 3.78 | 5.98 | 16.48 | 26.86 | 28.03 | 27.15 | 20.30 |
| II. Reinvested earnings | 1.46 | 1.90 | 2.76 | 5.83 | 7.68 | 9.03 | 8.67 | 9.42 |
| III. Other capital | 0.63 | 0.37 | 0.23 | 0.52 | 0.29 | 0.78 | 1.95 | 0.65 |
| B. Portfolio Investment (a+b+c) | 11.38 | 9.32 | 12.49 | 7.00 | 27.27 | –13.86 | 32.38 | 31.47 |
| a. GDRs/ADRs | 0.46 | 0.61 | 2.55 | 3.78 | 6.65 | 1.16 | 3.33 | 2.05 |
| b. FIIs | 10.92 | 8.69 | 9.93 | 3.23 | 20.33 | –15.02 | 29.05 | 29.42 |
| c. Offshore funds and others | – | 0.02 | 0.01 | 0.00 | 0.30 | – | – | – |
| Total (A+B) | **15.70** | **15.37** | **21.45** | **29.83** | **62.11** | **23.98** | **70.14** | **61.85** |

Governments need money for their activities. The need for money may be short term or Long term. While the Short term need s are met from the Money markets, the long term needs like equity capital for Companies and Debt bonds for Governments are met by the CAPITAL MARKETS.

Financial Savings (part of domestic savings), Foreign inflows and external debt market are the sources a Capital market can tap for their resources for capital formation.

Thus Capital market is a market for long term financial Securities and consists of both Debt and equity instruments.

Capital Markets are of two types

(i) Primary market

(ii) Secondary Market

The function of Primary market is to attract investments into a Capital market through diverse Market instruments while that of a Secondary market is to retain the inflows in the system as long as it is required

**Primary Market**

Primary Market deals with Securities (Debt instruments & equity shares) issued for the first time and directly subscribed by Investing Public. Thus Securities are directly purchased from the Company or the Government. Money raised from these new issues may be used

(i) For setting up new projects by Companies.

(ii) For meeting Plan expenditure by governments.

It is a new issues market (NIM) and takes the form of IPOs, Right & Preferential issues & issue of Government Bonds. The process is also called the Capital formation.

The People who facilitate capital formation are called "UNDER WRITERS OR INVESTMENT BANKERS". Underwriters provide variety of services and procure subscription for Companies and Governments for a Commission.

The issue price of securities may be Fixed Price or a Premium price.

The issue price of equity shares is determined by a "BOOK BUILDING PROCESS". Simply, It is defined as the average of bid prices received from interested parties. It helps the Company to take advantage of the viability of funded projects and reputation of the Management.

The following are the market Participants in the primary Market :

| Items | 2009-10 | | 2010-11 | |
|---|---|---|---|---|
| | Amount (RsCrore) | Amount (Billion US$) | Amount (Rs. Crore) | (Billion US$) |
| PRIMARY MARKET | | | | |
| A. Public and Rights Issues | 32,607 | 6.52 | 37,620 | 7.52 |
| 1. Private Sector (NG PLCs) | 25,479 | 5.10 | 24,830 | 4.97 |
| 2. Public Sector (PSUs+Banks) | 7,128 | 1.43 | 12,790 | 2.56 |
| B. Euro Issues (ADRs and GDRs) | 15,967 | 3.19 | 9,441 | 1.89 |
| C. Private Placement-equity & debt (Pvt.&Public) | 34,3279 | 68.66 | 2,38,394 | 47.68 |
| D. Mutual fund Mobilsation (net) | 83,080 | 16.62 | -49,406 | -9.88 |
| **Total** | **4,58,966** | **91.79** | **2,26,608** | **45.32** |

As per SEBI guidelines, a Public issue requires a rating from a Credit rating Agency. For e.g, if Fixed deposits are issued by a Company, minimum rating required is adequate safety ('A') and for Debentures D2 rating is required. Even equity issues have to be graded and published.

Private placements which include preferential issues(though subject to SEBI guidelines), investments by Private equity, long term borrowings from Banks etc. do not require any formal rating from CRAs. Private placements are between two known parties and are structured to meet each other's requirements. Whenever the Market conditions are not favourable, resource requirements of Capital market are met from Private placements.

Mutual funds are quite popular now in India. An investor who neither has the time nor the knowledge nor amount of money required to operate in a stock market, pool their resources into Mutual funds. The fund invests the money into the equities or debt funds and is managed by professional experts. An NAV (indicator of market value of investments) is calculated at the end of each day at which redemptions and re-purchase of units take place. The fund may be of various types viz. Based on (i) Risk perception : Equity oriented, debt oriented or Balanced funds. (ii) Objective : Growth oriented, income oriented, taxation funds (iii) Others : sector funds or area funds.

Indian Mutual funds have a mix of Private, foreign, Joint ventures and Bank sponsored operators and offer 300-400 schemes and the AUM (corpus) is estimated at US$ 50 billion whileUSA has more than 7,000 funds and AUM is US$ 6 trillion. Gap show the way forward for India.

**Capital Market Instruments**

The resources generated by the Capital Market come through diverse Market Instruments and through chain of intermediaries.

Equity, preference shares, Debentures are evergreen Capital market instruments but there are several other instruments that are tailored to the requirements of the Market. Some of the Market Instruments are :

***Non Voting Shares*** **:** Quasi equity instruments with no voting rights. Nonvoting shares cannot exceed 25% of total ordinary shares with normal voting rights. Terms of issue of NVS may provide for payment of higher rate of Dividend. Holders shall have the Voting rights if Company fails to pay Dividends for certain Period. Ideal for small investor s and financial institutions.

***ADRs&GDRs*** **:** These are Indian stocks floated in a foreign Market. Rupee denominated shares and the dividend is payable in rupee listed in a foreign stock exchange. Holders are not interested in Management and control of the Indian company. It is an Investment for earning dividend and capital appreciation.

***Deep Discount Bonds or Zero Coupon Bonds*** **:** These are Bonds with a longer Maturity Period (say 25-30 years), issued at hefty discount and no interest will be paid during currency of Bond. The gain for the Investor shall be Face value of Bond less Cost of acquisition. eg., IDBI DDBs.

***Security Premium Notes*** **:** These are Debentures with a lock-in-period (say for 3 years) and no interest is payable during LIP and thereafter redeemed by paying Principal and a premium in instalments (say over 4 years), e.g, TISCO SPNs.

***Foreign Bonds*** **:** Bond issued in the currency of the country where sold by a foreign borrower and governed by regulations of the country where issued. These Bonds come with a lower rate of Interest and payable in foreign currency. e.g. Yankee Bonds, Bull-dog Bonds, Samurai Bonds etc.

***Foreign Currency Convertible Bonds(FCCBs)*** **:** Equity linked debt bonds with right to convert into equity at predetermined prices. Carry fixed rate of Interest payable in Foreign currency.

***Sweat Equity Shares*** **:** These are employee stock options wherein holder receives shares from the company in return for their expertise/know how. The consideration received for allotment of these shares is not cash but a measure of recognition of loyal services from employees

***Private Equity*** **:** High net worth Investors pool their resources into a private equity and often invest in "distressed securities". The Objective is to earn above ordinary returns by way of Capital gains and Dividend from their investment by providing management expertise and injecting adequate capital. They exit from the Investment as when the Project has attained maturity.

As mentioned, there are **several Intermediaries** in channelising small savings of **Invisible investors** into the Capital Market. One of the Important Intermediary is an **Underwriter**. An Underwriter is a professional expert and provides variety of services. He can evaluate an issue in terms of their risk & return and his services can be considered as a Credit enhancement tool as he offers to commit funds only for those projects that have a financial viability. Underwriting is a risk management tool in that it guarantees "Minimum Subscription" as required under the Companies Act. In addition underwriter agrees to manage public Issues either as Lead Manager or Consultant to the Issue. He can Offer advice on capital restructuring, fixing issue prices and determining premium for issue etc. **Hence an Underwriter is not to be considered as an ordinary middle man**

### Secondary Market

Capital Market Securities like equity are life time investments or Debts with long term maturity. Original investors who wish to exit from the Securities purchased from the Primary market can offload these securities in the Secondary market. **This gave birth to Stock exchanges**.

Secondary Market is an innovative supplement for the Primary Market securities. The migration of securities from Primary to Secondary market is DONE through a process called"LISTING".

– Stock Exchanges – Provides liquidity of Capital and a continuous market for outstanding securities.

– Mechanism for constant evaluation of value of shares and setting their prices close to their investment worth.

### Stock Exchanges in India

The Country has 23 stock exchanges in addition to NSE and OTCEI. Five primary stock exchanges are National SE, Bombay SE, Madras SE, Kolkatta SE and Delhi SE. NSE &BSE account for bulk of Market turnover (over 95%) :

– Mumbai stock exchange is the oldest Exchange in India. It was established in 1875. It has price index called "SENSEX" and is based on 30 Shares. NSE was established in 1992. It is a nationwide market through V-SAT based Screen based trading and its Price Index CNX Nifty is based on 50 Scrips. NSE has both debt market as well as Equity Market segment.

Price Index of Stock exchanges both Sensex & Nifty is a measure of return on equity shares and their volatility in prices.

## Trading in Stock Market

Thanks to the e-revolution, trading in stock market is now simple and effective through Internet trading. All you need to do is to open a DEMAT account. The agencies involved in stock market trading are :

(i) Stock Exchange (BSE/NSE)

(ii) Depository (NSDL/CSDL)

(iii) Depository Participant (DP)

The Investor opens a Trading with the DP and through him a DEMAT account with Depository. Stocks in DEMAT form are held by the Depository. All the three agencies have connectivity with each Other and trade (buy/sell order) from the investor is executed real time.

**The advantages** that may arise to an investor in stock market are in the following forms :

(a) Tax free Dividend

(b) Capital appreciation

(c) Long term Capital gains on stock sold is exempt from tax

d) Short term Capital gains are subject to tax at a reduced rate @15%.

Stock market has two primary segments :

**(i) Cash Market (ii) Derivative Market**

### *(i) Cash market*

**Trading** in Cash market are of two types :

(a) Intraday or Day trade—Investor will take a position to buy or sell and settle the position by end of the market closing hours. Margin money provided is 5 times and brokerage is 0.10% on every buy & sell.

(b) Delivery based trade —Investor buys the shares and keeps it for any period and sell it whenever they wish. There is no margin provided by the broker and brokerage is 0.50% on every buy & sell.

### *(ii) Derivative Market*

Trading in Derivatives is now allowed in Indian stock exchanges from the year 2000.

