SPECIAL FOCUS INSIDE

COST ACCOUNTING CANNOT BE UNDERESTIMATED: JUSTICE LAHOTI

the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

AUGUST 2013 VOL 48 NO. 8 ₹60

COST AUDIT & COMPLIANCE

- USEFULNESS OF COST AUDIT REPORT IN EXCISE AUDIT
- NEW MECHANISM OF COST AUDIT AND COMPLIANCE – A SANJEEVANI
- COSTING ‘CARE’ WHILE CARING COST

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

www.icmai.in

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

सूक्ष्म, लघु एवं मध्यम उद्यम
MICRO, SMALL & MEDIUM ENTERPRISES *

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THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

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Sumitra Nandan Srivastava : (M) 08800123463
E-mail : sumitra.srivastava@assocham.com

Mohd. Zumair : (M) 09871238900
E-mail : mohd.zumair@assocham.com

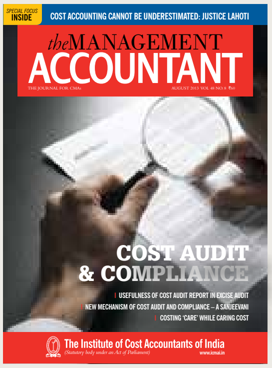
U. K. Joshi, Nodal Officer
National Council for SMEs, ASSOCHAM
Phone : 011-46550583, Fax : 011-46550567
E-mail : u.k.joshi@assocham.com

Application for participation and sponsorship opportunities are available at	Helpline	Duly filled in Applications should reach on or before
www.assocham.org/events	011-46550555	15th September, 2013

*The Ministry of Micro, Small and Medium Enterprises, Government of India has associated with ASSOCHAM for MSME Helpline.

National Council for SMEs
ASSOCHAM House, 5, Sardar Patel Marg, Chanakyapuri, New Delhi - 110021 • Tel : +91-11-46550583(Direct), 46550555 (Hunting Line) • Fax : +91-11-46550567
E-mail : assocham@nic.in • Website : www.assocham.org

The Institute of Cost Accountants of India
CMA Bhawan, 12 Sudder Street, Kolkata 700 016
Tel : 033 - 22521031/34/35 • Fax : 033-22527993/22521026
E-mail : research@icmai.in • Website : www.icmai.in



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CMA Dr. Debaprosanna Nandy
editor@icmai.in

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EDITORIAL OFFICE
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184
Fax: +91 33 2454-0063

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Editorial Office
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184
Fax: +91 33 2454-0063

Headquarters
CMA Bhawan, 12, Sudder Street
Kolkata 700 016
Tel: +91 33 2252-1031/34/35
Fax: +91 33 2252-1602/149

Delhi Office
CMA Bhawan, 3, Institutional Area
Lodi Road, New Delhi-110003
Tel: +91 11 24622156, 24618645
Fax: +91 11 24622156, 24631532, 24618645

WEBSITE
www.icmai.in

The Institute of Cost Accountants of India

The Institute of Cost Accountants of India (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

The CMA 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.

IDEALS THE INSTITUTE STANDS FOR

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

DISCLAIMER

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

Behind every successful business decision, there is always a CMA

FROM THE EDITOR'S DESK

Greetings!

In the recent past, we have witnessed several accounting frauds throughout the world in big corporate houses. These corporate giants had reputed leaders and experienced professionals, robust corporate governance and auditors who were renowned for quality deliverables. Despite this, the frauds committed by managements through manipulation, distortion or misapplication of accounting practices had escaped the auditor's eye.

In view of this, the Ministry of Corporate Affairs has announced a number of circulars and notifications relating to Cost Audit, which have bought about a sea-change in the applicability of Cost Audit Rules. The maintenance of cost accounting records and cost audit have been prescribed for companies engaged in manufacturing, production, processing, and mining activities vide the Various Cost Accounting Records Rules 2011 and Cost Audit Report Rules 2011. The concept of 'Product group' has been introduced for Compliance Reports and for reporting in various paragraphs under cost audit.

The Performance Appraisal Report from a Cost Auditor contains useful information and suggestions on capacity utilization, efficiency analysis, Utilities analysis, Key-costs and Contribution analysis, etc. Companies can benefit hugely from this report, which is based on the experience and expertise of the cost auditor.

In such a competitive scenario, Cost Audit Reports can play a pivotal role because it provides reliable and authentic feedback to the government and its various departments and agencies. The Cost Audit Report is an effective tool of information in the hands of directors on the board because it gives a clear-cut analysis of cost structure and pricing policy, thus ensuring good corporate governance. It also provides performance appraisal reports which help directors, the government, and investors to understand the performance of the company. They also help the company get the cost and revenue information necessary to formulate and implement strategies.

With increasing foreign trade coming under the WTO regime, the dumping of products has become a serious issue in international trade. Cost records and the cost audit report help to control the dumping process and effectively apply the Competition Act.

The Cost Audit Report is a very useful resource for the Direct and Indirect Tax Authority because cost audited records play a huge role in determining 'Arms length'. The Excise department also depends on the cost audit report to determine excise duty. The Cost Audit Report shows the actual amount of various taxes paid by a company provides information about actual productivity and wastage.

As a whole, the cost audit focuses on performance evaluation. It helps to improve business performance and production efficiencies by detecting deviations from standards, provides reasons for visible and invisible losses, inefficiencies, wastages, etc. and shows the most efficient and effective ways to utilize scarce resources.

It is our pleasure to present a completely new-look journal with more thought-provoking content. This issue has a few relevant articles on 'Cost Audit and Compliance'. We have also introduced a 'Special Focus' article from eminent personalities from varied professions. We are indebted to all the contributors to this important issue. We look forward to feedback from our readers on the articles and of course on the new look of the journal at editor@icmai.in. We hope our readers enjoy this issue.

Cover stories invited for the September and October 2013 issues of *The Management Accountant*

The cover story of the September 2013 issue of *The Management Accountant* will be on 'Health sector: Imperatives for CMAs'. The cover story for the October 2013 issue will be 'Enterprise Risk Management'. Articles on the topic are invited from readers and authors along with their passport-size photos. Please send your articles by e-mail to editor@icmai.in followed by a hard copy to CMA Bhawan, Fourth floor, 84 Harish Mukherjee Road, Kolkata 700 025. Hard copies for the September issue must reach by 8 August 2013 and those for October by 8 September.

Attention

We will soon launch a membership drive for eligible final qualified candidates. Those who are satisfied of their eligibility criteria, details of which are mentioned under the 'Members' Menu' on the Institute's website www.icmai.in are encouraged to rush in their applications and obtain Associate membership of the Institute.

Corrigendum

On page 851 of the July 2013 issue of *The Management Accountant*, a subhead was wrongly printed as 'Advancement to Fellowship'. It should have read 'Admission to Associate membership'. We regret the error.

Situation in business world mandates a rational approach to effective Cost Management as the key mantra for survival and sustainability

CMA Suresh Chandra Mohanty
President, The Institute of Cost Accountants of India

Man is bound by his own actions except when it is performed for the sake of sacrifice. Therefore, efficiently perform your duty, free from attachment, for the sake of sacrifice alone. – Bhagwad Gita

I am deeply honoured and privileged to address one and all in my CMA fraternity, well-wishers and guides through this esteemed column on my assuming as the 56th President of the Institute. I take this opportunity to express my sincere gratitude to all my colleagues in the Council for reposing their confidence on us and expressing their magnanimity through an unanimous selection of CMA Dr A S Durga Prasad as our Vice President. I am deeply indebted to CMA M Gopalakrishnan, Past President and my Immediate Past President CMA Rakesh Singh, for laying down a strong foundation through various key initiatives executed during their tenure and bestowing the responsibility on me to carry further as the torch bearer of the CMA profession. Words of gratitude to all my professional colleagues in SAFA for making a special mention in their e-bulletin, on our assuming the office; I sincerely trust with the cooperation and contribution from all, we would accomplish our desired objectives to serve the national interest at large. Our thrust would also include propagating financial literacy amongst mass to channelize savings into formation of financial assets and facilitate their deployment in most productive uses. Our initiatives would cater the need of organizations/industries to implement best practices of cost management for their gainful utilization of scarce resources.

As I undertake this onerous responsibility as President of the Institute with blessings and good wishes from my seniors and colleagues who have always been a great source of inspiration propelling me to work passionately for the growth of the profession over the years, I sincerely trust their continued support and cooperation in all our future endeavours.

The socio-economic landscape of our country is undergoing a sea-change as we move towards the attaining of VISION 2030. This has given rise to ambitious aspirations of the people who are demanding quality education, health care services at an optimum cost, efficiency in infrastructure use, and ensure inclusive growth. The high degree of complexity, volatility and uncertainty in the business world mandates a rational approach to effective Cost Management as the survival mantra. This would facilitate in making an effective utilization of the latent potential.

The Institute through its newly introduced curriculum "Syllabus 2012" has continued to disseminate knowledge to further enrich the CMA professionals. To meet the requirements of the stakeholders at large, CMA Professionals are committed to cater to the national requirement by extending their expertise to support the initiatives of the Government, industry and all the sectors of the economy essentially to enhance human capability so to promote profit with integrity.

Our Institute is spearheading the initiatives on various dimensions of Cost Management to bring about cost competitiveness and sustainability in the industry and also to render valuable services to the potential sectors of the economy.

While continuing with the above thrust, we are committed to strengthen indigenous industries to make further improvement in adopting the best practices in cost management. We are collaborating with the Government, industry, academic institutions, and other organizations engaged in advocating best cost & management accounting practices.

To discharge our Professional Social Responsibility (PSR), we are extending our expertise and competence by collaborating with various State Government/s, to facilitate capacity building and shaping "Young India", to reach the unreached across the value chain. We are committed to shape the quality of youth to be 'employable professionals'. To serve the needs of MSME Sector & Voluntary Organizations, we are offering CAT (Certificate in Accounting Technician) Program. This would facilitate in developing a pool of trained, skilled and employable Accounting Technicians for the Nation and for students to earn while they learn. The efforts are also to make actively participate in Faculty Development Program to standardize the teaching-methodology across the Institute and implement robust training mechanism with special focus on providing adequate soft skills. The spread of CMA Support centres across the country by partnering with leading academic institutions, colleges, universities would facilitate to establish a strong social bondage.

We are also expanding our physical infrastructure by creating Centre of Excellence in major cities, leveraging the local sectors such as Pharmaceuticals, Infrastructure, Mining, Power, etc by initiating research which will help the industries with best practices. We also plan to leverage IT (Information Technology) for streamlining administration & decentralize activities to render services to all the stakeholders of the Institute.

I am happy to inform that our Council has approved the constitution of the National Advisory Board consisting of eminent persons from industry and other sectors to provide insight and formulate strategies and policies of the Institute to fit in with the emerging economic environment and provide leadership in the field of Cost and Management Accounting. Their valuable guidance would enable the Institute to lay down the way forward and achieve the desired objectives.

> **"I TAKE THIS OPPORTUNITY TO EXHORT YOU ALL TO TAKE UP THE CHALLENGE OF CARVING A NICHE FOR THE COST AND MANAGEMENT ACCOUNTING PROFESSION AND LEVERAGE OUR EXPERTISE IN ACHIEVING THE OBJECTIVE OF SUSTAINED INCLUSIVE GROWTH FOR THE PEOPLE OF THE COUNTRY**

I am sure that with the above mentioned priorities in focus and with your active support, participation and guidance, I would be able to constructively deliver the intended outcomes.

I propose to implement the action plan for the year 2013-14 (available in website of the Institute) which is based on the policies laid down by the Government and aspirations of the stakeholders. The months of August and September 2013 would also focus for Membership Drive.

We express our deepest respect to Dr. Veerappa Moiley, Union Minister of Petroleum and Natural Gas, Government of India for his kind gesture by accommodating our courtesy visit despite his busy schedule. We are also obliged to Mr Naved Masood, Secretary and Mr MJ Joseph, Additional Secretary, Ms. Renuka Kumar, Joint Secretary, Mr Manoj Kumar, Joint Secretary, Mr Suresh Pal, Joint Secretary, Mr Amardeep Singh Bhatia, Joint Secretary and Mr UC Nahta, Director, Inspection and Investigation of the Ministry of Corporate Affairs, Government of India, for sparing their valuable time to provide us necessary guidance and recognizing the special role of our esteemed profession.

I take this opportunity to exhort you all to take up the challenge of carving a niche for the Cost and Management Accounting profession and leverage our expertise in achieving the objective of sustained inclusive growth for the people of the country. The opportunities are immense, and it requires synergized and professional approach to be able to deliver as per the expectations of the stakeholders.

I wish you and your family members on the occasion of Id-ul-fitre, Independence Day, Raksha Bandhan and Janmashtami.

With warm regards,

CMA Suresh Chandra Mohanty
2 August 2013

The Institute's Action Plan 2013-14

A. India's Vision and Aspirations

In the Twelfth Plan document the Government of India has set the goal for Faster, sustainable and more inclusive growth. Achieving the targeted average growth rate of 8% as set by the Planning Commission will require capacity building, primarily skills and knowledge of human resources and infrastructure.

The outcome of spending the mandated 2% of PAT on CSR activities by the corporates will be achieved through proper planning, monitoring and impact assessment of CSR projects.

Improving the productivity of resources implies identifying and serving customer needs, elimination of wastes and innovation and improvement in processes and systems to reduce costs at the firm level.

The Institute of Cost Accountants of India is committed to serve the country by extending its expertise and support to the government, industry and all the sectors of the economy to achieve the desired economic and social objectives.

CMAs are professionally trained to apply management accounting tools for enhancing productivity of resources and waste minimization from the process of production and distribution of goods and services by collating and analysing cost and revenue data at the firm and macro level.

B. Action Plan 2013-14: Core Objectives

The Institute has set out the following objectives for the year 2013-14:

1. To strengthen the cost competitiveness of Indian industry by inculcating cost management focus through propagating best practices in cost management and cost accounting.
2. To provide low-cost accounting services to firms operating in the MSME sector and voluntary organisations by building accounting capabilities at the school level across the country and by creating a cadre of accounting technicians.
3. To achieve significant growth in the number of CMAs by attracting talented students to join the profession in order to provide management accounting services to companies to enable them to enhance the productivity of resources through cost and revenue management.
4. To strengthen the profession through networking and collaboration with international CMA bodies.
5. To strengthen the globalisation process by establishing overseas centres in different countries where the Institute has no presence.

C. Action Plan 2013-14: Core Activities

1. Intensify the spread of CMA support centres across the country by partnering with leading academic institutions.
2. Extending the reach across the accounting value chain by rolling out the Accounting Technician Certification Programme.
3. Initiate projects for issuing industry specific technical guidance on risk management, internal audit and, cost and management accounting.
4. Offer short-term programmes for non-members and members to provide understanding of state-of-the-art management accounting tools.
5. Strengthen the Continuing Education Programmes through E-learning mode to facilitate participation by CMAs and to provide opportunities to learn from experts located globally.
6. Actively intervene in improving cost management system by providing consultancy in domains which is out of reach of individual members or CMA firms.
7. Strengthen relationships with Central and State governments and other stakeholders.
8. Strengthen relationships with international CMA bodies.
9. Establish overseas centres in London, Paris and other important cities in various continents having presence of CMA members.
10. Actively participate in international initiatives on business sustainability.
11. Organize chain seminars across the country on Internal Audit, Indirect Taxation, CAS, CAAS, risk management and Corporate Governance
12. Actively participate in Faculty Development Programmes to improve the quality of teaching, robust training mechanism with special focus on soft skills at the college, university and CMA support centres.
13. Strengthen the direct learning delivery mechanism for CMA students to improve their learning and satisfaction level.
14. Strengthen the practical training for CMA students.
15. Collaborate with the Government, industry and academic institutions to undertake studies, research and innovation in the core sectors of the Indian economy.
16. Enhance Visibility and Brand Value of the profession.

OUR NEW PRESIDENT

CMA Suresh Chandra Mohanty

CMA SURESH CHANDRA MOHANTY was unanimously elected as the President of the Institute of Cost Accountants of India (ICAI) for the period 2013-14 on 22 July 2013. He is the 56th President of the Institute. CMA Mohanty was the Vice-President of the Institute from 2012-13.

CMA Mohanty is a Graduate in Economics, Fellow Member of the Institute of Cost Accountants of India (ICAI) and Institute of Valuers (FIV) of India and holds a degree in Law. He is a Registered Valuer under the Wealth Tax Act, 1957 and Licensed Surveyor & Loss Assessor.

CMA Mohanty has vast experience in matters relating to standards setting. He has played a pivotal role liaisoning with key regulators and maintaining dialogue with international standards setters. He has visited many countries and represented the Institute in various national and international events and conferences.

CMA Mohanty represents the Institute in the Accounting and Auditing Committee and the Task Force to review the Constitution of the South Asian Federation of Accountants (SAFA).

CMA Mohanty has made remarkable contributions to the Cost and Management Accounting (CMA) profession as Chairman of the Cost Audit and Assurance Standards Board (CAASB). Under his chairmanship, the Board finalized a roadmap for developing Cost Auditing and Assurance Standards in line with recent professional changes and Government directives. The Board has formulated the Preface to the Standards on Quality Control, Auditing, Assurance, Review and related services rendered by the Cost Accountants and also released four Cost Audit and Assurance Standards as guidance to the members.

CMA Mohanty has also played a key role as a member of the Cost Accounting Standards Board of the Institute,in developing Cost Accounting Standards.

Before joining practice as a Cost Accountant in 2001, CMA Mohanty held key portfolios in the corporate sector for more than 23 years. He has adequate exposure and expertise with a proven track record in the fields of cost and management accounting, finance, accounts, audit, taxation, industrial relations, corporate and labour laws and BIFR. His expertise in the field of cost and management accounting immensely benefited the Institute at its headquarters, regional councils and chapters in various fields including professional development, academics and administration. He is a research scholar at Utkal University and a member of the Indian Accounting Association, the Orissa State Productivity Council, Rotary Club of Bhubaneswar and the Orissa State Vigilance Council.

CMA Mohanty is the Senior Partner at S C Mohanty & Associates, Cost Accountants and also a Director of SCM Consultants Pvt Ltd and the ICWAI Management Accounting Research Foundation.

With his dynamic leadership, the profession will reach new heights and discharge its specialized role for the cause of society.

OUR NEW VICE PRESIDENT

CMA Dr A S Durga Prasad

CMA DR A S DURGA PRASAD is an accomplished executive with over 37 years of experience in Financial Management and Cost Management in a variety of industries. His experience includes Financial Advisory Services, strategies and business development for small and medium industries and providing cost management systems and MIS systems for a large number of units.

CMA Durga Prasad, B.Com, PhD, has been involved in all facets of corporate strategic management, including developing business models, financial structuring, mergers and acquisition, valuation of companies, capital structuring and advising clients on future plans related to fund raising. He was involved with a number of public offers and was advisor to a number of companies. He is currently MD and CEO of a business process management company and director of a boutique investment banking company.

He was Chairman of the Southern India Regional Council of the Institute. He was a visiting faculty with many institutions and a regular speaker at industry and academic forums. He is also a member of several academic institutions and on the board of the Studies and Governing Council. CMA Durga Prasad is a Fellow Member of the Institute of Cost Accountants of India.

Future role of CFOs may be that of a 'chief profitability officer'

CMA Sanjay Gupta
Central Council Member & Chairman – International Affairs Committee

AT the outset I would like to thank the President and the Council of the Institute for instilling faith in me to Chair the International Affairs Committee of the Institute for the third consecutive year. I hope the task assigned to me will be successfully achieved and the committee will come through with flying colors and fulfill expectations.

I would like to focus on the future of Management Accountants. Due to changes in the work environment at electric pace, the role of management accountant may change. Some people even foresee that the role of Management Accountants will look markedly different 10 years from now. In my view, probably not, judging from the significant but not necessarily revolutionary manner in which the role evolved from 2000 onwards.

In all likelihood, the fundamentals and key skills of the profession will remain as they are. What will change, however, is how management accountants apply their portfolio of skills to address the challenges their organizations will confront in time to come. Different elements of the management accountant's tool kit should become more valuable and more frequently used than others.

It appears likely that the management accountant of future will be much more integral to organizational efforts to create value. In recent times, the nature of management accountant's roles has been increasingly paired with the term 'value'. Their more forward-looking insights are applied across the enterprise from strategic planning to operational optimization and are used to manage risks, reduce costs and spot new opportunities. The future role of CFOs may be described as that of a 'chief profitability officer'.

On a related point, it also appears that future management accountants will invest more of their time looking forward to scout out potential threats and opportunities, while spending less time looking backward to track and report past financial performance. They will do so by transforming data into select insights and indicators that inform more agile and more accurate forecasting and planning processes that enable the organization to more effectively adapt to rapidly changing conditions.

Finally, it also seems likely that management accountants will delve deeper into the more human, less tangible assets that their organizations increasingly rely on to derive value in an increasingly competitive global business environment. Although this facet of their role may be new for many, it will require the same measurement rigour and analytical skills that management accountants have traditionally applied to planning, monitoring, and improving operating and financial processes within the organization.

As regard the achievements of the committee during the last year the following are a few of them:

- **International Professional Summit:** The Institute of Cost Accountants of India organized an International Professional Summit – New Approach to Sustainable Growth on 26th & 27th April, 2013 at the Leela Kempinski Hotel, Gurgaon. The Summit was inaugurated by H.E. Mr. Waven Winslow William, High Commissioner, Seychelles High Commission in New Delhi on 26th April 2013. Mr. Satish Jha, Chairman, Pinewood Partners LLC, Kofi Annan Centre was the Guest of Honor while Mr. Steven Moodie, CFO

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MANAGEMENT ACCOUNTANTS WILL DELVE DEEPER INTO THE MORE HUMAN, LESS TANGIBLE ASSETS THAT THEIR ORGANIZATIONS INCREASINGLY RELY ON TO DERIVE VALUE IN AN INCREASINGLY COMPETITIVE GLOBAL BUSINESS ENVIRONMENT

Region India, Ericsson presented the keynote address. CMA Sanjay Gupta, Chairman, WTO&IA Committee of the Institute delivered the welcome address while CMA Rakesh Singh, President gave the Presidential Address. The Summit was addressed by a galaxy of professionals both from India and Abroad. The Summit was attended by over 250 delegates from India and abroad. The theme was deliberated through interactive technical sessions with distinguished panelists providing thought provoking inputs with real life corporate examples.

› **1st GCC CMA Summit 2013 at Bahrain:** The Bahrain Overseas Centre of The Institute of Cost Accountants of India organized the 1st GCC CMA Summit 2013 on the 2nd & 3rd May 2013 in the Kingdom of Bahrain under the theme "Management Accountants – Partners in Progress". Under the guidance and patronage of Industry and Commerce Minister Dr. Hassan Fakhro, Assistant Under Secretary of Domestic Trade Mr. Hameed Rahma opened the Summit. I attended the summit along with CMA Suresh Chandra Mohanty, Vice President, CMA Dr. PVS Jagan Mohan Rao and CMA Sanjay Bhargave, Central Council Members. Several top-notch and distinguished speakers from India and the GCC participated at the Summit. The speakers appreciated that Management Accountants provide management with operational or value chain information that would support productivity and profit enhancement. The function ensures continuous reporting of cost, financial and other information relevant to management decision making impacting productivity and ultimately profitability. The Summit included thought provoking deliberations on key and extremely relevant topics with specific roles of CMAs in "Recession and Profession", "Manufacturing, Contracting, Telecom & Service Sectors", Risk Management, Currency Unification, Sustainability reporting and topics of interest to the CMA profession.

› **Annual Seminar of Dubai Overseas Centre:** Dubai Overseas Centre of the Institute organized its Annual Seminar on 15th March 2013 at Dubai. The Institute was represented by President who was also the Chief Guest, along with me. The event was attended by a galaxy of speakers. The event was attended by a galaxy of speakers like CMA Kunal Banerjee , Past President of ICAI, CMA Saikat Kumar, ECM of Dubai Overseas Centre (DOC), Prof Ranjan Das, IIM-C, Mr. Karim Abdelhey, President IMA Dubai, Mr.T.S. Ramachandra, CFO of Strategic Foods, Britannia & CIMA Dubai, Mr. Alexander Borg, Regional Director, CILT-UK, Mr.P.P. Saradhi, Director Finance of Al Reyami Group, Lt. Gen J S Ahluwalia, PVSM (Rtd.), President of Institute of Directors, Mr. Sunil Bahri, CEO of Kaizensox Consulting FZE& Chairman of ICSI-Dubai, Ms. Swagata Roy, from Chase & Hunt Manpower Consultant. The speakers informed about the various initiatives taken by the Institute for students and members. The Institute is taking these initiatives for getting more and more avenues opened for the members by getting suitable amendments in the various statutes of the country.

› **Opening of 9th Overseas Centre of the Institute:** The Institute opened its 9th Overseas Centre on 14th June 2013 at Washington, DC, USA in the presence of Mr Sachin Pilot, Hon'ble Minister of Corporate Affairs (I/C), Government of India. The event was organized in Hotel Washington Marriott, Washington. Mr MJ Joseph, ICAS, Additional Secretary to the Government of India, Mr Bhaskar Chatterjee, DG & CEO of Indian Institute of Corporate Affairs and Dr TV Somanathan, IAS, Director of General Services, World Bank were also present on the occasion. To mark the occasion a Talk on Role of Management Accountants for Sustainable Business and CSR was organised. Speaking on the occasion various speakers praised the efforts of the Institute and talked about sustainability and Social Responsibility. The role of Management Accountants in helping the corporates by generating meaningful CSR reports was emphasised. President of the Institute said that the Institute is changing its orientation to focus on dissemination of information to the stakeholders. He appreciated the role of competition and urged upon the members of the Institute to brush up their skills to be able to add value to the services and products to keep ahead in the competition. He further added that the time is changing and to manage this change is the biggest challenge for the Professionals.

› **Global Conference on Sustainability and Reporting at Amsterdam:** Global Reporting Initiative (GRI) Focal Point India in collaboration with CII Centre of Excellence for Sustainable Development and TERI BCSD organized GRI's Global Conference on Sustainability and Reporting held in Amsterdam from 22-24 May 2013. I attended the conference along with CMA Amit Apte, CCM. The inspiring and knowledgeable speakers discussed the key global and regional issues in the area of Sustainability. The sessions were expertly moderated with debates on specific issues. Interesting presentations showcased the sustainability and reporting situation in different countries and regions, covering regulatory developments and other current issues like integrated reporting.

› **SAFA International Relations Committee:** I attended the meeting of the Committee as a member on 17th June 2013 at Colombo as a part of SAFA Events. The committee deliberated upon the need for Professional Accountancy Organisation Developing Committee (PAODC) of IFAC to recognize SAFA as a regional standard developing Organisation. The Committee also discussed about the SAARC representation in SAFA Board or Assembly Meeting. The committee discussed about holding SAFA meetings in Maldives, Bhutan and work for development of Accountancy profession in Afghanistan.

› **Sub-group on professional services focusing on accountancy and architecture services:** I am representing the Institute on the Sub-group on Professional services focusing on Accountancy and architecture Services constituted by Ministry of Commerce. Accounting is one of the most widely traded business services, growing in tandem with the globalization of world markets. Accounting services form an essential pillar of business infrastructure that supports business transactions of both goods and services. In addition to financial reporting, accountants and accounting firms provide a wide range of services for businesses that may include bookkeeping, merger audits, insolvency services, commercial strategy consulting, or management consulting. Access to world class accounting services underpins an economy's international competitiveness and facilitates foreign investment.

› **Sustainability and Integrated Reporting:** Cost and Management Accountants have a key role in facilitating organizations to achieve cost competitiveness and excellence in operations. This requires them to keep abreast with the latest developments in the business domains. We are focused on building capacity of the CMAs to educate, engage and execute newer and desirable approaches to sustainable growth through research, publications, seminars and conferences involving national and international domain experts. We have a programmed and action oriented agenda to steer CMAs to the centre point through progressive and periodic international professional events across different locations / countries. We are committed to leading initiatives in this key area of concern for the human beings and have planned to progressively create opportunities and forums for corporates and domain specialists to synergize their thinking and action plans for evolving and implementing pragmatic approaches to sustainable growth.