Derivative Instruments—These are Instruments that derive their value from the underlying Securities like Commodities, Shares/Securities, Foreign Exchange, Treasury bills which are traded in the Cash Market.

Derivatives include Stock futures/Index futures and Stock Options/Index Options. Index Futures and Options are traded on the basis of Index of Stock exchange i.e. SENSEX & NIFTY.

Stock futures are an agreement to buy or sell an underlying asset at a future date at a pre-specified price. The Contract is settled either by delivery of the Stock on the expiry date or by cash for the difference between strike price and prevailing price on the expiry date.

Stock options in a similar manner give the holder the right (but not an obligation) to buy or sell a particular stock from the seller/writer of the stock for a premium. It can be settled either on the expiry date or before either by delivery of the stock or by cash for the difference in prices.

The operation of Derivatives and Cash market under the same roof of Stock exchange can be clearly understood with a hypothetical situation as :

| | Derivatives Market | | Cash Market | |
|---|---|---|---|---|
| Assumptions | Futures | Options | Delivery | Intraday |
| Share (eg) | Reliance | Reliance | Reliance | Reliance |
| Qty | Lot size | Lot size | single unit | single unit |
| Qty (eg) | 1 | 1 | 1 | 1 |
| | (100 | (100 | | |
| | shares) | shares) | | |
| Price | Strike price | Strike price | Unit price | Unit Price |
| Price (eg) | 1,000 | 1,000 | 1,000 | 1,000 |
| Expiry Period | 1-3 months | 1-3 months | Nil | End of day |
| Short-selling | allowed | allowed | Not allowed | allowed |
| Margin (say) | 20% | 20% | 100% | 20% |
| Investment | 20,000 | 20,000 | 100,000 | 20,000 |
| trade (type) | B&S/S&B | B&S/S&B | B&S only | B&S/S&B |
| Premium (Y/N) | No | yes | No | No |
| Premium (say) | – | 100 | – | – |
| | | | | |
| **i) Settlement Price (e.g)** | 1,200 | 1,200 | 1,200 | 1,200 |
| Profit | 20,000 | 10,000 | 20,000 | 20,000 |
| Return On investment | 100% | 50% | 20% | 100% |
| | | | | |
| **ii) Settlement Price (e.g)** | 800 | 800 | 800 | 800 |
| Profit | –20,000 | –10,000 | –20,000 | –20,000 |
| Return On investment | –100% | –50% | –20% | –100% |
| | | | | |
| **iii) Settlement Price (e.g)** | 700 | 700 | 700 | 700 |
| Profit | –30,000 | –10,000 | –30,000 | –30,000 |
| Return On investment | –150% | –50% | –30% | –150% |

**Derivatives Market Cash Market**

Derivative trading is an emerging market and the market volume has already exceeded the market turnover of Cash market and is set to increase manifold.

**Stock Market in future may mean only the derivative Market** due to high volume of turnover. Derivative market and Intraday under a cash market are primarily speculative as there is no delivery and transaction is settled through Price differences.

The advantage of a Regulated Speculative market, is that it provides the much needed liquidity for the Scrips and helps in boosting market sentiments.

**SEBI (Security Exchange Board of India)**

It is a powerful autonomous body established in 1992 to regulate and promote stock markets and protect interest of investors.

SEBI has issued various guidelines relating to LISTING of securities, Corporate Governance, Insider Trading etc.

Underwriters, Brokers, Mutual Funds have to take registration from SEBI for operating in Capital Market.

**Stock market development** in a Country is characterised by two Parameters

(i) Market Capitalisation
(ii) Market Turnover.

Market Capitalisation for a Company is the product of Market price at a given point multiplied by No. of shares offered for listing.

Market Turnover is the Volume of trading in terms of value of shares purchased and sold during a period.

***Listed Companies and Market Capitalisations***

Dec 2010

| Country | No. of Listed Companies | Market Capitalisation | Market Turnover | Market Turnover as a % to Market Capitali-sation |
|---|---|---|---|---|
| | | US$ In Billion | US$ In Billion | |
| India | 9,870 | 1.20 | 0.87 | 73% |
| US | 7,650 | 18.00 | 19.00 | 106% |
| UK | 1,950 | 3.70 | 2.75 | 74% |
| Japan | 2,500 | 4.60 | 3.80 | 83% |
| Germany | 950 | 1.90 | 1.60 | 84% |
| China | 950 | 3.10 | 3.50 | 113% |

*(contd.)*

India has the highest no. of Listed Companies in the World followed only by USA. But the difference in Market capitalisation between India and USA shows the gap to fill for India as a way forward. This is in spite of the significant improvement in Market Capitalisation since 2002-03. During 2002-03, the Market capitalisation for India was only 0.27 trillion US$ (270billion US$). India entered the select group of Billion $ Countries (in terms of Market Capitalisation) only in the last 5 years.

Market Turnover as a percentage of Market Capitalisation shows if the Stock market in a Country is active. Ratio over 90% may be considered as an aggressive market. India's market turnover ratio has still to be considered good due to the fact that many Companies are listed but their stocks are not traded by the public. This may be because Companies have not adequately promoted their scrip to be investment-worthy. ❐

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- The figures have been expressed in billion US$ for the sake of convenience though they do not have the forex dimensions like Domestic savings etc.

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M/32161
Shri Yogesh Ravindra Kharadkar
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M/32162
Shri Aravindh George
BCOM, ACMA
Pattathil (H), Cheruvaloor (P.O.), Kulayidam, Thrissur 680 321

M/32163
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BCOM, ACMA
Katakam Srirama Murthy Sri Satyanarayana Nivas, D/No. 1 - 3 /24 - 6, Aravinda Street, Vidhyadhara Puram, Vijayawada 500 012

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M/32165
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M/32167
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Shri Sandeep Kumar Chhaparwal
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M/32170
Shri Avinash Kumar
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M/32187
Shri Sumit Kumar Vaish
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E-2/185 Vinay Khand Gomti Nagar, Lucknow 226 010

M/32188
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M/32194
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M/32201
Shri Naga Subrahmanyam Dasari
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Sr Executive - Audit M/s. ETA Ascon Star Group of Companies, 1F, I.B.A. Bldg., Near Gulf Cinemas, Doha, Qatar, Pin - 23773, Doha

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M/32209
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BCOM, ACMA
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M/32216
Shri Surya Prakash Kottagundu
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M/32218
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M/32245
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M/32246
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M/32253
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M/32258
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## FOR ATTENTION OF MEMBERS

The fees payable by the members of the Institute have been revised by the Council with effect from 1st April, 2012 from the financial year 2012-2013 onwards as follows :

| Category of fees | Amount Payable |
|---|---|
| Associate Entrance Fee | Rs. 1,000/- |
| Associate Membership Fee | Rs. 800/- p.a. |
| Fellow Entrance Fee | Rs. 1,000/- |
| Fellow Membership Fee | Rs. 1,500/- p.a. |
| Certificate of Practice Fee | Rs. 1,000/- p.a. |

The fees payable by the retired members entitled to pay at reduced rate in pursuance of Regulation 7 (4) of the Cost and Works Accountants Regulations, 1959 with effect from 1st April, 2012 from the financial year 2012-2013 onwards shall be as follows :

| Category of fees | Amount (Rs.) |
|---|---|
| Associate Membership Fee | Rs. 200/- p.a. |
| Fellow Membership Fee | Rs. 375/- p.a. |

## For Attention of Practising Members

# Guidelines for Renewal of Certificate of Practice

The members of the Institute holding Certificate of Practice having validity upto 31st March, 2012 are requested to comply with the following guidelines for renewal of their Certificate of Practice:

1. The following changes consequent to amendment of the Cost and Works Accountants Regulations, 1959 vide Notification dated 4th February, 2011 published in the Gazette of India may be noted:

- The validity of a Certificate of Practice (COP) henceforth would be for the period 1st April to 31st March every year unless it is cancelled under the provisions of the Cost and Works Accountants Act and Regulations, 1959 as amended.
- The Certificate of Practice issued shall automatically be renewed subject to submission of prescribed Form M-3 and payment of renewal fee and annual membership fee.
- From the year 2011-12 onwards, no renewal Certificate of Practice would be issued. However, the members concerned may download the renewal status from the Institute's website www.icwai.org.

2. It may please be noted that under Section 6 of the Cost and Works Accountants Act, 1959, both the **Annual Membership Fee** and **Fee for Renewal of Certificate of Practice** falls due on 1st April each year.

3. Special attention is invited to the fact that the validity of a Certificate of Practice expires on **31st March** each year unless it is renewed on or before the date of expiry in terms of amended Regulation 10 of the Cost and Works Accountants Regulations, 1959. Hence, a member shall be required to renew his certificate before 31st March every year from the year 2012.

4. It may please be noted that mere payment of fees alone will not be sufficient for renewal of Certificate of Practice. Application in prescribed Form M-3 for renewal of Certificate of Practice duly filled in and signed on **both sides is absolute necessary.** Soft copy of prescribed Form M-3 for Renewal of Certificate of Practice can be downloaded from Institute's website www.icwai.org.

5. It is also essential to furnish a certificate from the employer in the following form or in a form as near thereto as possible if the practising member has undertaken any employment or there has been a change in employment:

"Shri ……………………………………………….is employed
as (designation)……………………………………..in (name of
Organisation)…………………………………….and he is permitted ,
notwithstanding anything contained in the terms of his employment,
to engage himself in the practice of profession of Cost Accountancy
in his spare time in addition to his regular salaried employment with us.

Signature of Employers
under seal of Organisation"

6. In order to enhance professional competence and evolve a systematic mechanism to update knowledge of members in practice, a scheme of Continuing Education Programme (CEP) was introduced by the Institute and the same is mandatory in accordance with proviso to sub-regulation (1) of Regulation 10 of the Cost and Works Accountants Regulations, 1959, as amended, whereby no Certificate of Practice and renewal thereof shall be issued unless a member has undergone minimum number of hours of such training to be undergone every year or such block of years or such other alternative conditions as may be determined by the Council by notification from time to time.

As per the said scheme, the following should be complied with:

(i) The member should undergo minimum mandatory training of 10 hours per year.

(ii) The certificate of attendance for training will have to be enclosed with the application for renewal of Certificate of Practice.

The detailed guidelines in this connection are available on Institute's website www.icwai.org.

The requirement specified above does not apply to a member in practice who has attained the age of 65 years as on 1st April, 2012.

Hence, all practicing members are requested to send their application for renewal of Certificate of Practice for the year 2012-13 along with other requirements as indicated herein above immediately and latest within 31st March, 2012.