› International Integrated Reporting Council (IIRC) has released the proposed International Integrated Reporting Framework for comments. It is expected that the integrated reporting would be the next step in the evolution of corporate reporting and communications, helping organizations to communicate a clear and candid picture of their performance to investors. Feedback on the International Integrated Reporting Framework is invited during its public consultation period, which closes on July 15, 2013. We have started organizing round table discussions to come out with comments / suggestions from different stakeholders. In collaboration with CII we are organising a Round Table on Integrated Reporting on 1st July 2013 at Mumbai to obtain feedback from various CFOs, Heads of Finance. One more such conclave was organised on 10th July 2013 at New Delhi which was attended by more than 30 participants.

› **International Centres:** As the Institute is on the growth path, we are planning to open some more International centres at London, Australia and other important locations around the world to represent the voice of the members in those regions.

I once again would like to thank the President and the Council for showing confidence in my leadership skills and giving me a chance to lead this committee.

I wish all the members of the profession a very happy and prosperous rainy season.

Regards.

CMA Sanjay Gupta
1 August 2013

ICAI-CMA SNAPSHOTS

1. Mr Sachin Pilot, Hon'ble Minister of State for Corporate Affairs (I/C), Dr. Rana Kapoor, President, ASSOCHAM, CMA Rakesh Singh, the former President of the Institute at the National Conference on Companies Bill 2012, on 18 July, 2013 in New Delhi

2. Sitting on the dais from left CMA Sanjay Gupta, Chairman, WTO and International Affairs, Mr N Venkatram, Partner and National Leader for Audit and Enterprise Risk Services, Deloitte Haskins and Sells, Mr G P Madan, Co-Chairperson, ASSOCHAM, CMA Dr PVS Jagan Mohan Rao, Council Member, and Mr Pavan Kumar Vijay, Chairman, ASSOCHAM

3. Release of publication on *Management by Consciousness* by SAFIM. From left to right, CMA Sanjay Gupta, Council Member, CMA S C Mohanty, now President of the Institute, Mr R Bandyopadhyay, member of Central Administrative Tribunal and member SAFIM Advisory Board and former Secretary MCA, Justice Ramesh Chandra Lahoti, Chairman of SAFIM Advisory Board and Former Chief Justice of India, Mr O P Dani, Vice Chairman of SAFIM, CMA Dr P V S Jagan Mohan Rao, Council Member, and CMA Nisha Dewan, Joint Secretary of the Institute.

4. Inauguration of the Seminar on Governance by Inner Consciousness held on 13th July, 2013 in New Delhi. From left to right CMA S C Mohanty, the then Vice President of the Institute, Mr R Bandyopadhyay, member of Central Administrative Tribunal and former Secretary MCA, Justice Ramesh Chandra Lahoti, Chairman, SAFIM Advisory Board, CMA G B Rao, former President of the Institute, Mr O P Dani, Vice Chairman of SAFIM with other Council Members of the Institute

ICAI-CMA SNAPSHOTS

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5. Mr Sachin Pilot, Minister of State for Corporate Affairs (I/C), Dr Rana Kapoor, President, ASSOCHAM, CMA Rakesh Singh, former President of the Institute at the National Conference on Companies Bill 2012, on 18 July, 2013 in New Delhi

6. CMA TCA Srinivasa Prasad, Central Council Member welcoming CMA D Bandopadhyay, Registrar of Companies, Kolkata, Others seen on the dais are CMA Manas Kumar Thakur, Central Council Member and CMA Mrityunjay Acharjee, Associate Vice President, Balmer Lawrie & Co Ltd.

7. CMA S C Mohanty, the newly elected President of the Institute, felicitating Mr S Narsing Rao, Chairman of Coal India Limited.

8. CMA Dr Durga Prasad, the newly elected Vice President of the Institute felicitating Mr S Narsing Rao, Chairman of Coal India Limited.


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ICAI-CMA SNAPSHOTS

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9. CMA S C Mohanty, President of the Institute, felicitating Mr Naved Masood, Secretary, Ministry of Corporate Affairs, on the former's election as President.

10. CMA S C Mohanty, President of the Institute, felicitating Mr M J Joseph, Additional Secretary, Ministry of Corporate Affairs, on the former's election as President.

11. Regional Council Members of EIRC felicitating the newly elected President and Vice President of the Institute in presence of Central Council members.

12. CMA S C Mohanty, President of the Institute being congratulated by his immediate predecessor CMA Rakesh Singh, on the former's election as President.

13. CMA Rakesh Singh, former President of the Institute felicitating Professor Amal Krishna Dey, co-author of the book *Capital Markets in India* at its release in Kolkata on 21 July 2013.

14. CMA Rakesh Singh, former President of the Institute felicitating Dr Pankaj Roy, co-author of the book *Capital Markets in India* at its release in Kolkata on 21 July 2013.

ICAI-CMA SNAPSHOTS

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15. The President, Vice President, immediate Past President and Central Council Members with the Government nominees, Mr K Gvindaraj and Mr Suresh Pal.

16. CMA Dr A S Durga Prasad, the Vice President of the Institute being congratulated by CMA S C Mohanty on the former's election as Vice President.

17. Visit to the renovated EIRC office. Seen are the President, immediate Past President, Central Council Members and Regional Council members of EIRC.

18. CMA S C Mohanty, President, CMA Dr A S Durga Prasad, Vice President and CMA Manas Kumar Thakur, Chairman Committee on Research, Innovation & Journal with Mr Veerapa Moily, Union Minister of Petroleum and Natural Gas, Government of India.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Standing Comittee & other Committees of the Council of the Institute for 2013-14 (22 July 2013 to 21 July 2014)

The President and Vice-President are permanent invitees to all the committees

STANDING COMMITTEES

1.	Executive Committee	Quorum (4)	2.	Examination Committee	Quorum (4)
1.	CMA Mohanty, S.C., President	Chairman	1.	CMA Mohanty, S.C., President	Chairman
2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member	2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member
3.	CMA Singh, Rakesh	Member	3.	CMA Gopalakrishnan, M.	Member
4.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member	4.	CMA (Ms.) Soman, Aruna V.	Member
5.	CMA Goel, H. K.	Member	5.	CMA Apte, Amit	Member
6.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	6.	CMA Thakur, Manas Kumar	Member
7.	CMA Bhattad, P.V.	Member			
CMA Kaushik Banerjee - Secretary (Acting)		Secretary	CMA Amitava Das – Director (Examination)		Secretary

OTHER COMMITTEES

3.	Finance Committee	Quorum (4)	4.	Disciplinary Committee U/s 21B of The CWA Act, 1959 as amended	Quorum (3)
1.	CMA Mohanty, S.C., President	Chairman	1.	CMA Mohanty, S.C., President	Presiding Officer
2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member	2.	CMA Singh, Rakesh	Member
3.	CMA Singh, Rakesh	Member	3.	CMA Bhattad, P.V.	Member
4.	CMA Bhargave, S.R.	Member	4.	Mr Bandopadhyay, Debashish, Govt. Nominee	Member
5.	CMA Gupta, Sanjay	Member	5.	Mr Kumar, Alok, Govt. Nominee	Member
6.	CMA Srinivasa Prasad, T.C.A.	Member			
7.	CMA Sreshti, D.L.S.	Member			
CMA S.R. Saha – Director (Finance)		Secretary	CMA Rajendra Bose – Director (Discipline)		Secretary
5.	**Training & Educational Facilities Committee**	**Quorum (4)**	**6.**	**Professional Development Committee**	**Quorum (4)**
1.	CMA Srinivasa Prasad, T.C.A.	Chairman	1.	CMA Bhargave, S.R.	Chairman
2.	CMA Sreshti, D.L.S.	Member	2.	CMA Gopalakrishnan, M.	Member
3.	CMA (Ms.) Soman, Aruna V.	Member	3.	CMA Goel, H.K.	Member
4.	CMA Apte, Amit	Member	4.	CMA Gupta, Sanjay	Member
5.	CMA Gupta, Sanjay	Member	5.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
6.	CMA Thakur, Manas Kumar	Member	6.	Mr Sreekumar, G. (Govt. Nominee)	Member
			7.	Advisor (Cost), MCA (Co-opted)	Member
CMA R.N. Pal - Sr. Director (Studies)		Secretary		CMA J.K. Budhiraja - Director (PD)	Secretary
7.	**Research, Innovation & Journal Committee**	**Quorum (3)**	**8.**	**Continuing Professional Development Committee**	**Quorum (3)**
1.	CMA Thakur, Manas Kumar	Chairman	1.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Chairman
2.	CMA Sreshti, D.L.S.	Member	2.	CMA Sreshti, D.L.S.	Member
3.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	3.	CMA Goel, H.K.	Member
4.	CMA Bhattad, P.V.	Member	4.	CMA Bhattad, P.V.	Member
5.	CMA Gupta, Sanjay	Member	5.	CMA Apte, Amit	Member
CMA (Dr.) D.P. Nandy – Director (R & J)		Secretary	CMA Nisha Dewan - Joint Secretary		Secretary
9.	**Members' Facilities & Services Committee**	**Quorum (3)**	**10.**	**Regional Councils & Chapters Co-ordination Committee**	**Quorum (3)**
1.	CMA Goel, H.K.	Chairman	1.	CMA Bhattad, P.V.	Chairman
2.	CMA (Ms.) Soman, Aruna V.	Member	2.	CMA Goel, H.K.	Member

3.	CMA Sreshti, D.L.S.	Member	3.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member
4.	CMA Apte, Amit	Member	4.	CMA Sreshti, D.L.S.	Member
5.	CMA Thakur, Manas Kumar	Member	5.	CMA (Ms.) Soman, Aruna V.	Member
			6.	CMA Thakur, Manas Kumar	Member
CMA Rajendra Bose - Joint Director (Membership)		Secretary	CMA Arnab Chakraborty – Director (Secretariat)		Secretary
11.	**International Affairs Committee**	**Quorum (4)**	**12.**	**Committee on Information Technology**	**Quorum (5)**
1.	CMA Gupta, Sanjay	Chairman	1.	CMA Srinivasa Prasad, T.C.A.	Chairman
2.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	2.	CMA Gopalakrishnan, M.	Member
3.	CMA Sreshti, D.L.S.	Member	3.	CMA Sreshti, D.L.S.	Member
4.	CMA Bhattad, P.V.	Member	4.	CMA Apte, Amit	Member
5.	CMA Srinivasa Prasad, T.C.A.	Member	5.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
6.	CMA Thakur, Manas Kumar	Member	6.	CMA Gupta, Sanjay	Member
7.	Ms. Munshi, Nandana (Govt. Nominee)	Member	7.	Mr Muraliprasad, S. A.	Member
CMA Tarun Kumar - Joint Director (Intl. Affairs)		Secretary	Ms. Anita Singh - Joint Director (IT)		Secretary
13.	**Cost Audit & Assurance Standard Board**	**Quorum (5)**	**14.**	**Direct Taxation Committee**	**Quorum (4)**
1.	CMA Gopalakrishnan, M.	Chairman	1.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Chairman
2.	CMA Bhargave, S.R.	Member	2.	CMA Gopalakrishnan, M.	Member
3.	CMA Apte, Amit	Member	3.	CMA Bhargave, S.R.	Member
4.	CMA Goel, H.K.	Member	4.	CMA (Ms.) Soman, Aruna V.	Member
5.	CMA Gupta, Sanjay	Member	5.	CMA Gupta, Sanjay	Member
6.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member	6.	CMA Thakur, Manas Kumar	Member
7.	Nominee of CAB, MCA	Member	7.	CMA Sreshti, D.L.S.	Member
8.	Nominee of CAG	Member	8.	Mr Kumar, Ashish (Govt. Nominee)	
9.	Nominee of CERC	Member	9.	Mr Rajaratnam, S. (Co-opted)	
10.	Nominee of RBI	Member			
11.	Mr Narasimha Murthy, K.	Member			
12.	Mr Muraliprasad, S.A.	Member			
13.	Two representatives of Industry Associations / Professional Institutes	Member			
CMA (Dr.) S.K.Gupta – Director (Technical)		Secretary	CMA Arnab Chakraborty – Director (Secretariat)		Secretary
15.	**ICAI(CMA)-ICAI-ICSI Co-ordination Committee**	**Quorum (3)**	**16.**	**Committee for Accounting Technicians**	**Quorum (3)**
1.	CMA Mohanty, S.C., President	Chairman	1.	CMA Apte, Amit	Chairman
2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member	2.	CMA Singh, Rakesh	Member
3.	CMA Singh, Rakesh	Member	3.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
4.	CMA Bhargave, S.R.	Member	4.	CMA Goel, H.K.	Member
5.	CMA Srinivasa Prasad, T.C.A.	Member	5.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member
6.	Mr Suresh Pal, JS, MCA	Member	6.	CMA (Ms.) Soman, Aruna V.	Member
CMA S.C. Gupta – Director (Admin. & PR)		Secretary	CMA L. Gurumurthy – Director (CAT)		Secretary
17.	**Indirect Taxation Committee**	**Quorum (5)**	**18.**	**Corporate and Allied Laws Committee**	**Quorum (3)**
1.	CMA Thakur, Manas Kumar	Chairman	1.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Chairman
2.	CMA Gopalakrishnan, M.	Member	2.	CMA Gopalakrishnan, M.	Member