Other Relevant Issues for Renewal of COP valid upto 31st March, 2013 :

- Application for renewal of Certificate of Practice upto **31st March, 2013** has to be made in the prescribed Form M-3 for Renewal of Certificate of Practice duly filled in and signed on both sides together with Renewal Certificate of Practice fee for Rs. 1000/- and all other dues to the Institute on account of annual membership fees and entrance fees.
- The annual membership for Associate and Fellow Members are 800/- and Rs. 1500/- respectively. The entrance fee for Associate and Fellow Members are Rs. 1000/- each payable at a time at the time of application for admission.
- The fees may be paid by Demand Draft/Pay Order/Cheque payable at Kolkata if remitted by post to the Headquarters of the Institute. In case remittance is made through an outstation cheque, Rs.30/- is to be included towards bank charges. The fees may also be paid directly by cash at the Headquarters or by Cash/Demand Draft/Pay Order/ Cheque at the Regional Councils or Chapters of the Institute.
- Certificate of Practice renewed upto 31st March, 2012 shall have validity till that date. Practising members concerned may send their application for renewal of the same in prescribed manner within 31st March, 2012.
- Further, the credit hours for Continuing Education Programme (CEP) for renewal of Certificate of Practice upto 31st March, 2012 shall be considered upto 31st March, 2012.

## For Attention of Members

The provisions of The Cost and Works Accountants (Amendment) Act, 2011 have come into force with effect from 1st February, 2012, whereby the name of our Institute has been changed from The Institute of Cost and Works Accountants of India to "The Institute of Cost Accountants of India" and the Associate & Fellow Members of the Institute are now entitled to use the letters **"ACMA"** & **"FCMA"** after their names in place of "AICWA" & "FICWA" respectively.

Further, the practising members of our Institute can now enter into a Limited Liability Partnership, which has no company as its partner in accordance with the Limited Liability Partnership Act, 2008. In this connection, the two notifications published by the Central Government in the Gazette of India dated 13th January, 2012 and 30th January, 2012 are printed in this journal.

Further details are published in this journal and also uploaded on our website www.icwai.org .

## For Attention of Members

The Council of the Institute has decided that the members of the Institute shall be permitted to use the letters "CMA" before their names after notification regarding the date of coming into force of the provisions of the Cost and Works Accountants (Amendment) Act, 2011 is published by the Central Government in the Gazette of India, wherein the Associate & Fellow Members are entitled to use the letters **"ACMA"** & **"FCMA"** respectively after their names.

# ANNOUNCEMENT FOR EMPANELMENT AS OBESERVER AT EXAMINATION CENTRES CONDUCTING THE FOUNDATION, INTERMEDIATE & FINAL EXAMINATIONS

The Institute of Cost Accountants of India intends to draw a panel for acting as Observer at the examination centre's in various cities during the Cost accountants examinations to be held from June 11- 18, 2012. Examination will be conducted in two sessions - (i) Morning session (9.30 A.M to 12.30 P.M.) and (ii) Afternoon session (2 P.M to 5 P.M)

Individuals who are interested to act as Observers at the examination centres during the examination days can download the attached Empanelment form and send the same to the Director (Examinations),

The Institute of Cost Accountants of India, 12, Sudder Street. Kolkata ?700016 by post/email to exam.arijit@icwai.org/exam.rajat@icwai.org/ fax to 033 2252 1026.

## CRITERION FOR APPOINTMENT AS OBSERVERS

**1.** The individual may be a member of The Institute of Cost Accountants of India/ The Institute of Chartered Accountants of India/ The Institute of Company Secretaries of India.

**2.** Individual from academic background i.e. Assistant Professor /Associate Professor / Professor and Retired defence personnel (from the rank of Major onwards) with relevant qualifications can also apply.

**3.** Minimum of Five years post qualification professional/ industry/academic experience is mandatory.

**4.** The concerned individual should not be associated with coaching of Cost Accountancy students or any other professional courses like CA/ CS anywhere in the country in any capacity.

**5.** The individual must not have any conflict of interest i.e. none of his/her relative or dependants is appearing at the June 2012 examinations

**6.** The individual should not be a student registered with the Institute.

**7.** The individual should not be associated with any managing committee of any Chapter/Regional Council/Central council of The Institute of Cost Accountants of India.

**8.** Persons above 70 years are not eligible for empanelment as observers.

**9.** Please note that mere inclusion of one's name in the proposed panel will not guarantee that he/she should be given the assignment and Institute reserves the right to give the said assignment to any other person depending on actual requirement.

**10.** Any individual accepting the assignment for acting as an observer in a particular examination centre should attend the said assignment and send the Observer's report in the prescribed format within seven days from the completion of the examinations.

**11.** The detailed guidelines and the prescribed format of the Observer's Report will be sent with the appointment letter of the observer.

## HONORARIUM PAYABLE

Honorarium of ₹ 400/- per session will be paid. In addition a sum of ₹400/- will be paid as conveyance reimbursement for metro cities and ₹ 300/- for non metro cities per day besides reimbursement of postal, stationery, telephone expenses, if any.

## EMPANELMENT FORM FOR OBSERVER

| | |
|---|---|
| 1 NAME IN FULL : | |
| 2 COMPLETE RESIDENTIAL ADDRESS WITH PINCODE :<br>3 DATE OF BIRTH : | |
| 4 PERMANENT ACCOUNT NUMBER (PAN) : | |
| 5 PHONE NUMBER WITH STD CODE (LANDLINE) :<br>6 MOBILE NUMBER (MANDATORY) : | |
| 7 EMAIL ID (MANDATORY) : | |
| 8 QUALIFICATIONS : (i) ACADEMIC : | |
| 9 QUALIFICATIONS : (ii) PROFESSIONAL : | |
| 10 IF MEMBER OF ANY PROFESSIONAL INSTITUTE<br>NAME OF THE INSTITUTE :<br>MEMBERSHIP NUMBER (MANDATORY) : | |
| 11 POST QUALIFICATION :<br>EXPERINECE<br>(PROFESSIONAL/INDUSTRY/ACADEMIC) | |
| 12 PRESENT POSITION HELD : | |
| 13 CITY FOR WHICH YOU WISH TO ACT :<br>AS OBSERVER (REFER ENCLOSED CITY LIST) | |

Place :

Date :

Signature of the Applicant

## Names of the cities where the examinations will be held are given below

| SL. | WESTERN | SOUTHERN | EASTERN | NORTHERN |
|---|---|---|---|---|
| 1 | Ahmedabad | Bangalore | Agartala | Delhi |
| 2 | Aurangabad | Coimbatore | Asansol | Noida |
| 3 | Vadodara | Ernakulam | Bhubaneswar | Faridabad |
| 4 | Bhilai | Hyderbad | Bokaro | Ghaziabad |
| 5 | Bhopal | Kottayam | Kolkata | Jaipur |
| 6 | Bilaspur | Chennai | Cuttack | Jammu |
| 7 | Indore | Madurai | Dhanbad | Jodhpur |
| 8 | Kolhapur | Mysore | Durgapur | Kanpur |
| 9 | Nagpur | Neyveli | Guwahati | Kota |
| 10 | Nashik | Puducherry | Howrah | Lucknow |
| 11 | Margao-Goa | Rajahmundry | Jamshedpur | Patiala |
| 12 | Akurdi-Pune | Salem | Naihati | Udaipur |
| 13 | Pune | Tiruchirapalli | Patna | Jalandhar |
| 14 | Vindhyanagar | Tirunelveli | Rourkela | Haridwar |
| 15 | Surat | Trivandrum | Berhampore | Ludhiana |
| 16 | Vashi-Navi Mumbai | Vellore | Shillong | Allahabad<br>Dehradun<br>Chardigarh |
| 17 | Mumbai | Vijayawada | Bhubaneswar | ™Overseas |
| 18 | Kalyan | Vizag | Ranchi | 1. Dubai |
| 19 | Jabalpur | Mangalore | | 2. Muscat |
| 20 | Solapur | Thrissur | | |
| 21 | Vapi | Calicut | | |
| 22 | Kannur | | | |
| 23 | Nellore | | | |

# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body Under An Act of Parliament)

## Examination Time Table & Programme – June 2012

### Certificate in Accounting Technicians (CAT)

| Day & Date | Time | Competency Level Part - II |
|---|---|---|
| Monday, 11th June 2012 | 09.30 A.M. to 12.30 P.M. | Financial Accounting |
| Wednesday, 13th June 2012 | 09.30 A.M. to 12.30 P.M. | Applied Statutory Compliance |

### Examination Fees

| | | |
|---|---|---|
| INLAND CENTRES | 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 April, 2012** and with late fee of ₹100/- is **20th April, 2012**.
3. Examination Fees to be paid through Bank Draft of requisite fees drawn in favour of "**The Institute of Cost Accountants of India**" payable at **New Delhi**.
4. Students will send their Examination Application Forms along with the fees to Directorate of CAT at "CMA 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, Palampur (H.P.), Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Raigarh(Chattisgarh), Rourkela, Salem, Shillong, Solapur, Srinagar, 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: Competency Level Part – II is 22nd August, 2012.

**C. Bose**
Sr. Director (Examinations)

A complaint has been received from Dr. G.P. Jakhotiya, author of the book 'Strategic Financial Management' about alleged plagiarism of an article titled "Innovations in Finance: Financial Engineering" by Dr. P.K. Sinha & Sanchari Sinha published in pages 143 to 149 (both inclusive) of February 2012 issue (Vol 47 No. 2) of 'The Management Accountant' journal. This is for the information of all concerned.

# Examination – June 2012

## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body Under An Act of Parliament)

## Examination Time Table & Programme – June 2012

### Programme for Syllabus 2008

| Day, Date & Time | Intermediate<br>09.30 A.M. to 12.30 P.M. | Final<br>02.00 P.M. to 05.00 P.M. | Foundation<br>02.00 P.M. to 05.00 P.M. |
|---|---|---|---|
| Monday<br>11th June, 2012 | Financial Accounting | Capital Market Analysis & Corporate Laws | |
| Tuesday<br>12th June, 2012 | ——— | Financial Management & International Finance | |
| Wednesday<br>13th June, 2012 | Commercial and Industrial Laws & Auditing | Management Accounting-Strategic Management | |
| Thursday<br>14th June, 2012 | Applied Direct Taxation | Indirect & Direct-Tax Management | |
| Friday<br>15th June, 2012 | Cost & Management Accounting | Management Accounting-Enterprise Performance Management | Organisation and Management Fundamentals |
| Saturday<br>16th June, 2012 | ——— | Advanced Financial Accounting & Reporting | Accounting |
| Sunday<br>17th June, 2012 | Operation Management and Information Systems | Cost Audit & Operational Audit | Economics and Business Fundamentals |
| Monday<br>18th June, 2012 | Applied Indirect Taxation | Business Valuation Management | Business Mathematics and Statistics Fundamentals |

### Examination Fees

| Group (s) | Final Examination | Intermediate Examination | Foundation Course Examination |
|---|---|---|---|
| One Group (Inland Centres)<br>(Overseas Centres) | ₹ 1250/-<br>US $ 100 | ₹ 1000/-<br>US $ 90 | ₹ 1000/-<br>US $ 60 |
| Two Groups (Inland Centres)<br>(Overseas Centres) | ₹ 2250/-<br>US $ 100 | Rs. 1600/-<br>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 ICAI 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 date for receipt of Examination Application Forms without late fees is 10th April, 2012** and with late fees of **₹ 300/-** is **20th April, 2012**.
3. Examination fees to be paid through **Bank Demand Draft** of requisite fees drawn in favour of **"The Institute of Cost Accountants of India"** and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICAI, 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 2011, involving Assessment Year 2012-2013 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct – Tax Management (Final) for the purpose of June 2012 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 – 2nd August 2012 and Inter & Final – 22nd August 2012.**

**C. Bose**
**Sr. Director (Examinations)**

# Guidelines For Conversion of Cost Accountants' Firms

## (Partnership/Proprietary)
## Into Limited Liability Partnerships (LLPS)

In terms of Council decision dated 22nd January, 2012, the following guidelines for conversion of Cost Accountants firms into LLPs and constitution of separate LLPs by the practising Cost Accountants have been finalized. They are applicable for conversion of Cost Accountants' firms into LLPs or formation of new LLPs, by the members in practice of the Institute of Cost Accountants of India (ICAI) upon coming into force the provisions of the Cost and Works Accountants (Amendment) Act, 2011 (i.e. 1st February, 2012), subject to the provisions of the Limited Liability Partnership (LLP) Act, 2008 and Rules & Regulations framed thereunder :

**(A) Conversion of Cost Accountant firms into LLPs**

1. All the existing Cost Accountants' firms who want to convert themselves into LLPs are required to follow the provisions of Chapter-X of the LLP Act, 2008 read with Second Schedule to the said Act containing provisions of conversion from existing firms into LLP.
2. In terms of Rule 18(2) (xvi) of LLP Rules- 2009, if the proposed name of LLP includes the words 'Cost Accountant' or 'Cost Accountants', as the case may be, as part of the proposed name, the same shall be referred to ICAI by the Registrar of LLP and it shall be allowed by the Registrar only if the Secretary/Authorized Official of ICAI * approves it.
3. If the proposed name of LLP of Cost Accountant firm resembles with any other non- Cost Accountant entity, as per the naming Guidelines under LLP Act and its Rules, the proposed name of LLP of Cost Accountant firm may include the word 'Cost Accountant' or 'Cost Accountants', as the case may be in the name of the LLP itself and the Registrar LLP may allow the same name, subject to compliance to Rule 18(2) (xvi) of LLP Rules as referred above.
4. For the purpose of registration of LLP with ICAI under Regulation 108 of the Institute of Cost and Works Accountants Regulations, 1959, the partners of the firm shall apply, in ICAI Form of Application for Particulars of Offices and Firms, along with the copy of name registration, received from the Registrar of LLP and submit the same with the concerned Office of ICAI. The Form shall contain all the details of the offices and other particulars as called for, together with the signatures of all partners or authorized partner of the proposed LLP.
5. The names of the Cost Accountant firms registered with ICAI shall remain reserved for the partners, as one of the options for LLP names, subject to the provisions of LLP Act & Rules and Regulations framed there under.
6. The following guidelines relating to seniority and other criteria shall be followed for registration of LLP with ICAI:
   - (i) Where two similar or identical or nearly similar firm names (whether the partners of such firms are same or not) have applied for registration to ICAI, under the proposed LLP, only one such firm name who applied first shall be approved and remaining firm who has applied with ICAI, whether desires to convert into LLP or not, will have to change the firm name.
   - (ii) The name of the LLP may be like 'X & Co. LLP' or 'X & Associates LLP' or 'XYZ LLP' and no other suffix shall be approved and registered by ICAI.
   - (iii) The newly converted Cost Accountant LLP registered with ICAI shall be allowed to work only in terms of Section 2(2) of the Institute of Cost and Works Accountants Act,

1959 and for the objects of LLP to be incorporated as per Form-2 and Form 17 of the LLP Rules, 2009 or as per the LLP agreement and same shall be in the nature of Professional Services allowed under Section 2(2) of Cost and Works Accountants Act, 1959. LLP shall be subject to the same regulations, as if they were a partnership firm. Mere conversion into LLP does not give any privileges, which were not earlier with the Cost Accountant firms.

(iv) Inter se seniority among the firms shall be given to LLP as per the existing policy of ICAI. In other words, LLPs shall carry the same seniority, as the firm shall otherwise have under the existing policy of ICAI. In case of merger of 2 LLPs, same rules are applicable as to firms merging shall apply.

(v) The non converted firms shall also remain on the same position of seniority in relation to converted LLPs, as the converted LLPs shall have the same inter-se seniority, as the firms had earlier to conversion.

7. These guidelines of conversion of Cost Accountant firms into LLP shall also be applicable to the conversion of proprietary firm into LLP, subject to the provisions of LLP Act & Rules and Regulations framed there under. The conversion of proprietary firm shall be by way of incorporation of new LLPs.

8. The registration number (with minimum 6 numbers) of LLP with ICAI, shall be the same Firm Registration Number (FRN) allotted to the firm before the conversion by ICAI, with the Regional Code like 'W' for Western, 'E' for Eastern, 'S' for Southern, 'N' for Northern.

9. Introduction of LLP, shall not affect the existing regulations in force as regards the name allotment to Cost Accountant firms.

10. The provisions of the Cost and Works Accountants Act, 1959, the Cost and Works Accountants Regulations, 1959 and Code of Ethics issued by ICAI shall be applicable to all partners jointly & severally, of the converted Cost Accountant firms into LLP.

11. The following Guidelines are subject to the clarification from Ministry of Corporate Affairs (MCA), Government of India, New Delhi:

(i) Wherever the existing partnership firm has been appointed as statutory auditor of any company, after following the due procedure under the Companies Act, 1956 and the said firm with the same partners is converted into/has formed LLP, then the same FRN will continue band the Board of Directors of the Company shall take on record the conversion/formation of the Cost Accountant firms into LLP and the new LLP shall be deemed to be the Auditor of the said company, for the said financial year, in terms of Section 58(4) of the LLP Act, 2008.

(ii) Wherever more than one partnership firm, with all the partners, desire to convert/form only one LLP, then in that case the name and FRN may be selected of only one of such firms, for the purpose of registration with ICAI and;

(a) The other such firms shall stand dissolved.

(b) Seniority shall be decided as per applicable rules of ICAI.

(c) The Board of Directors of all the Companies, who have appointed all the erstwhile firms as Cost auditors, may take a declaration from the said LLP, with all the partners of all the erstwhile firms on record and the appointment as Cost auditors of all the erstwhile firms made under the Companies Act, 1956, shall be deemed to be in the name of the said LLP.

**(B) Constitution of separate LLPs**

12. All the members of ICAI in practice who want to constitute a separate LLP are required to follow the provisions of the LLP Act, 2008 read with the Rules framed there under.

13. In terms of Rule 18(2) (xvi) of LLP Rules- 2009, if the proposed name of LLP includes the words

'Cost Accountant' or 'Cost Accountants', as the case may be, as part of the proposed name, the same shall be referred to ICAI by Registrar of LLP and it shall be allowed by the Registrar only if the Secretary/Authorized Official of ICAI * approves it.

14. If the proposed name of LLP of Cost Accountant firm resembles with any other non-Cost Accountant entity, as per the naming Guidelines under LLP Act and its Rules, the proposed name of LLP of Cost Accountant firm may include the word 'Cost Accountant' or 'Cost Accountants', as the case may be in the name of the LLP itself and the Registrar LLP may allow the same name, subject to compliance to Rule 18(2) (xvi) of LLP Rules as referred above.

15. For the purpose of registration of LLP with ICAI under regulation 108 of the Cost and Works Accountants Regulations, 1959, the partners of the firm shall apply in the ICAI Form of Application for Particulars of Offices and Firms along with the copy of name registration, received from the Registrar of LLP and submit the same with the concerned Office of the ICAI. This Form shall contain all details of the offices and other particulars as called for together with the signatures of all partners or authorized partner of the proposed LLP.

16. The following guidelines relating to seniority and other criteria shall be followed for registration of LLP with ICAI:

    (i) Where two similar or identical or nearly similar firm names (whether the partners of such firms are same or not) have applied for registration to ICAI, under the proposed LLP, only one such firm name who applied first shall be approved and remaining firm who has applied with ICAI, whether desires to convert into LLP or not, will have to change the firm name.

    (ii) The name of the LLP may be like 'X & Co. LLP' or 'X & Associates LLP' or 'XYZ LLP' and no other suffix shall be approved and registered by ICAI.

    (iii) The newly converted Cost Accountant LLP registered with ICAI shall be allowed to work only in terms of Section 2(2) of the Institute of Cost and Works Accountants Act, 1959 and for the objects of LLP to be incorporated as per Form-2 and Form 17 of the LLP Rules, 2009 or as per the LLP agreement and same shall be in the nature of Professional Services allowed under Section 2(2) of Cost and Works Accountants Act, 1959. LLP shall be subject to the same regulations, as if they were a partnership firm. Mere conversion into LLP does not give any privileges, which were not earlier with the Cost Accountant firms.

    (iv) Inter se seniority among the firms shall be given to LLP as per the existing policy of ICAI. In other words, LLPs shall carry the same seniority, as the firm shall otherwise have under the existing policy of ICAI. In case of merger of 2 LLPs, same rules are applicable as to firms merging shall apply.

    (v) The non converted firms shall also remain on the same position of seniority in relation to converted LLPs, as the converted LLPs shall have the same inter-se seniority, as the firms had earlier to conversion.

17. These guidelines of conversion of Cost Accountant firms into LLP shall also be applicable to the conversion of proprietary firm into LLP subject to the provisions of LLP Act, Rules and Regulations framed there under. The conversion of proprietary firm shall be by way of incorporation of new LLPs.

18. The registration number (with minimum 6 numbers) of LLP with ICAI, shall be like the Firm Registration Number being allotted to the firms by ICAI with the Regional Code like 'W' for Western, 'E' for Eastern, 'S' for Southern, 'N' for Northern.

19. Introduction of LLP, shall not affect the existing regulations in force as regards Name allotment to Cost Accountant firms.