Contd.					
17.	**Indirect Taxation Committee**	**Quorum (5)**	**18.**	**Corporate and Allied Laws Committee**	**Quorum (3)**
3.	CMA Singh, Rakesh	Member	3.	CMA Singh, Rakesh	Member
4.	CMA Goel, H.K.	Member	4.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
5.	CMA Bhargave, S.R.	Member	5.	CMA (Ms.) Soman, Aruna V.	Member
6.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member	6.	CMA Srinivasa Prasad, T.C.A.	Member
7.	Mr Kumar, Ashish (Govt. Nominee)	Member			
8.	Mr Raveendran, P. (Co-opted)	Member			
CMA Chiranjib Das - Joint Director (Studies)		Secretary	CMA M.P.S. Arun Kumar - Dy. Director (Adv. Studies)		Secretary
19.	**Cost & Management Accounting Committee**	**Quorum (3)**	**20.**	**Committee on Banking, Insurance & Capital Market**	**Quorum (3)**
1.	CMA Gopalakrishnan, M.	Chairman	1.	CMA (Ms.) Soman, Aruna V.	Chairman
2.	CMA Singh, Rakesh	Member	2.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member
3.	CMA Bhargave, S.R.	Member	3.	CMA Apte, Amit	Member
4.	CMA Apte, Amit	Member	4.	CMA Goel, H.K.	Member
5.	CMA Thakur, Manas Kumar	Member	5.	CMA Thakur, Manas Kumar	Member
6.	Dr. Bhattacharyya, Asish K. (Co-opted)	Member			
CMA Nisha Dewan - Joint Secretary		Secretary	CMA Arup Sankar Bagchi – Director (Technical)		Secretary
21.	**Members in Industry and Placement Committee**	**Quorum (3)**	**22.**	**Board of Studies**	**Quorum (3)**
1.	CMA Bhattad, P.V.	Chairman	1.	CMA Sreshti, D.L.S.	Chairman
2.	CMA Gopalakrishnan, M.	Member	2.	CMA Singh, Rakesh	Member
3.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	3.	CMA Bhargave, S.R.	Member
4.	CMA Gupta, Sanjay	Member	4.	CMA (Ms.) Soman, Aruna V.	Member
5.	CMA Srinivasa Prasad, T.C.A.	Member	5.	CMA Apte, Amit	Member
			6.	CMA Srinivasa Prasad, T.C.A.	Member
CMA Rajat Kr. Basu - Joint Director (Examination) in Members in Industry Committee CMA L Gurumurthy - Director (CAT) in Placement Committee		Secretary Secretary	CMA Chiranjib Das - Joint Director (Studies)		Secretary
23.	**Governance, Sustainability and PSR Committee**	**Quorum (3)**	**24.**	**Election Reforms Committee**	**Quorum (3)**
1.	CMA Singh, Rakesh	Chairman	1.	CMA Bhargave, S.R.	Chairman
2.	CMA Bhattad, P.V.	Member	2.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member
3.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	3.	CMA Bhattad, P.V.	Member
4.	CMA Srinivasa Prasad, T.C.A.	Member	4.	CMA Gupta, Sanjay	Member
			5.	CMA Srinivasa Prasad, T.C.A.	Member
CMA (Dr.) S.K. Gupta - Director (Technical)		Secretary	CMA Kaushik Banerjee - Secretary (Acting)		Secretary

25.	**Centre of Excellence & Infrastructure Committee**	**Quorum (3)**
1.	CMA Mohanty, S.C., President	Chairman
2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member
3.	CMA Bhattad, P.V.	Member
4.	CMA Goel, H.K.	Member
5.	CMA (Ms.) Soman, Aruna V.	Member
CMA Kushal Sengupta - Joint Director (Finance)		Secretary

26.	Cost Accounting Standards Board	Quorum (8)
1.	CMA Singh, Rakesh	Chairman
2.	CMA Gopalakrishnan, M.	Member
3.	CMA Bhargave, S.R.	Member
4.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
5.	Shri Pal, Suresh, (Govt. Nominee)	Member
6.	Advisor (Cost), MCA	Member
7.	Nominee of DGFT	Member
8.	Dr. Bhattacharyya, Asish K.	Member
9.	Dr. Gandhi, Sailesh	Member
10.	Dr. Sen, Purushottam	Member
11.	Shri Muraliprasad, S. A.	Member
12.	Shri Vasudeva, S.C.	Member
13.	Shri Mukhopadhyay, A.K.	Member
14.	Shri Ganesan, Murali	Member
15.	Nominee of the ICAI	Member
16.	Nominee of the ICSI	Member
17.	Nominee of ASSOCHAM	Member
18.	Nominee of CII	Member
19.	Nominee of CCI	Member
20.	Nominee of TRAI	Member
21.	Nominee of SEBI	Member
22.	Nominee of PNGRB	Member
23.	Nominee of CBEC	Member
24.	Nominee of CBDT	Member
25.	Nominee of FICCI	Member
CMA (Dr.) S.K. Gupta - Director (Technical)		Secretary

Office bearers of the Regional Councils for the year 2013–2014

Eastern India Regional Council	
Chairperson	CMA Chitra Agarwal
Vice Chairman	CMA Pallab Bhattacharya
Secretary	CMA Bibekananda Mukhopadhyay
Treasurer	CMA Shiba P Padhi
Northern India Regional Council	
Chairperson	CMA Rakesh Bhalla
Vice Chairman	CMA Saurabh Srivastava
Secretary	CMA Arvind Kumar
Treasurer	CMA S K Bhatt

Southern India Regional Council	
Chairperson	CMA P Raju Iyer
Vice Chairman	CMA Padmanabhan
Secretary	CMA Ch. Venkateswarlu
Treasurer	CMA S. Ramachandran
Western India Regional Council	
Chairperson	CMA Ashish P Thatte
Vice Chairman	CMA Neeraj D Joshi
Secretary	CMA Vijay P Joshi
Treasurer	CMA Ashok B Nawal

COVER STORY

USEFULNESS OF COST AUDIT REPORT IN EXCISE AUDIT

Cost compliance and cost audit are similar in one important way: both are closely linked to the Central Excise and Service Tax classification

CMA Sanjay R Bhargave
Central Council Member
ICAI-CMA
Pune

As per The Companies Cost Audit Report Rules 2011, the Cost Auditor has to submit a Cost Audit report along with his observations and suggestions and annexures to the Central Government in the prescribed form.

The Maintenance of Cost Accounting Records and Cost Audit have been prescribed for companies engaged in manufacture, production, processing, and mining activities vide the Various Cost Accounting Records Rules 2011 and Cost Audit Report Rules 2011. The activities covered under Cost Accounting Records Rules and Cost Audit Report Rules are either covered under Central Excise or Service Tax. The entire mechanism of Cost Accounting Records and Cost Audit is based on the concept of Product Groupwise reporting.

The product/activity groups have

been classified under 267 groups. Wherever a product is identified under the First Schedule to the Central Excise Tariff Act 1985, the same has been identified with reference to the four-digit Chapter Heading of the product. As per Notes to Annexure to the Compliance Report under Cost Accounting Records Rules 2011, for produced/manufactured product groups, the nomenclature as used in the Central Excise Act/Rules is to be used and for service groups, the nomenclature as used in Finance Act/service tax rules, as applicable is to be used. Thus, it can be seen that cost compliance is closely linked to the Central Excise and Service Tax classification. Similar is the case with Cost Audit.

Though the Cost Auditor in his report gives the information/details of product group wise details of cost of production, cost of sales, profit for the company as a whole, Rule 4 of the Cost Accounting Records Rules, 2011 provides that the cost records shall be kept on regular basis in such manner so as to make it possible to calculate per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly/quarterly/half-yearly/annual basis.

As per Rule 22(3) of the Central Excise Rules, 2002, every assessee shall, on demand, make available Cost Audit Reports to the officer empowered under sub rule (1) or the audit party deputed by the commissioner. Cost Audit Report is considered as one of the important tools for conducting the Central Excise Audit, in particular EA 2000, as it provides quantitative and financial details regarding production, clearance, capacity utilization, input output ratio, related party transaction, valuation of captively consumed goods.

Due to changes in the format of information to be given in Schedule 6 to the Annual Report, the quantitative details are not available in the Annual Report. Therefore the Cost Audit Report is the only authentic document which provides quantitative as well as financial details regarding production, clearance, stock etc.

The Annexures (Paras) to the Cost Audit Report help the excise department in comparing various information submitted by the assessee in various Excise Returns with the audited quantitative and financial details. It also helps in finding out revenue leakages. The assesses can also use the Cost Records and Cost Audit Report to ensure compliance and correct the mistakes, if any , before the mistakes are noticed by the excise officers.

Here is an attempt made to link the cost audit report with various provisions of Central Excise and Service Tax.

The Annexures (Paras) to the Cost Audit Report contain following information.

Annexure 1

Annexure 1 contains the general information about the Company and Cost Auditor. This information can be used at the time of Desk Review, which may be useful for audit of multi locational units. It provides particulars of other manufacturing units and the products manufactured by the company.

Annexure 2

The annexure contains information about cost accounting policy adopted by the Company keeping in view the requirements of the Companies (Cost Accounting Records) Rules, 2011, the Companies (Cost Audit Report) Rules, 2011, Cost Accounting Standards and its adequacy or otherwise to determine correctly the cost of production/operation, cost of sales, sales realization and margin of the product/activity groups under reference separately for each product/activity group. The policy should cover, *inter alia*, the following areas:

a. Identification of cost centres/cost objects and cost drivers
b. Accounting for material cost including packing materials, stores and spares etc., employee cost, utilities and other relevant cost components
c. Accounting, allocation and absorption of overheads
d. Accounting for Depreciation/Amortization
e. Accounting for by-products/joint-products, scarps, wastage etc.
f. Basis for Inventory Valuation
g. Methodology for valuation of Inter-Unit/Inter-Company and Related Party transactions
h. Treatment of abnormal and non-recurring costs including classification of other non-cost items
i. In case the Company has adopted IFRS, variations (if any) in treatment of cost accounting arising

out of adoption of IFRS in Financial Accounting

j. Other relevant cost accounting policy adopted by the Company

k. Changes, if any, made in the cost accounting policy for the product/ activity group(s) under audit during the current financial year as compared to the previous financial year.

l. Observations of the Cost Auditor regarding adequacy or otherwise of the Budgetary Control System, if any, followed by the company

The information in this annexure may be useful in identifying contraventions of various Excise/Cenvat Rules such as

1. Treatment on non moving, obsolete goods in accounts :- Rule 3(5B) of the Cenvat Credit Rules,2004, provides that if inputs or capital goods , before being put to use , are written off fully or partly or any provision is made in books of account to write off fully or partially , the manufacturer or service provider is required to pay an "amount" equal to cenvat credit taken in respect of such inputs or capital goods . In case, the company has a policy to write off/down the value of inputs periodically on account of non moving nature of goods, the reversal of corresponding cenvat credit can be verified.
2. Treatment of R & D Expenses :- If company is engaged in any research activities, which does not result in manufacture or clearance of excisable goods, the applicability of the Cenvat Credit Rules may be verified. If the company has availed cenvat credit on inputs used in research activities, it needs to be reversed.
3. Methodology for valuation of inter unit/inter company and related party :- In case of multi-locational companies, where the partly processed goods are transferred to other units for further use in manufacture of goods, the information about transfer price may help in comparing the cost of production of goods transferred to other units for captive consumption.
4. Treatment of abnormal and non-recurring costs including classification of other non-cost items :- The information about abnormal costs on account of accident, theft etc is useful to verify whether the proportionate cenvat credit on the inputs and capital goods damaged/lost has been reversed or remission of duty has been sought.

Annexure 3

The information in this annexure is required to be submitted for a Company as a whole. This Annexure contains the following information:

- Manufactured product group. The product group is linked with the nomenclature as per Central Excise Tariff Act 1985.
- Service Groups – for Service group, nomenclature as per Finance Act/ Service Tax Rules is being used.
- Product group wise details of Trading Activities.
- Details of other Income.
- Net Sales (net of taxes and duties).
- The Total Income shown in this annexure should match with the income shown in the Profit & Loss A/c

The information in this annexure is useful for Excise Audit as per the following:

1. Value reported in this Annexure may be compared with ER-1 details. This may not match with ER-1 always because of different methods of valuations adopted by the assessee, such as duty is paid on MRP, duty paid under specific duty rate method etc. However, where the duty is paid on the transaction value as per section 4 of the Central Excise Act and where there are no stock transfers, the value shown in the said annexure may be compared with the value shown in ER-1.The analysis of difference in value shown in ER-1 and value shown in this annexure may help in finding out the mistakes, wrong accounting or even clandestine removals.
2. Amount shown in this Annexure in respect of service income should match with the value of taxable services shown in ST-3 Returns submitted by the assessee. Analysis and reasons for difference may help in finding non payment, short payment of service tax.
3. Details of trading activities are useful in verifying whether Cenvat credit is availed on traded goods if the traded goods are similar to inputs. Details of traded goods are also useful in verifying ratio used for reversal of Cenvat credit under Rule 6(3) of the Cenvat Credit Rules, 2004 since trading is considered as exempted service.
4. Details of other income may help in verifying the applicability of excise duty, service tax on it.

Annexure 4

This annexure provides following Information, separately for each product group

- Capacity – installed, enhanced during the year, available through leasing arrangement, loan licenses, third parties.
- Actual Production under each category .
- Details of stock purchased for trading from indigenous sources and imports.
- Production as per excise records and observations on reconciliation with the production quantity shown in the Audit Report.

The information in this annexure is useful in comparing –

1. The details of installed capacity with the information submitted to Central Excise in ER-7 Return. The details of addition/reduction

in installed capacity are useful in verifying the details of addition/removal of capital goods and payment of excise duty/reversal of cenvat credit thereon under Rule 3(5) of the Cenvat Credit Rules 2004.

2. Actual production quantity with production quantity reported in monthly Returns ER-1. The Annexure provides the information in respect of actual production and production as per excise records. The reasons for difference in the production quantity as per production reports and details submitted in ER-1 Returns is useful in finding removal of goods without payment of duty.

Details of stock purchased for trading may be useful in verifying admissibility of Cenvat credit on traded goods. Details of traded goods may help in verifying ratio used for reversal of proportionate Cenvat credit under Rule 6(3) of the Cenvat Credit Rules, 2004.

Details of captive consumption may be useful in ascertaining the duty liability of the goods captively consumed if final product is exempt from duty.

Details of quantity sold may be used in verifying details of quantity of clearances as per Excise Returns ER-1.

Annexure 5

Annexure 5 contains details of cost of production, cost of sales, profit/loss on goods sold. This Annexure is to be submitted separately for each product/activity group. Proforma and item of cost shown in the proforma can be modified to meet the requirement of industry/product/activity group without losing materiality factor. In case company follows Standard Costing System element of cost to be reflected at actual after adjusting the variances therefore the information contained in this annexure provides actual cost of production, cost of sale, sales realization and profit/loss.

Usefulness in Excise Audit.