20. The provisions of the Cost and Works Accountants Act, 1959, the Cost and Works Accountants Regulations, 1959 and Code of Ethics issued by ICAI shall be applicable to all partners jointly and severally, of the LLP.
21. In case of any dispute in respect of these guidelines, the same shall be referred to the Council of ICAI and the decision of the Council shall be final and binding on the members of the Institute.
22. For the purpose of any clarification regarding the approval and registration of proposed LLP with ICAI, the requests can be sent at the following address:

    Shri Kaushik Banerjee
    Director & Joint Secretary
    The Institute of Cost Accountants of India
    12, Sudder Street,
    Kolkata - 700 016.
    (*Shri Kaushik Banerjee, Director & Joint Secretary is the Authorized Official of ICAI)
23. These Guidelines shall come into force w.e.f. 1st February, 2012.

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Kolkata, the 24th February, 2012

## NOTIFICATION

18-CWR (16 16)/2012 : It is hereby notified in pursuance of amended Regulation 18 of the Cost and Works Accountants Regulations, 1959, that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the name of :

1. Shri K. Chandra Mouleshwar Sarma, BCOM(HONS), ACMA, 27-16-15/3, 102, Ankitha Apartments, Safilguda, Sri Krishna Nagar Colony, Secunderabad-500056 (Membership No. 83) with effect from 18th February, 2012

Sd/-
(M. Gopalakrishnan)
President

## Humble Appeal

We invite quality articles from members in industry having relevance to Cost & Management Accountancy/Finance/Management/Taxation for publication in the journal for the benefit of our esteemed readers.

Articles, accompanied by coloured photographs of the author (s) can be sent to rnj.rajendra@icwai.org

## REGIONS & CHAPTERS NEWS

### WIRC

**Baroda Chapter of Cost Accountants (BCCA)**

The BCCA organized a one day seminar on "Recent Changes in Cost Accounting Record Rules and Cost Audit Report Rules 2011" on 11.03.2012 at Hotel Express, Alkapuri, Baroda.

The seminar was inaugurated by the President of Federation of Gujarat Industries, Smt. Geetaben Goradia and the Key note speaker was Dr. H.B.Patel, CFO, Gujarat Alkalies & Chemicals Ltd. Baroda.

Shri Rakesh Singh, Vice President of the Institute, Shri S. J. Joshi, Director (Finance) Elmex Group of Companies, Shri Kailash Sankhalecha and Shri R.M. Kapadia, both senior Cost Accountants in practice were the speakers at various Technical sessions. The inaugural session and the press conference were handled by Shri Sharad Puranik, Chairman of the Chapter.

Shri Rakesh Singh, Vice President of the Institute, spoke on the new changes in Cost Accounting Records Rules and Cost Audit Report Rules 2011 and its applicability in different segments of industries. Shri S.J. Joshi deliberated on Cost Accounting Record Rules in particular and on the Compliance Report. The vote of thanks was given by Shri R.K. Patel, Secretary of the Chapter. The Seminar was attended by about 130 practicing Members and delegates from various industries in and around Baroda.

### SIRC

SIRC of the Institute of Cost Accountants of India organized an industrial visit to Southern Railway Workshop at Perambur, Chennai on 25.02.12. About 60 students belonging to the Intermediate & Final course participated in the industrial visit. Shri G.V.S. Subrahmanyam, Vice Chairman, SIRC of the Institute; Shri. M. Vijayakumar, Chief electrical Workshop Engineer, Shri. R. Nageswara Rao, Chief Office Superintendent, Shri V. Sunil Kumar, Senior Engineer and two Junior Engineers-all from Southern Railway, guided the Students about the entire functioning and repair works of Railway wagons. The students got a firsthand experience of the industry, its working and the technicalities.

**Madurai Chapter of Cost Accountants (MCCA)**

MCCA and the Department of Commerce of Nadar Saraswathi College of Arts & Science, Theni jointly organized a one day State Level Seminar titled "Indian Corporate Sector–Issues and Challenges" for the students of Nadar Saraswathi College of Arts & Science, Theni and other colleges in and around Theni on 8.02.12 in Nadar Saraswathi College, Theni . The fist Technical Session was handled by Dr.I.Ashok, Chairman, Madurai Chapter of Cost Accountants, on the topic 'Corporate Social Responsibility and Governance'. Dr. Suresh, Head of the Deptt. of Commerce, Madurai Kamaraj University College, Andipatti, was the resource person for the second Technical Session on the topic "Cost Strategies". Shri S.Jeyaraj, Secretary, Madurai Chapter of Cost Accountants handled the third Technical Session on the topic "Corporate Venture and Value Creation". About 250 students participated in the programme which was quite interactive.

### EIRC

A seminar on 'Cost Compliance and Cost Audit' was held jointly with Indian Chamber of Commerce (ICC) at the ICC Auditorium on 18.02.12. Among the dignitaries present were Shri M.Gopalakrishnan President of the Institute, Shri Kunal Banerjee, former President, Shri Rakesh Singh, Vice President, Shri T.C.A.Srinivasa Prasad and Dr Sanjiban Bandyopadhyaya Council Members, Shri Ashok Mukherjee, Vice Chairman, EIRC, Smt Chitra Agarwal, Treasurer, EIRC, Shri S.P.Padhi and Shri Bibekananda Mukhopadhyay, RCM,'s, EIRC. Shri Rajiv Singh, Director General, ICC welcomed the members. Shri Kunal Banerjee was the key note speaker. Mr Kishore Bhatia addressed the members on cost compliance and Sri M.K.Narayanswami addressed the members on Cost Audit. The seminar was attended by delegates from industry and profession. An audience of about 200 delegates keenly heard the speakers and actively interacted throughout the sessions.

### NIRC

**Faridabad Chapter of Cost Accountants (FCCA)**

FCCA organized a programme on "Recent Changes in Cost Accounting Rules & Cost Audit Rules" with Reference to Cost Accounting Standards at Magpie Tourist Complex, Faridabad at 6:30 pm on 2.03.12. Shri Deepankar Goyal, Secretary, Faridabad Chapter, welcomed the guests. Shri Vijender Sharma, Secretary, NIRC was the guest Speaker who very lucidly explained the ambit of the new notification and the brief provisions of CAS issued so far. Earlier Shri Debjit Patra, Chairman of the Chapter emphasized on the new scope & challenges of the profession. Shree Deepak Malpani, Jt Secretary, Faridabad Chapter delivered the Vote of thanks. The meet was attended by a large number of distinguished members of the Chapter.

Dear Sir,

I am an Associate member of the institute and a regular reader of our journal. Several times I found that our journal has published good quality articles written by various experts which are very much useful. But sometimes, in order to know more or to have some more clarifications about a topic, I failed to contact the respective writers because of lack of their contact details. It would be very much convenient to us if you kindly consider incorporating their-mail IDs along with their details as published with each article.

Thanks & Regards,
CMA Himadri Roy
Date: 11th March 2012

**Our Reply :** Thanks for your mail. We will take up the matter with our contributors.

---

Dear Sir,

The name of our Institute has been changed. Members can now prefix CMA against their names. They can now use ACMA or FCMA as the case may be. Compliance Report is now mandatory almost for entire manufac-turing sector. Cost Audit is now mandatory for a substantial part of manufacturing sector. This has resulted in tremendous increase in scope both for members in employment and members in practice. So, this is just the RIGHT TIME FOR OUR 'MANAGEMENT ACCOUNTANT' JOURNAL TO BE IN COLOUR OUTLOOK.

Submitted for your kind consideration please.

With Regards
CMA Rajesh Kapadia
Vadodara
M-13882
Dated: 3rd March 2012

**Our Reply :** While thanking you for your mail, you may kindly note that wef March 2012, the journal is in colour.

---

Dear Sir,

The March'12 issue of our magazine The Management Accountant arrived as a fresh air. So many coloured papers! It is really wonderful and you deserve all the appreciation. No doubt, the quality of the magazine has improved significantly during last few months.

I hope that very soon I will be able to see 100% coloured magazine.

Regards
Ajay Deep Wadhwa
M-19063
Dated: 23rd March 2012

**Our Reply :** Thanks for your words of encouragement. You will be happy to note that the present edition of the journal is 100% coloured.

# ANNUAL REPORT & AUDITED ANNUAL ACCOUNTS FOR F.Y. 2010–2011

# THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

## 52nd Annual Report, 2010-2011

The Council of the Institute of Cost and Works Accountants of India welcome all of you and takes pleasure in presenting this 52nd Annual Report giving the achievements, activities of Departments, Committees, Regions and Chapters of the ICWAI.

The Council started their journey from 22nd July 2010 with Presidentship of Shri B.M.Sharma, Vice-President Shri M.Gopalakrishnan and other Central Council Members.

**I. International Events :**

***1. WTO and International Affairs Committee***

i. ICWAI submitted response to Comprehensive Economic Cooperation Agreement (CECA) with various countries to MCA/Ministry of Commerce.

ii. ICWAI Organised a meeting of WTO and IA Committee on 25th Mar, 2011 at Ranchi, adjourned due to lack of Quorum.

iii. MoUs were signed with Institute of Professional Accountants (IPA), Russia; Institute of Public Accountants (IPA), Australia and ICMASL, Sri Lanka.

***2. SAFA Activities***

i. ICWAI organised meeting of PAIB Committee of SAFA on Oct 20, 2010 and International Seminar on 'Sustainability Reporting' under the banner of SAFA on 21st Oct, 2010 respectively at Bangalore.

ii. Representative of ICWAI made a presentation at Berlin, Germany on 'Non Audit Services for SMEs in SAFA Countries' at the European Forum of EFAA in May, 2011.

***II. Department Activities***

***(A) Directorate of Studies :*** Region-wise Registration figures for 2010-11 are as below :

| Year | WIRC | SIRC | EIRC | NIRC | Total |
|---|---|---|---|---|---|
| 2008-09 | 3,791 | 6,580 | 2,734 | 3,994 | 17,099 |
| 2009-10 | 5,327 | 8,905 | 3,488 | 5,436 | 23,156 |
| 2010-11 | 6,722 | 12,973 | 4,998 | 6,298 | 30,991 |

Enrolment to the Foundation Course :

| Year | WIRC | SIRC | EIRC | NIRC | Total |
|---|---|---|---|---|---|
| 2008-09 | 3,791 | 6,580 | 2,734 | 3,994 | 17,099 |
| 2009-10 | 2,356 | 6,401 | 1,319 | 3,223 | 13,299 |
| 2010-11 | 3,150 | 6,192 | 1,777 | 4,003 | 15,122 |

**Value Added Services provided to students**

(a) Study Materials; (b) Revisionary Test Papers; (c) Scanner; (d)Work book; (e)Compendium; (f)Amendments to Taxation Laws ( for both Direct and Indirect Taxation).