1. In case of goods captively consumed, Cost of Production can be compared with the same given in CAS-4 certificate by the assessee from time to time. The cost of production reported at line number 17 of the annexure may be useful in comparing the cost of production submitted to the excise department. The information may be used to find out differences on account of inclusion/non inclusion of various overheads as prescribed in Cost Accounting Standard 4 issued by the Institute of Cost Accountants of India. The information is useful in finding out undervaluation of the goods captively consumed and working of differential duty to be paid on it.
2. The comparison of cost details with the previous year may help in understanding the changes in cost composition and analyzing the reasons thereof.
3. If the goods are consistently sold at loss, the possibility of applying ratio of the decision in the case of CCE vs Fiat India Pvt. Ltd may be explored.

Annexure 6

This annexure contains operating ratio analysis in Tabular Format for each product group separately. Ratio of operating expenses to cost of sales to be worked out from following cost element.

1. Material cost
2. Utilities cost
3. Direct employees cost
4. Direct expenses
5. Consumable stores and Spares
6. Repairs and Maintenance cost
7. Depreciation /Amortization Cost
8. Packing Cost
9. Other Expenses
10. Stock Adjustment
11. Production Overheads
12. Administrative Overheads
13. Selling and Distribution Overheads
14. Interest and Financial Charges

The information in this annexure may be used for comparing value addition and Cenvat/PLA payment ratio.

Annexure 7

The information in this Annexure is to be reported for company as a whole. The annexure contains information about profit as per cost accounts, various incomes and expenses not considered for costing and reconciliation of profit as per cost accounts with profit before tax shown in the annual accounts of the company.

As per generally accepted cost accounting principles (GACAP), income and expenses that are abnormal in nature or purely financial in nature are not considered as a part of cost accounts for computation of cost of production and sales.

The details provided in this annexure may be useful in following:

1. To ascertain applicability of excise duty/service tax on various other income accounted in the books of account.
2. The information with respect to profit/loss on sale of capital goods may be used in verifying applicability of Rule 3(5) of Cenvat Credit Rules, 2004.

Annexure 8

The information in this annexure contains statement of value addition and distribution of earning for company as a whole. Value addition is to be computed based on audited financial data and not based on cost data. The information in this annexure is useful in comparing the ratio of payment of excise duty from Cenvat credit and PLA payment.

Annexure 9

This Annexure contains information in respect of financial position and ratio analysis for the company as a whole.

In the said annexure Capital Employed means average of net fixed assets (excluding intangible assets, effect of revaluation of fixed assets, and capital work-in-progress) plus net current assets existing at the beginning and close of the financial year.

Net Worth means share capital plus reserves and surplus (excluding revaluation reserves) less accumulated losses and intangible assets.

The information may be useful in understanding the trend analysis.

Annexure 10

This Annexure contents details of transactions with related party and is to be reported for company as a whole. The report is considered as incomplete in absence of the information on normal price & basis thereof. The information given in this Annexure is to be in line with Accounting Standard AS-18 issued by the Institute of Chartered Accountants of India. The Prices shown in this annexure are inclusive of the Excise Duty, VAT/CST and other levies, as applicable. Normal Market Price means the price at which transaction has been made with other non-related parties at the time of transaction.

The information in this annexure may be useful in following,

1. Ascertaining applicability of Central Excise Valuation Rules, 2000, in particular valuation of goods transferred to other units for captive consumption or trading.
2. Working out Service Tax liability in the case of services provided to or received from Associated Enterprises.

It may be noted that related party mentioned in this Annexure may not be related party as per Sec 4 of the Central Excise Act 1944 as the concept of related party under central excise is restricted only to holding/subsidiary companies and the companies having interest in each others business by way of shareholding.

Annexure 11

The information for the said Annexure is required to be given for company as a whole. This Annexure contains information with respect to duties and taxes payable, paid and recovered and also interest, penalties paid by the assessee. The information in this annexure contains details of Assessable Value, Excise Duty, Service Tax, Education Cess & Higher Education Cess on Excise duty and service tax & VAT, CST. Since Tax Base for Excise & VAT are different the same needs to be shown separately. The information about taxes payable & paid through Cenvat and PLA is also available in this annexure. The details in respect of duties and taxes paid and recovered are to be shown separately in this annexure. The difference in taxes/duty paid, payable and recovered are mainly on account of following reasons:

1. Cenvat Credit utilised/reversed but corresponding entry for the same has not passed in books of account.
2. Refund of cenvat credit under Rule 5 of the Cenvat Credit Rules, received from excise not accounted correctly in cenvat credit register/books of account.
3. Interest, penalty, Misc Charges paid through PLA Not accounted for in ledger.
4. Debit Notes & Credit Notes issued but not accounted properly while determining the duty liability , service tax .
5. Duties and Taxes recovered from the customers but not accounted correctly.
6. Excise duty payable on free samples.

This Annexure is specifically designed for Excise Department and the information in this annexure helps to ensure overall tax assessment and tax compliance such as reconciliation of turnover as per annual report and Excise Returns, Cenvat credit availed and utilized. If duty realized is more than the excise duty paid, the applicability of provisions in Sec 11D of the Central Excise Act may ascertained.

The Assessable value of the goods cleared shown in the said annexure is to be taken from ER-1 Returns. In case the company has a single location/factory and paying duty on transaction value, the assessable value may match with the turnover shown in accounts subject to debit notes and credit notes issued by the company. Where the company is paying duty under MRP provisions or at specific duty rate, the assessable value shown in ER-1 Returns will not match with the turnover shown in accounts. Also where the company has more than one factories or depots, warehouses, the assessable value shown in ER-1 Returns will not match with the turnover shown in accounts.

Generally the amount of excise duty paid by the company should be more than the amount of excise duty recovered since no excise duty is recovered by the company on free supplies, samples etc. In case the amount of excise duty paid is less than the amount of excise duty recovered, reasons need to be investigated. It may invite queries from excise officers and may result in unwarranted litigations.

Cenvat credit cannot be utilized for payment of interest, penalty and fines. This aspect may be verified.

As regards service tax, the turnover of taxable services as per annual accounts and as per ST-3 Returns may be compared . This may be useful in finding short payment , non payment of service tax. The information with respect to service tax paid as a receiver of services may be used for ascertaining the tax liability under reverse charge mechanism. Cenvat credit cannot be utilized for payment of service tax under reverse charge mechanism.

This aspect may be verified.

General

In the process of cost audit, the cost auditor has to understand the manufacturing process, cost accounting policy. The Annual Report, Directors Report, Profit and Loss Account, Balance Sheet, Notes to account, are made available for his perusal. The Cost Auditor uses various information contained in the abovementioned documents to verify and compare the details with excise and service tax returns. It will be useful for the assessee to get the Desk Review done from the professionals before these documents are given to the excise department for audit. MA

bhargaves@vsnl.net

Benevolent Fund for the Members of The Institute of Cost & Works Accountants of India

The Benevolent Fund for the members of the Institute of Cost and Works Accountants of India was instituted with an objective of extending financial assistance to its members and families at the time of distress and death.

We, therefore, appeal to all the members of our Institute to become Life Members of our Benevolent Fund. The members and others are requested to donate generously for the noble cause. The donations to the Fund are exempted under Section 80G of the Income Tax Act, 1961.

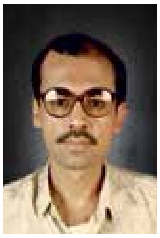
For details, please visit our website www.icmai.in.

NOTIFICATION

It is hereby notified vide Notification Nos. 18-CWR (2329 - 2402)/2013 dated 21st June 2013, 18-CWR (2403 - 2463)/2013 dated 26th June 2013, 18-CWR (2464 - 2502) dated 1st July 2013, 18-CWR (2503 - 2540) dated 5th July 2013, 18-CWR (2541 - 2564) dated 8th July 2013, 18-CWR (2565 - 2584) dated 9th July 2013, 18-CWR (2585 - 2602) dated 10th July 2013, 18-CWR (2603 - 2615) dated 11th July 2013, 18-CWR (2616 - 2653) dated 12th July 2013, 18-CWR (2654 - 2671) dated 15th July 2013, 18-CWR (2672 - 2689) dated 16th July 2013 and 18-CWR (2690 - 2785) dated 17th July 2013 in pursuance of 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 names of members, details of which are uploaded on the Institute's website www.icmai.in

NEW MECHANISM OF COST AUDIT AND COMPLIANCE – A SANJEEVANI

The new mechanism of the Cost Audit and Compliance report introduced in 2011 can be regarded as a 'Sanjeevani' because of its innumerable benefits



CMA Dilip M Bathija
Practising Cost Accountant, Ulhasnagar

HINDU mythology says Sanjeevani is a magical herb which has the power to cure any malady. It is believed that medicines made from this herb could revive a dead person. The new mechanism of the Cost Audit and Compliance report introduced in 2011 can be regarded as a 'Sanjeevani' because of its innumerable benefits. Before we discuss the benefits of the new mechanism of cost audit and compliance, let us look at some of its features which will help us to understand the benefits.

Important features of the new mechanism

1. Simplicity: In place of the 44 Cost Accounting Records Rules, there are now only seven Cost Accounting records rules: the Companies (Cost Accounting Records) Rules, 2011 and six Industry-specific Cost Accounting Records Rules. In the annexure to the Cost Audit Report, there are now only 11 paragraphs against 28 earlier. The concept of 'Product group' has been introduced for the Compliance Report and for reporting in various paragraphs under cost audit.

2. Performance Appraisal Report: The Cost Auditor has to give the Performance Appraisal Report, which covers analysis of various areas, in Form III to the company .

3. GACAP and CAS: Cost Accounting records should be maintained in accordance with The Generally Accepted Cost Accounting Principles and Cost Accounting Standards issued by The Institute of Cost Accountants of India to the extent these are found relevant and applicable.

4. Complaince Report: The Compliance Report is a short and simple report of two pages,but it is like a small pack with maximum benefits.

5. Filing in the XBRL mode: The Compliance Report and Cost Audit reports must be filed in the XBRL mode.

Benefits of the new mechanism for industry

1. The Performance Appraisal Report given by the Cost Auditor to the company contains very useful information and suggestions on various areas: e.g. capacity utilization, efficiency analysis, Utilities analysis, Key-costs and Contribution analysis, etc. Moreover, the report goes only to the company, and therefore, the fear of the industry sharing it with the government has been done away with. Companies can reap huge benefits from this report which is based on the experience and expertise of the cost auditor.

2. Para 4 'Quantitative Information' of the annexure to the Cost Audit Report gives very useful information on capacity utilization and indicates idle capacity.

3. Para 5 'Abridged Cost Statement' and Para 6 'Operating Ratio Analysis' provide valuable inputs to the company indicating element-wise cost compared with previous year and operational efficiency at each cost element.

4. Para 7 'Profit Reconciliation' may throw light on some typical areas, for example, there is a profit as per the Financial Accounts but there may be loss as per the Cost Accounts.

5. Para 8 'Value Addition and Distribution of Earnings' and Para 9 'Financial Position and Ratio Analysis' provide very useful information on how value addition is distributed among various groups such as Employees, Government, Shareholders, etc. Similarly, Profitability ratios, Debt-Equity ratio, Current Asset ratio, and Working Capital ratios help to diagnose the financial health of the company. The Efficiency of Working Capital Management and the Maintenance of optimum Inventory levels can be checked. A Cost Auditor, with his experience and analytical skills, can help the management make the Company more efficient and competitive domestically as well as globally.

6. Observations of the cost auditor in Para 2 regarding the adequacy or otherwise of the budgetary Control System, if any, followed by the Company and Opinion of the cost auditor on the adequacy of the internal audit of cost records can help managements in better corporate governance.

7. In Anti-dumping cases, the Cost Audit report data is a very valuable input. The data can be useful in two ways – industry can get support to check dumping from other countries, and two, defend cases of alleged dumping where there are genuine exports by the industry.

Benefits for the Income Tax department

Under Section 139(9), explanation (e) of the Income Tax Act, 1961where cost audit has been conducted, a copy of cost audit report is required to be filed while filing Income Tax return, otherwise the return will be regarded as defective.

1. Para 10 'Related Party Transactions' can help an Income Tax officer to check the diversion of profits. Multinational companies frequently transfer resources among associate concerns or inter-units operating in various parts of world. The Income Tax department can check the impact of these transactions on their profitability vis-à-vis tax liability as discharged by the assessee.

2. Para 5 'Abridged Cost Statement' and Para 7 'Profit Reconciliation' can help Income Tax officers to understand different practical situations viz. (a) when there is profit in all product groups, (b) when company has reported loss in the Income Tax Return filed and (c) when considerable decline in profitability has been reported as compared to previous year.

3. Many a time, Income Tax officers may want to check the genuineness of the Inventory Value, Working Capital, etc. Para 9 'Financial Postion And Ratio Analysis' can throw some light. These paras along with other information gathered by the ITO can be useful.

Benefits to the Excise/ Service Tax Department

1. Para 11 'Reconciliation of Indirect Taxes' which indicates utilization of Cenvat, Payment of Duty and Clearances can provide good inputs.

2. Para 10 'Related Party Transactions' and Para 4 'Quantitative Information' which gives information on Capacity Utilization and Captive Consumption can provide good inputs.

3. The observations and suggestions of the Cost Auditor given in the Cost Audit Report can indicate the areas of attention.

Benefits for the Competition Commission of India

According to section 4(2)(a) of The Competition Act, there shall be abuse of a dominant position if there is a sale at predatory prices. According to the explanation given, Predatory Price means sale at a price which is below the cost, as determined by regulations. The Competition Commission of India framed the Competition Commission of India (Determination of Cost of Production) Regulations, 2009.

A company may go for a price lesser than the cost to eliminate the competitor. The Cost Audit Report can help the Competition Commission of India in cases filed in these situations.

Benefits for banks and financial institutions

In cases where companies ask for restructuring of loans or enhancements of facilities when their performances are not up to the mark, banks and financial institutions, among other things, can ask for the Cost Audit Report. The report can help banks to check the operating efficiency, working capital management, working below capacity, inventory management etc.

Benefits for various other government departments

1. The Cost Audit Report can help the government to decide whether a particular industry should be given subsidy and on the quantum of subsidy.