***(B) Certificate of Accounting (CAT) :*** The Certificate in Accounting Technician (CAT) Course of one year duration was launched in the year 2008 in consultation with the Ministry of Corporate Affairs, Government of India. In order to spread the new course, CAT Directorate took the following pro-active vital initiatives :

- Two meetings of the Committee for Training of Accounting Technicians under the Chairmanship of Shri Balwinder Singh and Shri G N Venkataraman were conducted.
- Finalised Guidelines for conducting oral coaching classes by Recognized Oral Coaching Centres.
- 265 Oral Coaching Centres have been recognized across the country for imparting CAT Course. Almost 70% of the ROCCs are in small towns.
- Srinagar (J&K) has been brought in the net work of the ICWAI with the inauguration of CAT ROCC at Srinagar. Likewise, Himachal Pradesh has also been brought in the net work of ICWAI with opening of 7 ROCCs there. All the 7 centres are located in remote places of the State.
- Examination Centres exclusively for CAT Students have been opened at Shahjahanpur (UP), Alwar (Rajasthan), Raigarh (Chatisgarh) and Srinagar (J&K).

***(C) Examinations Directorate :*** The June 2010 examination was held from 11-18 June 2010 and in Dec 2010 examination was held from 10 Dec 2010 to 17 Dec 2010. CAT examination was also held along with ICWAI examination.

The last examination under 2002 syllabus was conducted in June 2010 term. For the first time, Marks Verification result of December 2010 examination was hosted in the website www.icwai.org.

Annual prize distribution was held during the National Cost Convention at Chennai in January 2011.

***(D) Membership Directorate :*** During the year, 1671 candidates were admitted as Associate members (out of which 24 were admitted on the basis of MOU with IMA, USA) and 276 Associate Members were elevated as Fellow Members. The details are indicated in the following table :

| Partioculars | Associate | Fellow | Members in Practice | Gard CWA |
|---|---|---|---|---|
| AS ON 31.3.2011 | 25246 | 3899 | 1669 | 15298 |
| AS ON 31.3.2010 | 23884 | 3633 | 1581 | 14626 |

***(E) Research & Journal Directorate :*** The Research & Journal Directorate publishes monthly journals 'The Management Accountant' for the benefit of members, students and readers and it endeavors to promote awareness amongst readers in different functional areas of finance/cost and management issues related to economy, industry and environment. Monthly Circulation, as on date, is around 33000 nos, out of which about 20000 to Members, 6000 to students, 1700 to VIPs and Government agencies including Universities and Institutes of National repute and 700 to abroad. The e-Governance plan of the Directorate seeks to lay the foundation and provide the impetus for long-term growth of readers among and from non members also. In 2010-2011, the Directorate has published special issues on the following topics viz., Budget 2010 and Economic Policy, DTC and GST. They have also published two Research Bulletins during the year containing illuminating articles on Climate Change & Environment Protection. Rigorously researched and well written articles on important aspects of environment were received and the publications were appreciated by the readers. A booklet titled "Monograph on Micro, Small & Medium Enterprises" was released during the 52nd National Convention held at Chennai in Jan 2011.This Directorate has also taken steps to obtain ISSN for the Research Bulletin.

***(F) Information Technology Directorate :*** An Application Service has been developed and deployed to integrate the Members Database of

ICWAI with the MCA–21 Application of the Ministry of Corporate Affairs.

The IT Task Force of the Institute recommended the upgradation of online student registration system (IEPS) being used by Regional Councils and Chapters. The system has been upgraded to incorporate additional functionalities to facilitate integration with existing application (ICMS) of ICWAI being used by Studies, F&A and Membership Directorates. The website of the Institute has been re-structured and re-designed to make it easy to navigate and search. Online facilities for the members and students have been provided. One day workshop on XBRL was organised for the practising members of the Institute on Apr 28, 2011 at New Delhi.

***(G)Professional Development Directorate :*** The MCA21-Certified Filing Centre Scheme (CFC) was relaunched for 3-years by Ministry of Corporate Affairs (MCA) on 01-07-2010 for making application within a period 60 days.

The Institute entered into Memorandum of Understanding (MOU) with Central Board of Excise & Customs (CBEC) on 13-04-2010 to enable practicing Cost Accountants to act as Certified Facilitation Centre (CFC) under Automation of Central Excise and Service Tax (ACES) Scheme for various online Services, such as, Digitisation of documents, on-line filing/uploading of documents, Application for Registration, Returns, Claims, Permissions and Intimations etc.

During the year, this Directorate brought out the a number of publications and these were released during 52nd National Cost Convention.

The Ministry of Corporate Affairs (MCA), vide its General Circular number 15/2011 dated April 11, 2011, has amended the procedure of appointment of Cost Auditor. The circular has now made the Audit Committee of a Company as the first point of reference for appointment of cost auditor to be made by the Board of Directors. The Expert Group had recommended that instead of individual Product/ industry based cost accounting records, the Government should adopt principle based uniform cost accounting record rules.

Ministry of Corporate Affairs (MCA) vide its Order No. 52/26/CAB-2010 dated the 16th December,

2010 issued the cost audit order on 115 companies specified therein.

***(H) Training and Placement Directorate :*** 1185 students are currently undergoing practical training and 798 students have been given exemption from practical training. 489 companies have been empanelled for imparting training to our students. Institute completed its final placements for fresh ICWAI pass outs of June'10 and December'10 batches. Institute provided online facility to the students for filling their CVs for placement. A total of 2405 Students opted for campus placement and out of these around 1300 Students have been placed.

***(I) Report of Activities of Taxation Committee :*** Taxation Committee has taken several initiatives through representations before the Revenue Authorities, for upholding the expertise of Cost Accountants and costing issues involved like true and fair assessment of income and demanding statutory recognition of Cost Accountants under Sec.288(2) of the Income Tax Act,1961 vis-à-vis Clause 314(2) of the Direct Tax Code Bill,2010. This Committee also developed and placed Concept Papers on various topics of relevant importance, which are being duly considered by the Authorities in affirmative.

***(J) Cost Accounting Standard Board :*** During the year 2010-11, nine meetings of the Board were organised. Cost Accounting Standard - 13 (CAS-13) on Cost of Service Cost Centre was finalised during the year by CASB and subsequently approved & released by Council of the Institute. The Council has made the mandatory application of CAS 13 for the members of the profession. During the year, Exposure Draft of revised Cost Accounting Standard -3 on Overheads was finalised and released by the Board.

No meeting of the Cost Audit Assurance Standards Board took place during the year 2010-11.

**III. Region & Chapters Activities :**

***Regional Councils & Chapters Co-ordination Committee***

The Committee accepted the recommendation of the respective Regional councils for selection of Best Chapters in to A,B, C and D Category and following Chapters were awarded with a Scroll of Honour and Metal Idol as a mark of their commendable performance during the Year 2010 :

| Category | WIRC | SIRC | EIRC | NIRC |
|---|---|---|---|---|
| A | Ahmedabad Chapter | Hyderabad Chapter | Cuttack–Bhubaneswar Chapter | Chandigarh Panchkula Chapter |
| B | Surat South Gujrat Chapter | Coimbatore Chapter | Ranchi Chapter | Lucknow Chapter |
| C | Aurangabad Chapter | Mysore Chapter | South Orissa Chapter | Jaipur Chapter |
| D | Jabalpur Chapter | Nellore Chapter | Asansol Chapter | Jodhpur Chapter |

***i. Western India Regional Council :*** WIRC News Bulletin is being published every month, which contained information and activities carried out by WIRC and its Chapters in the Region from time to time.

As per the guidelines of The Ministry of Corporate Affairs (MCA)—Government of India, WIRC of ICWAI and its Chapters organized Corporate Awareness Programmes during the Week 14th to 21st Dec, 2010. The first Seminar was organized on the topic 'Investment Outlook 2011', at WIRC premises, on 18th Dec, 2010.

The second Seminar was organized at M.L. Dahanukar College, Vile Parle, Mumbai on 21st Dec, 2010. The topic for discussion was 'Corporate Governance – An Indian Approach'. Chapters under WIRC, viz., Baroda, Bhopal, Nagpur, Surat South Gujarat also conducted Seminars under India Corporate week.WIRC and the Chapters in the region conducted 7 programmes at various locations during the India Corporate Week and a large number of members attended the programmes.

As per the direction of The Ministry of Corporate Affairs, WIRC had arranged Investors' Awareness programme on Tuesday, the 13th July, 2010, at Sydenham College of Commerce, Churchgate, Mumbai.

WIRC had organized a Chapters' Meet and a two day residential orientation programme at Mahabaleshwar (MH) from 1st to 3rd October, 2010.

The Chapters' Meet was inaugurated by CMA B.M. Sharma, President, ICWAI on 1st October, 2010.

Chapters' Meet was held on 24th December, 2010, at Kalyan, to coincide with the Regional Cost Conference of WIRC, where Representatives from many Chapters participated.

3rd Students' Conference of WIRC was held on Monday, the 24th January, 2011, by the Baroda Chapter of Cost Accountants.

The Fifth Campus Interview for the students passed in June, 2010 ICWAI Examinations was held at VJTI, Matunga on 9th October, 2010 and ***Sixth*** Campus for the candidates passed in December, 2010 ICWAI Examinations was held on 16th April, 2011, at N.M. College of Commerce, Vile Parle (West), Mumbai. A large number of students were recruited by the participating Companies.

***ii. Southern India Regional Council :*** National Cost Convention was held at Chennai on 6th, 7th, & 8th Jan, 2011 with the theme "New Enterprise Challenges – Sustainability & Value Creation" As part of the Convention, a Practitioners and Students' Convention were also held. The theme Was "Building the Profession – Inclusive Growth of CMAs in Practice". Students' Convention was with the Theme : "Technology For Business Productivity".

Regional Cost Convention was held at Madurai on 29th & 30th Oct, 2010 with the Theme :"Cost Strategies towards Inclusive Growth and Governance".

The 2nd CMA Global Management Accounting Summit 2010 was held at Columbo during 29th, 30th June ANd 1st July, 2010 in which a delegation from Southern Region with the approval of the Ministry of corporate Affairs, Govt. of India and Central Council comprising Cost and Management Accountants led by Chairman – SIRC attended the Summit.

In connection with the celebration of "India Corporate Week" by the Govt. of India during Dec - 2010 , a series of programmes (jointly conducted by MCA and ICWAI) were organised by SIRC throughout South India. In addition, Investor

Awareness Programmes were organised by SIRC during 2010 – 11 as per the directives of ICWAI and as a Programme Sponsored by MCA, Govt. of India.

SIRC of ICWAI organised a Chapters' Meet on 31st Jul, 2010.

A Press Meet was organised on 3rd Apr, 2010 at SIRC Premises, on the eve of Campus Recruitment Programme and it was well attended including the representation from the Chennai Doordharshan. Another Press Meet was organised on 9th Oct, 2010 at SIRC Premises, on the eve of Campus Recruitment Programme in which many private and Doordharshan channels took part. One more Press Meet was organised on 3rd Oct, wherein our President Shri B.M. Sharma, Vice President Shri M. Gopalakrishnan, Dr. I. Ashok, Chairman SIRC and other Regional and Central Council Members of ICWAI participated. During the meet, President highlighted about the future strategies of the Institute.

***iii. Eastern India Regional Council :*** The 51st AGM of the members of the EIRC was held on 31st July 2010. A remarkable improvement in financial performance has been during the year.

The number of students registered during the year 2010-2011 is 5878 as against 2976 in the year 2009-10. During the year, 2498 students were enrolled for postal coaching and 2608 students have completed and obtained coaching completion certificates. EIRC published a monthly news letter styled as 'EIRC NEWS' for the members & students. Series of Campus Interviews were held during the year. The following Management Development Programmes were held:

1. On 28th Aug, 2010 an open members' meet was organized at EIRC premises.
2. On 4th Oct, 2010 a Management Development Programme for members' was organized.
3. A Programme for members' on "Citizen's Charter/Client's Charter" organized on 4th Dec, 2010.
4. On 17th Dec, 2010 EIRC organized Investors Awareness program Celebrating India Corporate Week.
5. On 18th Dec, 2010 a Practitioners' Meet was held at EIRC Premises.
6. On 5th Mar, 2011 EIRC organized a discussion meet on Union Budget 2011-12.
7. On 9th Apr 2011 EIRC organized a programme on MSME at EIRC Premises.
8. On 21st May 2011 EIRC organized a programme on Investors Awareness at EIRC Premises.
9. A Seminar on IFRS was arranged for students on 29th Aug, 2010 at EIRC premises.
10. A programme on Soft Skill Development was arranged for Intermediate pursuing students.
11. A workshop on e-filling was arranged where Shri Mrityunjay Acharjee, Head, Internal Audit, Balmer Lawrie and visiting Lecturer, IIM was the Guest Speaker.

***IV. Northern India Regional Council :***

The following events took place during the Financial Year :

1. Career Fair on 16th Nov'2010 at New Delhi
2. Members Meet on Corporate Governance practices & challenges – 17th Dec'2010
3. Seminar on cost Accounting standards – 5th Feb, 2011.
4. Budget 2011 – An Analysis 11th Mar 2011

Chapter's Activities were Investors Enlightened at Allahabad, Inventors Enlightened at Mirzapur, Blood Donation camp, Students Meet, Diwali celebration and Capital Market Intruments at Chandigarh, IFRS Explored at Faridabad, Campus placement, Seminar on Capital Market and Budgeting and Taxation changes and role of Finance in International Trade at Jaipur, Seminar on Role of professional in Micro Economics in Jodhpur.

**Gupta & Co.**
Chartered Accountants

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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 | Employees' Behevolent Fund | **(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<br>986,692 | Advertisement for Journal<br>Rent Receipt | | 298,816<br>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**

## Perspective

There is an increasing need for assurance of non-financial and financial aspects of an organization's sustainable development performance. There remains a gap, however, in standards that govern the emerging profession of sustainability assurance practitioners. There is growing confusion as to what experience is relevant and how best to judge individual competence, often as part of assurance teams.

As a result, the growth of sustainability assurance has been constrained with corresponding damage to quality and credibility.

Recognizing this gap, The Institute of Cost Accountants of India in association with the CII-ITC Centre of Excellence for Sustainable Development (CESD) is conducting a professional qualification training course in sustainability assurance in India. Being one of a kind, the Certified Sustainability Assurance Practitioner Training Course (CSAP), accredited by AccountAbility, offers a series of AccountAbility certified modules that build expertise in key elements of corporate responsibility. The training is especially useful to companies, practitioners and assurance providers.

## Objectives of the Training Course

- To enable practitioners to develop, validate and communicate their competence in a systematic manner.
- To make it easier for organizations to source relevant and credible assurance expertise.
- To improve confidence for those seeking assurance, such as organizations' stakeholders, in the expertise of professionals engaged to assess and pass judgment on their behalf.
- To develop a systematic understanding of key competencies for providing effective assurance, and a basis for informing on this and other standards in the future.

## Course Coverage

- **Module – I Foundation in Corporate Responsibility:** This module covers latest issues in corporate responsibility, sustainability and accountability,their key drivers, benefits and the regulatory context.
- **Module – II Foundation in Stakeholder Engagement:** This module equips participants with a thorough understanding of the rationale and benefits of stakeholder engagement, and how to undertake stakeholder engagement.
- **Module – III Foundation in Sustainability Reporting:** This module covers the purpose and benefits of sustainability reporting and the key Principles underlying effective reporting. The GRI G3Guidelines are covered in detail, and delegates assess their application to case study reports.
- **Module – IV Sustainability Assurance Practitioner Training:** This module covers the principles underlying sustainability assurance, including the changes to the revised AA1000 Assurance Standard. Participants gain experience on assurance through group exercises. This module is covered in two days.

## Training based on the Global Sustainability Standards:

ISO 26000, Revised AA1000 AS & AA1000 APS, AA1000 SES, GRI G3 Guidelines.

## Faculty

Faculties of the course are leading Corporate Responsibility professionals with substantial experience of providing sustainability advice and assurance to organizations. The faculty share hands-on practical experience with the participants.

## Methodology

Frequent interactions among the participants in the form of discussions, case study presentation and group exercises strengthens the learning discussion.

## Participation Fee

Rs 42,000/- (Rupees Forty Two Thousand Only) per participant + Service Tax @10.3%).

Rs 35,000/- (Rupees Thirty Five Thousand Only) per participant for Members of the Institute of Cost Accountants of India.

The Cheque / DD to be sent along with nominations in favour of "The Institute of Cost and Works of Accountants of India" payable at New Delhi.

**Details of ECS Payment:** State Bank of India, Lodhi Road Branch, New Delhi-110003

**Current Account No.:** 30678404793, MICR Code: 110002493, IFSC Code: SBIN0060321

**Note:** Participation fee is non-refundable.

A Pre-Course material will be provided to participants who confirm their participation and submit the participation fees. This material includes Course Overview, Executive Summary of the Modules, References and a Pre-Course Questionnaire.

**CEP Credit 10 Hrs. will be given to the members of the Institute.**

## Registration Procedure

Nominations can be sent –

- By E-mail followed by Payment through Post/Courier along with the Registration Form.
- By Post/Courier/Speed Post/By Hand along with the Registration Form and the Payment.

***For Further Details and Registration Please Contact:***


**CMA Nisha Dewan**

Joint Director (CEP)

**The Institute of Cost Accountants of India**

CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi – 110003.

Phones: EPABX- 24622156/57/58, 24618645 (D) 011-24624460

Tele-Fax : 011-24622156, 24618645

Email: cep.regn@icwai.org, Website: www.icwai.org

## About CII-ITC Centre of Excellence for Sustainable Development

CII-ITC Centre of Excellence for Sustainable Development, a pioneering effort by the Confederation of Indian Industry (CII), works to create a conducive, enabling climate for Indian businesses to pursue sustainability goals. The Centre promotes awareness, encourages thought leadership and builds capacity to achieve sustainability across a broad spectrum of issues.

## About The Institute of Cost Accountants of India

The Institute of Cost and Works Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting. The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

**The CWA (Amendment) Act, 2011 has come into force with effect from 1st February, 2012, whereby the name of our Institute has been changed to "The Institute of Cost Accountants of India".**

## Objectives of the Institute

- To promote the knowledge of Cost and Management accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.
- To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general.
- To create knowledge through research both applied and conceptual relevant to management on cost accounting and its undenying disciplines so as to disseminate such knowledge through publications.

**President**
**CMA M Gopalakrishnan**

**Vice President**
**CMA Rakesh Singh**

**Chairman**
Continuing Education Programme Committee
**CMA Hari Krishan Goel**

# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statuory Body Under An Act of Parliament)

# REGISTRATION FORM

**Five Days Training Course on**

## CERTIFIED SUSTAINABILITY ASSURANCE PRACTITIONER (CSAP)

**14-18 May 2012, Chennai**

**1. Detail of Nominations**

| S.No. | Name | Designation | Membership No. (If CMA) |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |

**(Please attach sheet if required)**

2. **Name & Address of the Organisation :** ..........................................................................................................

..........................................................................................................................................................................

3. **Telephone No. (with STD/ISD Code) :** ..........................................................................................

4. **Fax (with STD/ISD Code) :** ..................................................................................................................

5. **Mobile No. :** ............................................................ **Email :** ............................................................................

**Priticipation Fee :**

**Rs. 42000/- (plus Service Tax @10.3%)**

**Rs. 35,000/- per participant for the members of the Institute of Cost Accountants of India.**

**Payment Details :**

**Local Cheque/Demand Draft no.** ................................ **dated** ............................ **for Rs.** .....................................
**in favour of 'The Institute of Cost Accountants of India' payable at New Delhi towards participation fee; OR**
**if by ECS, details of ECS Payment :** ..........................................................................................................

**(Note :** In case of Company sponsored Candidates, signature of nominating authority with designation and Company seal)

**SIGNATURE**

## Business Mathematics and Statistics

By N G Das and K L Das

Tata McGraw Hill Education Private Ltd.

First Edition 2012
Price Rs. 150.00

This book is written as per the new syllabus of B.Com Part I (Honours and General) of the University of Calcutta and covering the requirement of BBA and similar undergraduate courses of different universities of India. It is also useful to the students studying commerce, economics, management, psychology, education and other professional courses like ICA etc. It provides the students with a comprehensive and balanced coverage of theory & problems of mathematical and statistical techniques applicable to the world of commerce and management. A good number of problems have been solved in each of the chapters, as applicable, followed by a large number of questions with answers for numerical problems.

This book provides the principles of statistics with clarity combined with simplicity. Each chapter of the book first discusses the basic concepts and then moves on to delve into the advanced concepts. The text includes real-life problems, both solved and unsolved, applying different mathematical and statistical techniques. A large number of illustrative examples have been solved to explain the concepts.

Unsolved problems included in each chapter will enable the students to assess their understanding of the concepts. Solutions for the last five years' question papers from University of Calcutta relevant to the present syllabus have been provided for ready reference.