2. The Cost Audit Report can help the government to decide whether tariff protection is to be given to any particular industry.

3. The Cost Audit Report can help the government to fix the prices of essential goods. In cases of cost plus contracts given by the government to private parties, authenticated cost data will be readily available.

Benefits for the SME sector

Most of the companies in the SME sector will be covered by the Compliance Provisions because of their low turnover. The Compliance Report is very simple, just two pages only, but the Cost Accountant has to certify that the company has maintained proper cost records as per the Companies (Cost Accounting Records) Rules, 2011. Thus the provision will introduce cost consciousness in industry. Companies will be able to reap the benefits of a good cost accounting system and will become more competitive. Companies will be able to utilize their resources optimally. MA

dilip_bathija@rediffmail.com

COSTING 'CARE' WHILE CARING COST

Documentation is often considered to be a time-taking exercise, but, it is the foremost crucial driver that determines the audit outcome. After all, the fee income obtained during such exercises is a small percentage compared to the penalties or after-effects of faulty reports

CMA K V N Lavanya
Practicing Cost Accountant, Hyderabad

THE last few decades have witnessed several accounting frauds of significant magnitude throughout the world. Be it Satyam or Xerox or Enron, the fraud involved deliberate action by the top management that gave them undue advantage leading to fraudulent financial reporting for their own political or economic reasons. These corporate giants had reputed leaders and experienced professionals, very good corporate governance and auditors who are well-renowned for quality deliverables. Also, the audit firms for these giants had established a brand of their own across seas and countries and are well known for client-focus, sound knowledge of professional regulations in all markets, quality services, discipline, expertise, dynamism, documentation and insight. Despite all this, the fraud committed by the management involving manipulation, falsification or misapplication of accounting practices had escaped the auditor's eye. And this subsequently led several groups to charges including professional bodies like ours. Many professionals were held guilty of misconduct that led to suspension or cancellation of membership too. These consequences are also one among the reasons for industry-wise cost audits ordered by the government to ensure transparency of transactions in organizations. If such is the case with such well-established corporate giants, it is not difficult to imagine the condition of many SMEs with a limited turnover and profit with whom we work for certification or giving an audit or a compliance report.

A Cost Audit Report or a Compliance Report or a CAS-4 Certificate signed by a Cost and Management Accountant (CMA) is finally submitted to various authorities like the Ministry of Company Affairs, Central Excise, Income Tax, etc., to whom we are answerable. Quite often, this involves huge data collection, verification and compiling. Such process is even more tedious in companies manufacturing several products. Certain SMEs with a turnover ranging from a few crores of rupees to a few hundreds do not have stringent guidelines, documentation, policies and procedures laid and are prone to commit accounting frauds - intentionally or unintentionally. In the absence of such documentation and guidelines, we will have to rely on the oral inputs given by the officials and employees in addition to the audited financials along with the notes, annexures and disclosures. All these inputs creep into the certificate or the report and may give a false picture if they are incorrect, erroneous, inappropriate or faulty. Unknowingly, the cost auditor is open to a bigger risk in these kinds of situations. Upon submission of such faulty reports, the authorities do not hesitate to contact the CMA for the discrepancies found. All this puts a heavy pressure on a CMA and hence it requires the auditor be more cautious and exercise professional skepticism. However well-known the client, the auditor may not take honesty and integrity for granted. The emphasis now lies on how properly and carefully we document during our audits. However sweet or sour our figures and ratios may be, without the substantiating documentation, all the effort goes waste and may be misused by the client at times. Also there is an active risk associated in case of improper and incomplete documentation.

Purpose

A cost audit report given by the cost auditor has the following purposes:

1. From the prospective of management: Cost audit detects errors, frauds and misappropriations and hence enhances efficiency
2. From the prospective of shareholders: Cost audit ensures that the valuation of the closing stock and work in progress are correct, hence helps in the computation of more accurate profit figures.
3. From the prospective of Government: curbs profiteering by the manufacturing concerns and helps in the decision to provide tariff protection to any industry.
4. From the prospective of the customer: Customers may obtain more benefits if the cost is reduced due to effective control, implemented as a result of cost audit.

The Cost Audit and Assurance Standard on Cost Audit Documentation (CAAS -102) given by our Institute aims at preparing a documentation that provides

a) A sufficient and appropriate record of the basis of cost auditor's report and

b) Evidence that the audit was planned and performed in accordance with CAASs and applicable legal and regulatory requirements.

What CAAS-102 tells

Documentation includes Permanent files – that have the established administrative and operational procedures and Current Files – that include the information for the current period. Permanent files usually have matters of one-time nature and are useful for more than one audit. Example being Memorandum of Association, Articles of Association, Certificate of incorporation, Tax registration documents, ISO certification documents, Organization chart, addresses of registered office and factories, Internal controls etc. Current Files include letter of engagement for the year, audit reports for current and previous year, cost accounting system followed, cost records, management representation letters etc.

Audit working papers are documents that have the auditor's field work and the final report. It also has the conclusions arrived at by the auditor and the data/reasons for it. In a single word, it has all the information required to audit the cost audit report. It includes

- Summary of products and flow chart of processes in the organization
- Organization chart
- Established internal controls for material, labor and overheads
- Discussions with the client or any stakeholders and evidence obtained from them
- Procedures performed by the auditor and conclusions drawn
- Audit plan and strategy
- Representation letter from the management
- Checklists
- Questions a raised
- References and reviews
- Trends observed

The cost audit documentation may be in paper or electronic form. It has to be retained for 10 years from the date of Cost Audit Report and is the property of the cost auditor. For electronic evidences obtained from the systems of the client, the cost auditors may rely on the systems audit done by our co-professionals, if available.

E-mails may also be admitted as evidence provided there are appropriate controls regarding its usage, archiving and deleting. Also if one is able to establish the integrity and authenticity, this mode of communication is reliable. Since Digital signatures are not always present in all emails, a little more caution is needed while relying on e-mails

Sampling and documentary evidence

Sampling criteria and the methods adopted also play a vital role in verifying and auditing the processes including cost statements. Where the volume of transactions is large, an auditor resorts to sampling and draws conclusions about the population. The larger the sample size, the sample more closely represents the population and hence the chance of significance improves. Also, the size of sample chosen depends on the professional judgment and the risk factor of the auditor.

Here is the list of documentary ev-

HOWEVER WELL-KNOWN THE CLIENT, THE AUDITOR MAY NOT TAKE HONESTY AND INTEGRITY FOR GRANTED. THE EMPHASIS IS ON HOW PROPERLY AND CAREFULLY WE DOCUMENT...

idence to be obtained from the client and is essential for the smooth conduct of cost audit.

1. Letter of Engagement*:* or the Appointment letter is quite necessary before starting an assignment. This is a mandatory document while filing Form 23D by a cost auditor. But for a Compliance Report, lack of procedures for filing the forms 23C and 23D does not prevent from getting one from the management. We have observed few clients approaching to another CMA for favorable reports when submitting to statutory authorities. To avoid such instances, I suggest CMAs to get a letter of engagement from any kind of professional work taken up by CMA.

2. Organization chart: Big organizations have a specific organization chart for flow of control and hierarchy. Very few SMEs or promoter driven companies have one in place.

3. *Audited Financials:* It is a good practice to collect the audited financials for the last 4 years, along with the disclosures, notes and schedules.

4. Internal Controls: Copies of Internal controls, policies and procedures laid may be obtained like HR policy, Quality Control policy, Good Manufacturing Practices etc. For example, say a Formulation company is a Class D with Laminar Air Flow around and permits only those with aprons, caps, masks and shoes into the production facility. The same may be verified by checking the consumption report of these disposable items and the visitor's list.

5. Flow chart and Cost Centres: Get the flow charts and BoM for all of the products.

For example, in a typical Formulation industry, it includes Granulation, Drying, Compression, Coating and Packing for tablets. In a bio-diesel plant, it includes Degumming, Trans-esterification and Filtering.

An infra company may have each one of its sites/projects as a cost centre. In that case, the SoWs (Statement of Work) and the Contract documents for sampled sites may be verified.

6. Factory visits: Once the flowchart is received, we usually visit the plant to check and verify if the process flow chart is as per the plant operation. Train /flight tickets/boarding passes also form a audit evidence.

7. Sales and Purchases: This is the easiest area to get vouchers and invoices for. However, for verifying and auditing these, ABC analysis may be used. The same may be verified for peak and off-peak seasons. Say the peak season for the Formulation industry's tablets is August to November, then we may get all the vouchers during this period and follow a random or cluster sampling technique to conclude on the material prices. The same may be repeated for the months December to July.

8. Material usage: Check if the material usage is as per the norms given by the management. In a Formulation industry, for the product samples drawn, the Batch Manufacturing Record (BMR) may be checked. This is a record that records the details of one complete batch including the number of tablets used for QC after every process, the time taken by each process on a particular machine, the cleaning time after process, etc.

9. Employee cost: the Daily Attendance Register and samples of ESI receipts from the local Labor office and PF receipts may be obtained. In case of an Infrastructure company that operates in multiple sites, evidence of the same may be obtained by getting samples of ESI receipts. Say an infrastructure company has 50 sites, both within India and abroad, we may choose a sample size of 25 to achieve the same. Site-wise bank account statements also form an important audit evidence.

10. Utilities: Get a flow chart of how utilities are connected to various cost centres and how they are consumed. Sample power bills, water bills, diesel/coal/oil usage patterns may be obtained by checking sub-meters at different cost centres.

For industries that use boiler, check if the boiler is inspected and per the regulations of the Indian Boilers Act.

11. Quality Control: Check the Quality Control Policy. Trial checks for QC tests done may be done by referring the Pharmacopeia in a pharmaceutical plant. This is an encyclopedia of pharmaceutical products, their physical and chemical behavior and the tests to be done for a given product. Different countries have different pharmacopeia, USA has UP (USA pharmacopeia), India has IP (Indian pharmacopeia), UK has BP (British Pharmacopeia) etc. Testing procedures of a product using different pharmacopeia vary slightly. Check if the QC team has specified the pharmacopeia it has used while testing a given product.

12. Effluent Treatment Plant: No manufacturing company may release hazardous material into atmosphere – air, land or water. Waste generated in the manufacturing process should be treated properly before it is let out. Copies of licenses for installation and running of pollution control equipment may be obtained.

13. External Confirmation: A cost auditor may obtain evidence relating to the audit from a third party. For example, a systems audit report or a facility audit report may be obtained from an external expert. Similarly, any confirmation for outstanding amount or job work done may be also be obtained.

14. Written Representations about Responsibility of Management: The cost auditor may obtain a written statement from the management of the company that Cost Accounting Standards were followed in the preparation of cost statements and that the auditor has been provided all the relevant information for the audit.

15. Depreciation/Amortization: Check for the depreciation/amortization basis followed by the company. The calculations for depreciation are different in Income Tax and Companies

Act. However, for costing purpose, neither of them might be useful. The depreciation in the cost statement is one that reflects the usage of the plant and machinery for normal production. For example, a Formulation company has taken 100% depreciation of its Effluent Treatment equipment for Income Tax purpose. The cost statement will NOT reflect the same and shows the depreciation of 13.91% as other plant and machinery is charged. The remaining depreciation is charged to Costing Profit & Loss Account to reconcile with the financial profit.

Similarly the cenvat credit taken on capital goods has to be verified on depreciating assets to avoid double benefit.

16. Related Party Transactions: Certain companies may have sister concerns making them related parties. However, commonalty of certain managerial people also makes the entities related.

17. Carriage Outwards: Samples of receipts from the transport agencies providing the service may be obtained.

18. Tax Returns: Tax returns with respect to central excise, sales tax, service tax and income tax to be obtained.

19. Trends and Ratios: In an ERP environment, samples of MIS reports may be obtained.

20. Depending on Internal Audit results: The cost auditor may rely on the work of an internal auditor after sufficiently verifying the objectivity, technical competence of the internal auditor and professional care taken by him during the internal audit.

The list is not an exhaustive one and there may be several other inclusions to it depending on the internal processes and controls. However, all examinations suggested above should incorporate a materiality concept. It is the cost auditor's responsibility to think holistically in all the 3600 around and incorporate them in the audit working papers.

Risks of not maintaining adequate documentation

Our reports or certificates are viewed by the government, statutory authorities and the stake holders concerned. When questioned, we are prone to answer them with sufficient evidences. Be it the Inherent risk or the Control risk or the Detection risk, the final result may be a faulty report which is seen differently by the authorities. Care and planning minimize the risk and always pay.

Conclusion

Documentation is often considered to be a time-taking exercise, but, to my opinion, it is the foremost crucial driver that determines the audit outcome. After all, the fee income obtained during such exercise is a small percentage compared to the penalties or after effects of faulty reports. For SMEs that do not have a process document or a flowchart, the cost auditor may request the management to establish one, verify it and get it signed by only the promoter or the managing director because at times, such verification of the same by the production staff or other senior officials may be disregarded by the management. Any company, small or big, whether it is an assignment of audit or compliance or a certificate, we cannot risk giving a faulty report. We all know the case where the audit and valuation giant Deloitte took a safe exit from the Y.S.Jagan Mohan Reddy's promoted 'Bharathi Cement Pvt. Ltd.' valuation case during CBI probes on just basing its evidence on the Representation Letter from the Management. Except the Big four and a few firms, most of the new firms and practitioners that entered the profession in the recent years may compromise on the documentation side and concentrate on the figures, not intentionally but because of lack of awareness of the importance of documentation. We represent our profession in the world and any ignorance of facts or their absence in the audit working papers, or a figure reported without adequate and substantial audit evidence might fetch a negative remark for our profession and our esteemed Institute. So our objective is to give a true and fair view of the costing policies, procedures and internal functions that reflect a reality after thorough audit and verification. The true report so prepared will benefit the client for further improvement and all the stakeholders concerned. This will also improve transparency and will be a reliable source of information to government and other statutory authorities. To my personal experience, I have the Central Excise department contact me for cross-verification after I have issued a CAS-4 certificate. I could substantiate my workings because I have obtained the signatures of a senior official on the data given by the client. However, for CAS-4 certificates, we might not have the chance of plant visit owing to its emergency. In such cases, we entirely rely on the information given by the client and audited financials only. This is where one has to take enough care regarding management representations. I would suggest a revisit of all the documentation done so far and update it as needed and avoid the future risks. So let us not ignore the benefits of Cost Audit Documentation and start it without a second thought. All the above is not a repetition of CAAS-102, but a stress and emphasis on its importance. So, let's keep documenting audit backup papers. MA

nagalavanya@gmail.com

STATUTORY MAINTENANCE OF COST RECORDS & COST AUDIT

In today's competitive world, where the sales price is dominated by buyers, no one can ignore a good costing system for better control on costs and thus emerge as a cost competitive producer or service provider

CMA Himadri Roy
Consulting Associate,
SVG & Associates,
Kolkata

1. Introduction

To understand a subject and its implications properly, it is necessary to have an idea about its base. So, I will start with a brief history of cost accounting and would try to depict a small picture about how & why it is gaining more and more importance from its inception.

Some people think that cost accounting is just a variety of financial accounting which got developed worldwide during the last sixty years. Certain persons also belief that the techniques of cost accounting emerged after the rise of factory system. But none of these two concepts are true. Some cost accounting principles in application were even found in as early as 14th century. However it is true, that the importance of this subject is widely felt during a quarter century before the end of Second World War (1920-1945). After 1945, the need of data planning for future forecast of performance was felt and since then, the subject is adding more and more value into it. Today, in the age of liberalisation and globalization, where regional boundaries are getting obsolete day by day, the subject has widely spread with newer concepts like Standard Costing (which allocates the company's fixed costs over a given period of time to the items produced during that period to derive total cost of production), Marginal Costing (which establishes a relation between cost-volume-profit), Activity Based Costing (which tells for assigning costs to products based on the activities they require), Target Costing (which aims at fixing the selling price as per market condition and then calculating back to the target cost so that the desired profit can be achieved within the previously fixed selling price), Backflush Costing (which delayed the cost capturing by products unless these are finished and then Backflush the standard costs to backwards to assign costs to products), Throughput Accounting (which focuses the 'limiting factors' of an organization & its management), Lean Accounting (which considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful, and thus a target for elimination) etc. In simple words, in today's competitive world, where the sales price is dominated by buyers, no one can ignore to have good costing system for better control on costs and thus to emerge as a cost competitive producer or service provider.

2. Scenario in India

In the year 1925, the then British Government in India has started to allot large number of contracts to firms on 'cost plus' basis and started verifying and investigating the cost structure of such firms. This was the time from when the needs of cost records have started to be felt. Although the provisions related to Section 209 (1)(d) [for statutory maintenance of cost records by companies engaged in the production, processing, manufacturing or mining activities, if so required by the Central Govt.] and Section 233B [audit of such cost records for specific companies, if so ordered by the Central Govt.] were inserted in the companies act in the year 1965 through the Companies Amendment Bill,

1965. These amendments were made on the basis of recommendations from the Vivian Bose Commission, the Dutta Commission and the Shastry Committee. During the year 1965 to 2010, the Central Govt. has issued 44 separate Cost Accounting Records Rules (CARRs) for 44 separate products with the last being introduced in the year 2004.

However, before 1991, when the Indian economy was not open, the importance of maintenance of proper cost accounting was not severely felt and its utilisation was remained almost one sided (i.e. mostly used for price control or price fixation on Govt. or regulator's parts for certain specific products). After the economic revolution in 1991, the scenario has started to change. Now the Indian mass market was open for giant global players with strong focuses on costs & profits and the Indian market leaders then, became bound to compete with multinationals for retaining the market share. Most of the indigenous organisations started to face stiff challenges from their global counterparts in terms of quality & cost competitiveness. Now the market has been switched over to be a buyer dominant market where the sole liberty of fixation of selling price has gone out from the control of the manufacturers/producers or service providers.

In the changed context, it was severely felt that the ongoing procedure of maintenance of cost records and audit thereof in certain cases are not giving the benefits to all stakeholders as expected. The procedure was also falling short to deliver to the economy. Now, increasing number of companies have started to diversify their offerings in terms of entering new products/services segments. So, a company which is producing more than one products covered under those 44 CARRs, needs to maintain exclusive cost records for its different products as per applicable CARRs to the company. This started to create complexities as the different CARRs are often not inter-related as those were introduced in different time and while preparing those, mostly the product specific matters were considered.

2.1 Constitution of expert group

Recognising the need of reviewing the total procedure of maintenance of cost records and audit thereof, the Ministry of Corporate Affairs (MCA) has constituted a Group of Experts under the chairmanship of Shri B.B. Goyal, Cost Advisor through Order No. 2/1/2008-CL.V dated 21st January, 2008. While making the order the MCA has said:

"It is imperative that in the present economic environment, determined by increasing competition both domestically and internationally, efficiency and economy be brought about in the operations of the manufacturing sector to catalyze and facilitate the cost competitiveness of the manufacturing sector in India. It is equally necessary to enable the industry to address issues arising from unfair trade practices such as dumping, subsidies & cartels, etc. in the International Trade.

Cost accounting, through the determination and allocation of costs to various products, provides a valuable service to the managements of companies in cost analysis and control. In this way, it can help to improve efficiency in the use of materials, labour and plant, maximize production and realize greater profits. At the same time, cost analysis furnishes useful information in respect of important matters such as gross margin, differential costs, replacement costs, etc. Cost analysis can be useful to the Regulators of public utilities and provide a basis for comparing claims and assessing the validity of issues arising out of international trade."

The Expert Group has submitted its report containing total 39 sets of recommendations to the MCA within 12 months' time after detail deliberations with a large number of stakeholders viz. user ministries/departments, regulators, companies (public & private), cooperative societies, academicians, experts, management consultants, practicing professionals in India. The Group also took the reference of similar practices prevailing worldwide. A detail explanatory statement on the entire thing prepared by the MCA can be found at www.mca.go.in.

2.2 Industry-specific CARR and modified CAR

With the new recommendations in hand, MCA has decided to do away with the old procedure of maintenance of cost records & audit thereof and shifted to general cost accounting records rule and industry specific cost audit orders. The steps of MCA to reform the entire practice of maintenance of cost records & audit may be summarised as below:

- Superseding a total of 36 old product specific CARRs issued previously, an all-new generalised CARR called The Companies (Cost Accounting Records) Rules, 2011 is issued as on 3rd June, 2011. This CARR is common for all industries covered under it excluding eight specifically exempted industries (usually referred as 'regulated industries') mentioned in it. This CARR has introduced the concept of 'product group' or 'service group' for submission of cost data to MCA. This new concept has done away with the industry concerns of leakage of secret cost data for individual product or service. The MCA vide notification no. S.O. 1747(E) dated 7th August, 2012 has notified the Product Group Classification in this regard.
- Issued six new CARRs as on 7th December, 2011 covering the specifically exempted eight industries mentioned in general CARR viz.,
  - The Cost Accounting Records (Pharmaceutical Industry) Rules, 2011
  - The Cost Accounting Records (Sugar Industry) Rules, 2011
  - The Cost Accounting Records (Electricity Industry) Rules, 2011

- The Cost Accounting Records (Fertilizer Industry) Rules, 2011
- The Cost Accounting Records (Petroleum Industry) Rules, 2011
- The Cost Accounting Records (Telecommunication Industry) Rules, 2011

The old CARRs related to 'Bulk Drugs' and 'Formulations' have been combined together & superseded by the new 'Pharmaceutical Industry' CARR, the old CARRs related to 'Sugar' and 'Industrial Alcohol' have been combined together & superseded by the new 'Sugar Industry' CARR, while the other four new CARRs have superseded the older version related to the same product.

- The applicability of all the seven new CARRs have been kept low so as to make them applicable for a wider range of companies. The CARRs are now be applicable to every company, including a foreign company as defined under section 591 of the Companies Act, which is engaged in the production, processing, manufacturing or mining activities mentioned in respective CARRs and wherein:
  - the aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or
  - the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or
  - the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
- The new CARRs also introduced a new concept of "Cost Compliance Report" to be submitted to MCA for companies which are covered under any of the seven CARR but are not coming under the purview of Cost Audit. This compliance certificate to be obtained from a 'Cost Accountant' who is either in full-time service of the company or a practicing Cost Accountant or a firm of practicing Cost Accountants. This is basically made to ensure the maintenance of cost records by companies.
- The cost records are now to be prepared in accordance with the Cost Accounting Standards (CASs) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute of Cost Accountants of India (ICAI) to the extent these are found to be relevant and applicable. The variations, if any, shall be clearly indicated and explained. This provision will bring in uniformity & comparability in cost records prepared by companies and will help government/statutory authorities/regulators in comparing between intra-firm and inter-firm cost information product group or service group wise.
- The ICAI has issued a guidance note on maintenance of cost accounting records in companies in May, 2012 with the intention to help all stakeholders in understanding the total framework and implementation of the same. The guidance note can be viewed & downloaded from the institute portal www.icmai.in.
- In the same line with CARRs, MCA has also superseded the old Cost Audit Report Rules (CAR) issued in 2001 with a new rule for Cost Audit Report named as The Companies (Cost Audit Report) Rules, 2011 as on 3rd June, 2011. The auditor's report, as per the new CAR, has now contains two major comments regarding conformity with the Cost Accounting Standards issued by ICAI and existence of adequate system of internal audit of cost records.
- In the new CAR, the number of 'Annexure to the Cost Audit Report' have been reduced to 11 from the previously 28 after rearrangement/regrouping of required information. This helped in preventing the Cost Audit Report to go bulky.
- The new CAR has introduced a future looking concept named as "Performance Appraisal Report" (Form-III) as annexure to the Cost Audit Report, which is mandatory on part of Cost Auditor. This report needs to be submitted to the company only and not to the MCA. The CAR-2011 gives some idea about the contents of this PAR which are merely indicative in nature. The actual subject matters need to be chosen depending upon the size/scale and type of operations, nature of the industry, management requirements, etc. Due to this PAR, the new Cost Audit mechanism goes beyond the mere post-mortem certification & assurance about proper cost information and landed itself to the wider angle of Management Audit. Apart from the internal MIS reports, a company management are now will have a detailed analysis of any measurements which are impacting or are likely to impact the performances of the company. As this introduction of PAR is a new & unique one, the ICAI has released a guidance note in November, 2012 which contains the detail discussion about it. The guidance note can be viewed & downloaded from the institute portal www.icmai.in. In the preface of the guidance note, the ICAI has said –

"The Ministry of Corporate Affairs vide Companies (Cost Audit Report) Rules, 2011 notified by GSR 430(E) dated 3rd June 2011 introduced "Performance Appraisal Report". The Government has prescribed that Cost Auditors are required to prepare and submit a Performance Appraisal Report in Form III of the said notification, to the company. This is a landmark in the history of companies in India, as this is the first time that a regulatory mechanism has been notified which enables an external Auditor to prepare and submit a Performance Appraisal Report to the Company Management in addition to the assurance report. The Institute has brought out the present guidance note on Performance Appraisal Report, as required in Part III of the Cost Audit Notification dated June 3, 2011.

Performance measures help managers to create capable and matured processes. Measures are a tool to help understand, manage, and improve the performance of the organization as a whole. Effective performance measures can let us:

- Monitor performance to judge how well the company is fairing,
- Know if company management is meeting its goals.
- If appropriate actions have been taken to affect performance or improve efficiency if improvements are necessary.

There is no set number or formula to determine how many performance measures an organization should have. Tracking too many performance measures at once may cause managers to lose sight of which ones contribute directly to strategic objectives. On the other hand, having too few measures may not tell a good story about your work. Since the Performance Appraisal Report is to be submitted to the Board of Directors of the Company, the performance measures which will be appraised should be discussed with the Company Management and then finalized for analysis and reporting thereof.

This guidance is not on strategic management in companies but using strategic management process in the context of performance analysis of companies under Cost Audit provisions of the Companies Act, 1956. The guidance note is also not a prescriptive but a suggestive mode for performance analysis."

3. Introduction of XBRL in cost records and cost audit regime

The eXtensible Business Reporting Language (commonly known as XBRL) is an open standard (i.e., freely available) XML-based computer readable language which is becoming the global standard for exchanging business information. Being a 'XML' family language, XBRL uses the XML syntax and related XML technologies such as XML Schema, XLink, XPath, and Namespaces. Some regulators in developed countries have started to use iXBRL, an improvement over XBRL because iXBRL captures all the advantages of XBRL and yet is visually elegant and easily readable.

- **What is 'XBRL taxonomy'?**

XBRL taxonomy can be called as the vocabulary or dictionary of defined accounting terms and their inter relations. Taxonomies are created based on the reporting framework applicable to a region or country. So, we can see separate taxonomies based on GACAP, GAAP as applicable to a business concern for reporting purposes.

- **What is 'XBRL tagging'?**

XBRL tagging is the process by which any cost/financial data is tagged with the most appropriate element defined in a XBRL taxonomy that best represents the data in addition to tags that facilitate identification/classification (such as enterprise, reporting period, reporting currency, unit of measurement etc). Since all XBRL reports for a specific purpose (like Cost Audit, Cost Compliance, Financial Audit etc.) use the same taxonomy, figures associated with the same element of different organisations can be very fast compared.

- **What is 'XBRL instance document'?**

XBRL instance document is the outcome document of XBRL conversion containing the facts & figures and related information of an organisation. The instant document is generated based on the concepts defined in a 'XBRL taxonomy'. Information to the reporting authority is submitted by either direct uploading instance document or attaching this instance document to respective e-form to be submitted electronically.

- **What is 'validation tool' for XBRL?**

Validation tool is a software to check the technical correctness (or validate) of an instance document created by a XBRL conversion tool. This validation, however, does not determine the correctness of the facts & figures and related information containing in an instance document.

In India, the MCA has mandated filling of all cost audit report and cost compliance report through XBRL mode for the financial year commencing on or after the 1st day of April, 2011 (including the overdue reports relating to any previous financial year) with the Form I-XBRL and A-XBRL respectively by MCA circular no. G.S.R. 869(E) dated 30th November, 2012. All MCA initiatives and updates about XBRL fillings for cost audit or cost compliance can be viewed by visiting the dedicated portal of MCA http://www.mca.gov.in/XBRL/index.html#.