The book has twenty one chapters. The first nine chapters discuss the basic principles of mathematics like permutation, combination, set theory, logarithm, binomial theorem, compound interest, annuities, roots, AP & GP series, functions, polynomial and interpolation. The next five chapters cover charts & diagrams, frequency distribution, measures of central tendency, & dispersion, moments, skewness & kurtosis. Next come correlation and regression, association of attributes, interpolation, index number, and time series. The last chapter is on probability theory covering random experiment, classical definition of probability, drawing without and with replacement, Bayes' theorem, axioms of probability, conditional probability and independent events.

Business mathematics and statistics have now become compulsory subjects for the students of commerce and management streams. This book will help the students to prepare themselves for their study without any additional guidance. Some advanced examples are also given for the benefit of ambitious students. The lucid presentation of the serious subject like statistics in a comprehensive and elaborate manner makes this a self study reference book for the students. It deserves a place in related libraries in our country.

**Subir Chakraborty**
**B.E. (Mech), FCMA, Gr (OR),**

## Legal Aspect of Business

By Akhileshwar Pathak

Tata McGraw Hill Education Private Ltd.

Fourth Edition 2012
Price Rs. 150.00

Legal environment constitutes an important aspect of business and therefore forms an indispensable part of students who are pursuing the professional course. A large No. of text books have been published on the subject but the present work is distinctive in being a specific module for professionals. The presentation of the subject matter has been kept simple and logical keeping in view the "no-legal" background of most of the candidates.

This book has been so designed that the reader masters the subject matter through a simple & logical presentation & further understands the legal provisions with the help of supporting examples & case laws.

At the end of each chapter summary is given along with specific case law, so that the students and the professionals are benefited.

The present edition has been necessitated on account of spate of changes in Central Excise Tax, Value Added Tax, Service Tax, Arbitration Law, Right to Information Act, Environmental Protection Act, Indian Contract Act, The Sales of Goods Act, Consumer Protection Act, Unfair Trade Practices Act, Companies Act & the rules framed under them.

Various cases under Central Excise Tax, Value Added Tax and Service Tax, gives a total picture of law & taxation in India. This book enlightens the readers about the Fundamental Rights and the IndianConstitution including the filing of the public interest litigation for enforcement of the Fundamental Rights.

It also provides a clear picture of the Arbitration Law, Right to Information Act, Criminal liability and its implications, Environmental Protection Act, Indian Contract Act, The Sales of Goods Act, Consumer Protection Act, UTPS, Companies Act & the rules framed under them, along with the legal terms to enable the students & the professionals to know the meaning easily.

This book will definitely create a bridge amongst the author, students, readers, faculty members and professionals in one stroke.

**Partha Sarathi Basu**
**Advocate**

# Glimpses of 53rd National Cost Convention held at Vigyan Bhawan, New Delhi during 15-17th March 2012

Shri M. Gopalakrishnan, President & Shri H.K. Goel Council Member welcoming Shri R.P.N. Singh, Hon'ble MoS, MCA.

Shri R.P.N. Singh, Hon'ble MoS, MCA, lighting the lamp.

Shri M. Gopalakrishnan, President lighting the lamp.


Galaxy of past Presidents.

Cross section of delegates. Seen, Smt. Nandna Munshi, Govt. Nominee, sitting next to Shri Kunal Banerjee, past President.


Plenary session in progress.


Technical Session-I in progress.


Technical Session-II in progress.

# Glimpses of 53rd National Cost Convention held at Vigyan Bhawan, New Delhi during 15-17th March 2012

Technical Session-III in progress.

Technical Session-IV in progress.

Technical Session-V in progress.

Technical Session-VI in progress.

CFO Forum.

Valedictory Session.


Cultural Programme

Cultural Programme

# Glimpses of 53rd National Cost Convention held at Vigyan Bhawan, New Delhi during 15-17th March 2012


Release of 'knowledge pack' on the convention-theme.


Presentation of award to distinguished ICON.


Presentation of memento.

Council Members with the delegates on the dais.

Presentation of memento.

Presentation of memento.

Our student organizers.

Cross section of delegates including past Presidents & Council Members.


20th Board Meeting of SAFA organised by the Institute at New Delhi on 14th March, 2012.

Joint meeting of PAIB Committee of IFAC and SAFA on 12th March 2012 at New Delhi.


Meeting of PAIB Commitee of IFAC organised by Institute at New Delhi on March 13-14, 2012.

Shri M. Gopalakrishnan, President of our Institute at the meeting held on 20th meeting of SAFA Board on 14th March, 2012 at New Delhi.


Shri M. Gopalakrishnan, President of the Institute addressing the joint meeting of PAIB Committee of IFAC-SAFA Board at New Delhi on March 12th, 2012.

Shri Prodyut Chattopadhyay, faculty lighting the lamp along with with Dr. Sanjiban Bandyopadhyay and Shri T.C.A. Srinivasa Prasad, Council Members at the workshop on Central excise held at Institute HQ on 3.03.12.

Shri Chandra Wadhwa, past President of the Institute, lighting the lamp at the workshop on 'New framework for maintenance of Cost Records and Cost Audit' at the Cuttack-Bhubaneswar Chapter on 12.02.12. Seen Shri S.C. Mohanty, (standing next to Shri Wadhwa) Council Member and Shri N. Sahoo, (extreme left) Chairman of the Chapter.

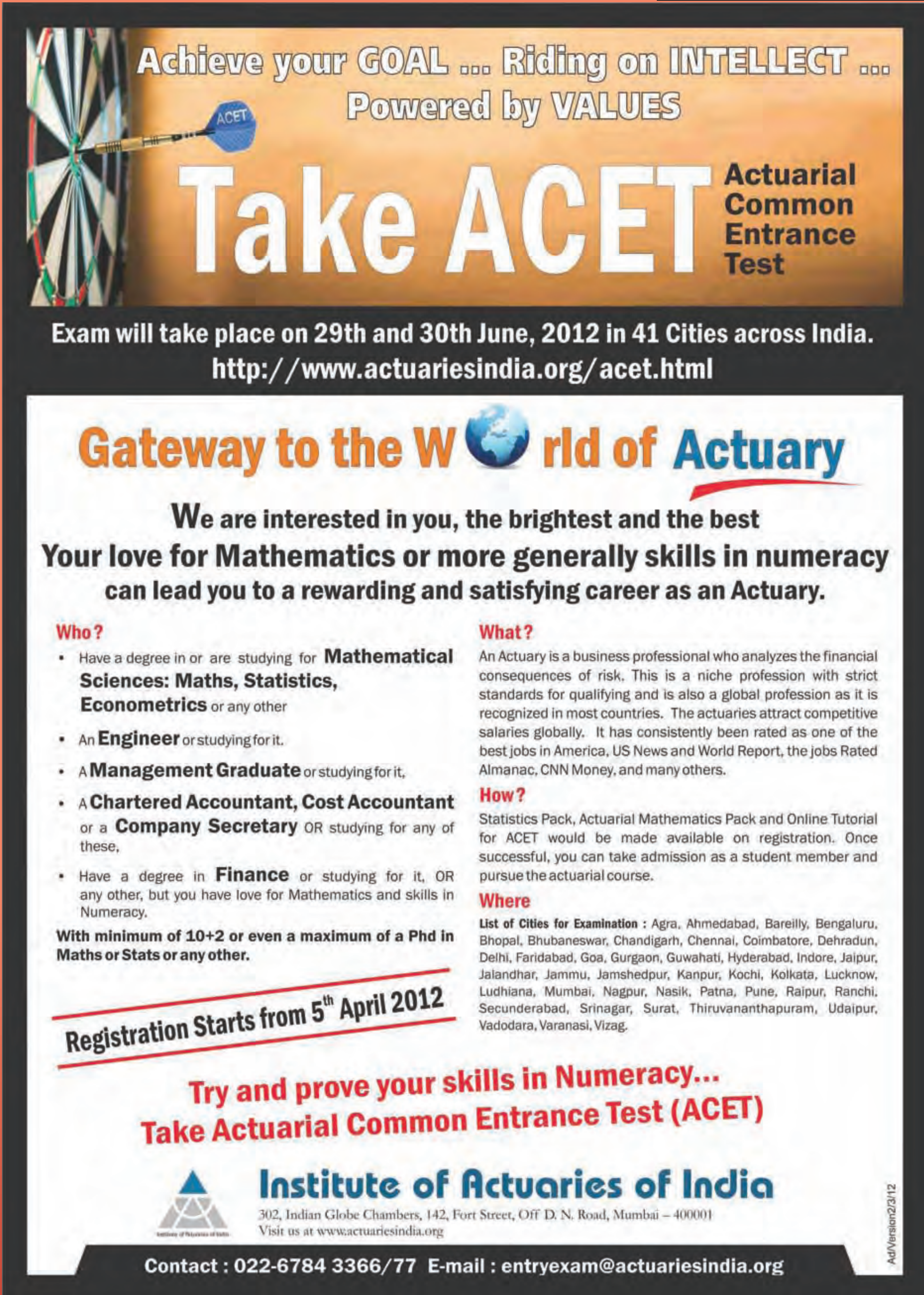
Meeting with officers of Brahmos (an Indo-Russian joint venture). Seen (from L to R) Shri S.K. Iyer, General Manager, Shri S.C. Verma, General Manager, Shri S.C. Gupta, Director of the Institute, Shri Sanjay Gupta, Council Member, Shri G.D. Moorjaani, Financial Advisor, Shri Rakesh Singh, Vice President of the Institute, Shri K.D. Taneja, Company Secretary, Shri M. Gopalakrishnan, President of the Institute and Dr. Pankaj Srivastava, Jt. Director.

Shri M. Gopalakrishnan, President of the Institute presenting bouquet to Mr. Nesar Ahmad, President, ICSI at CMA Bhawan, New Delhi on 28.02.12. Shri Rakesh Singh, Vice President of the Institute standing next to Mr. Nesar Ahmad.


Shri Manas Thakur, Council Member, Shri Chiranjib Das, Dy. Director of the Institute and other dignitaries at the Commerce College, Kokrajhar, Assam at an Extension Lecture on Cost Accountancy course held at Kokrajhar on 4.03.12.

Session on 'Union Budget 2012' organised by the Haldia Zonal office of CII in association with the Institute on 20.03.12 at the conference room of Electrosteel castings Ltd Haldia. Seen (from L to R) are Shri Manas Kumar Thakur, Council Member, Shri A.K.Dey,Chairman, Haldia Zone of CII & Executive Vice President Electrosteel Castings Ltd, Dr.Sanjiban Bandyopadhaya Council Member, Shri Chiranjib Das, Dy. Director (Studies) of the Institute and other officials.

REGISTERED KOL RMS/139/2010-2012
Publication Date : 10th April 2012 R.N.I. 12032/66

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