The Professional Directorate of ICAI has published a detailed guidance note on Architecture, Training & Guidance Manual for Filing of Cost Audit Report & Compliance Report in XBRL FORMAT and beside that, also opened a dedicated portal providing updated information to all members & stakeholders about updated happenings in XBRL related to cost audit & cost compliance report at http://www.icwai.org/xbrl/index.asp.

4 Issuance of industry-wise general cost audit orders

After modifying the total process for statutory maintenance of cost records by certain companies (as discussed above) and audit of those cost records by independent practicing Cost Accountant (holding a valid certificate of practice issued by ICAI as on date) or by a firm of such practicing Cost Accountants, the MCA has started to issue industry wise general Cost Audit Orders being the first ordered on 2nd

May, 2011 and after that on 3rd May 2011, 30th June 2011 and 24th January 2012. However, to bring more precision in Cost Audit Order, a single general order has been issued on 6th November, 2012 by superseding all four orders issued in between May 2011 to January 2012. The Cost Audit Orders issued by MCA till date can be found from MCA portal by visiting at http://www.mca.gov.in/Ministry/cao.html.

5 Appointment of cost auditors

Changing the appointment procedure of Cost Auditors, MCA has issued a General Circular No. 15/2011 dated April 11, 2011 and subsequently modified/added some clauses by issuing another General Circular No. 36/2012 dated November 6, 2012. Now the Audit Committee of a company is now the first point of reference for appointment of Cost Auditor(s) to the company. It is the duty of the Audit Committee to obtain certificates from the proposed Cost Auditor(s) in terms of being free from any disqualifications [u/s 233B(5) read with sec. 224 & 226(3)-(4) of the Companies Act, 1956], being under ceiling of audit u/s 224 (1-B) of the Companies Act and independence & at arm's length relationship. After obtaining the same the company has to e-file Form 23C to MCA with attaching the aforesaid certificates obtained from proposed Cost Auditor along with Board's resolution on such proposed appointment/re-appointment. If the same is approved or if no contrary heard from MCA on this behalf within 30 days (deemed approval), the company shall issue formal letter of appointment/ reappointment to the Cost Auditor within 30 days from the date of approval/deemed approval by MCA. The Cost Auditor now has to e-file Form 23D to MCA by attaching the letter of appointment for Cost Audit within 30 days from the date of issue of such appointment letter.

The new procedure also requires the company to disclose full particulars of the cost auditors, along with due date & actual date for filling of the Cost Audit Report by the Cost Auditor, in its Annual Report for each relevant financial year.

6 Provisons about cost records & cost audit in Companies Bill, 2012

Section 148 of the Companies Bill, 2012 (as passed by Lok Sabha on 18th December, 2012) deals with the provisions of statutory maintenance of cost records and cost audit in certain companies as may be ordered by the Central Govt. For maintenance of cost records the sub-section (1) of section 148 says:

"Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies:

Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act."

Regarding Cost Audit, the sub-section (2) of section 148 says"

"If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under sub-section (1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order."

Other important provisions in this regard

- Sub-section (3) of section 148 says- "The audit under sub-section (2) shall be conducted by a Cost Accountant in practice who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed:
  Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records:
  Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards.
  Explanation: For the purposes of this sub-section, the expression "cost auditing standards" mean such standards as are issued by the Institute of Cost and Works Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government."
- Sub-section (4) of section 148 says- "An audit conducted under this section shall be in addition to the audit conducted under section 143."
- Sub-section (5) of section 148 says- "The qualifications, disqualifications, rights, duties and obligations applicable to auditors under this Chapter shall, so far as may be applicable, apply to a cost auditor appointed under this section and it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under this section for auditing the cost records of the company:
  Provided that the report on the audit of cost records shall be submitted by the cost accountant in practice to the Board of Directors of the company."
- Sub-section (6) of section 148 says- "A company shall within thirty days from the date of receipt of a copy of the cost audit report prepared in pursuance of a direction under sub-section (2) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein."

- Sub-section (7) of section 148 says- "If, after considering the cost audit report referred to under this section and the information and explanation furnished by the company under sub-section (6), the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government."
- Sub-section (8) of section 148 says- "If any default is made in complying with the provisions of this section,—

(a) the company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147;

(b) the cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147."

The following abbreviations were used while writing the article

ICAI = The Institute of Cost Accountants of India (www.icmai.in)

MCA = The Ministry of Corporate Affairs, Government of India (www.mca.gov.in)

CARR = Cost Accounting records Rules

CAR = Cost Audit Report Rules

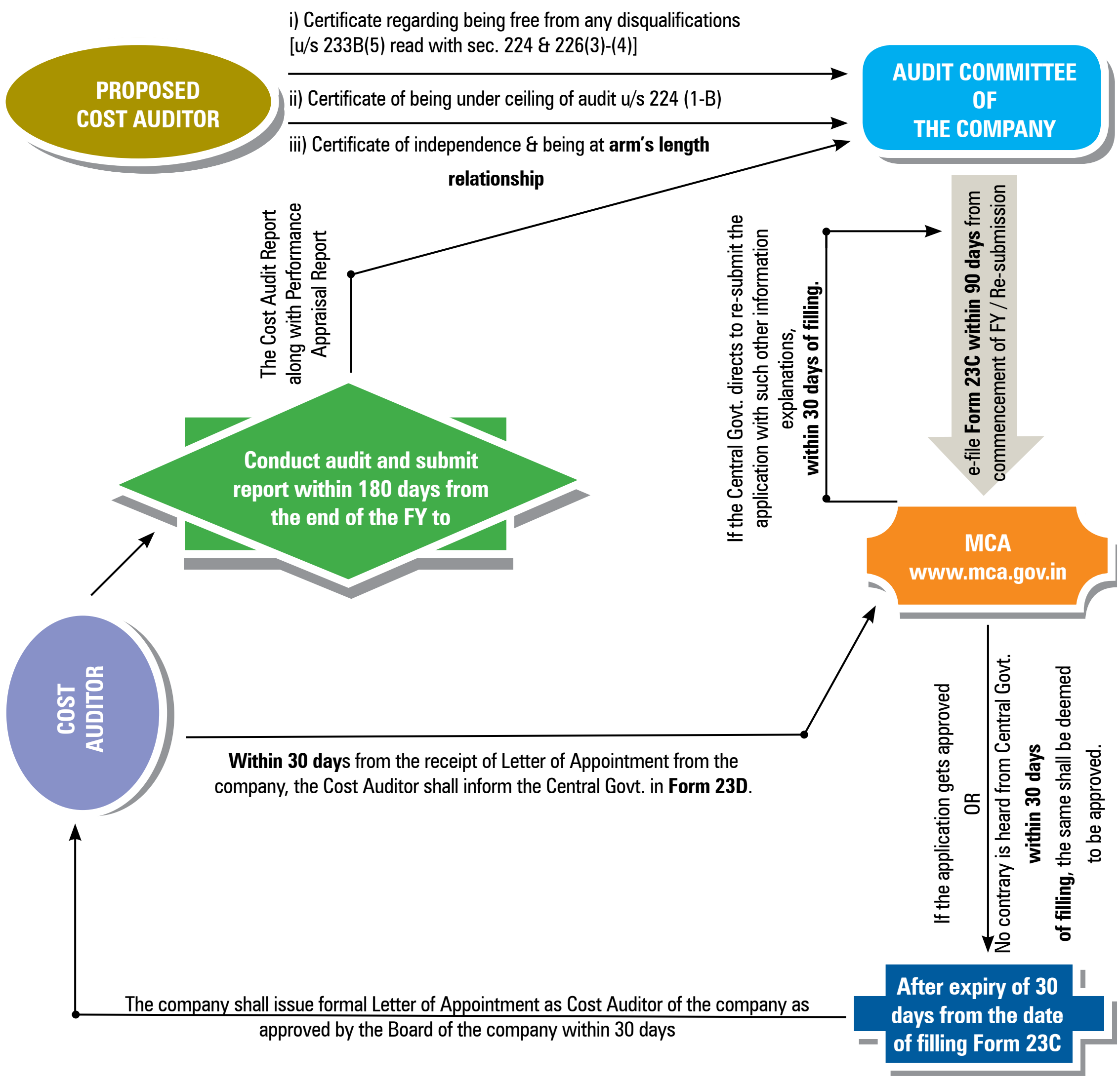
PAR = Performance Appraisal Report

CASs = Cost Accounting Standards, issued by ICAI

CAASs = Cost Auditing & Assurance Standards, issued by ICAI

himadri.cma@gmail.com

MAINTENANCE OF COST RECORDS & COST AUDIT PROCEDURE AT A GLANCE:



THE NEED FOR COST AUDIT IN THE PRESENT SCENARIO

Though Cost Audit is done in only certain cases, it should be introduced in almost all industries. Also, it can act as tool for prohibiting unethical practices in industries and economy

CMA Ritesh Agarwal
Associate Professor,
Bareilly

WITH the growth and development of cost accounting system, it became necessary to maintain cost records and cost books to record costs and the related transactions correctly. It is necessary that they must be examined independently to ensure the fairness and correctness of them. So once the cost accounts are prepared, they should be audited in all fairness. As we all know, we are short of material, there is so much material which is imported, when we are short of foreign exchange, value of rupee in comparison to US Dollar is going all time low, some essential products are overpricing etc. In these circumstances, it is very essential that there should be cost audit. In fact, it should be introduced in almost all the industries, but the government is trying this in certain cases only. In this paper I want to highlight the need of cost audit in present scenario by quoting two cases of unethical practices in pricing of products.

Meaning of cost audit

It is an audit process for verifying the cost of manufacture or production of any article, on the basis of accounts as regards utilization of material or labour or other items of costs, maintained by the company. As per ICMA London, "cost audit is the verification of the correctness of cost accounts and of the adherence to the cost accounting plan." Cost Audit act as a tool for "Price control mechanism" for consumer and infrastructure industries. In the past the main objective of Cost Audit was to meet the government requirements for regulating the price mechanism in core industries like Cement, Sugar, Textiles and consumer industries like Vanaspati, Formulations and Automobiles. The objective was to provide data to the government to regulate the demand and supply in the country through a price control mechanism.

Cases of unethical practices in pricing of products

Case 1: Satyamev Jayate (TV Series) raised the issue of overpricing of branded medicines as against generic medicines. Satyamev Jayate also cited various examples of overpriced medicines such as a medicine for diabetes, which costs Rs. 117 for branded version, but only Rs. 1.95 per 10 tablets for the generic medicine. A branded cancer drug costs Rs. 1.25 lakh, but available in generic form for Rs 6,500 to Rs. 10,000. It shows how medicines priced higher by unbelievable, unexplainable margin of 400% to 2000% over cost. The medicines are overpriced only because of its brand name.

Case 2: Arvind Kejriwal, India Against Corruption Activist alleges that Prime Minister Manmohan Singh Allowed windfall profits to RIL over its contract to develop the gas fields in the Krishna Godavari (KG) basin and also pointed that RIL demanding increase in gas price from $4.2 to $14.2. The available data shows that RIL's cost of production for gas is much less than $2.34 per mmBTU and the fact is also in news that RIL signed long-term agreements with NTPC and RNRL for supplying gas @ $2.34 per mmBTU for 17 years. The same gas cost $0.9 per mmBTU from Oman and it costs $1.74 in Canada. This clearly shows that RIL is making huge profits @ $2.34 also. If RIL demand of increasing the gas price to $14.2 per mmBTU is accepted, it would lead to shut down of several gas based power plants and increase in power and fertilizer prices. Further, it would result in Rs. 43,000 crores of additional benefits to RIL. If RIL demand of increasing the gas price to $14.2 is accepted, it would lead to shut down of several gas based power plants and increase in power and fertilizer prices. It would result in Rs. 43,000 crores of additional benefits to RIL. As per media reports, if gas price is increased from $4.2 to $14.2(as demanded by RIL), power from gas-based power plants would go up to Rs.7 per KWH from existing costs of Rs.3 per KWH. At that cost, most of these plants would have to permanently shut down. CAG has also pointed out that RIL is gold plating its capital expenditure. That means expenditures are artificially increased. Other issues raised by CAG against RIL are that RIL rejects bids to favor one company named Aker Group.

The need of cost audit

Now the question arises, what is the solution to the above-mentioned instances? Are the government regulations sufficient to track these manipulations? Not to mention but it is evident, that cost audit is a necessity in today's Indian scenario. Cost records and cost audit report are relevant documents for tracking these unethical practices.

With the advent of liberalization and consequential globalization has further enhanced the need for authentic data. Therefore, the Cost Audit Report Rules have been amended from time to time to ensure that the comprehensive authentic data is available in the format required. Cost Audit Reports (CAR) do not contain merely the cost details, but are full of information related to all aspects of business organization which, if harnessed properly can provide a comprehensive analysis about the company, the industry and the economy as a whole. The CAR serves as an effective tool of information in the hands of directors on the Board ensuring good corporate governance.

With increasing international trade, dumping of product at very low prices has become a serious issue. This dumping of products, often below the cost price, if not properly countered may harm the indigenous industry. The practice of selling below cost to ward off competition, transfer pricing etc, requires authentic cost records to keep a check on these practices. Cost Audit Report plays a critical role by providing authentic cost details of a product.

The Tariff Commission relies in the authenticity of the cost audit reports and makes use of these reports extensively in fixation of tariffs for the products covered under Cost Accounting Records Rules. The reports have great potential in government procurements especially in case of non-competitive procurements. Cost Audit reports also helps government in making informed decisions on subsidies and incentives.

Conclusion

However, the Cost Audit in India refers to the statutory Cost Audit of Selected Industries covered under Cost Accounting Records Rules, but it can act as tool for prohibiting unethical practices in industries and economy as a whole. It is very essential, no doubt, and in factories and industries, everywhere, this cost audit should be emphasized." Cost Audit is not a solution in itself but a tool for making decisions.

Cost Audit Reports (CAR) do not contain merely the cost details, but are full of information related to all aspects of business organization which, if harnessed properly can provide a comprehensive analysis about the company, the industry and the economy as a whole

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ritesh_bly@rediffmail.com

RULE 1-2-3 OF COSTING

3 Rules that make Costing more practical than simply remaining a passion so that the Cost Audit and Compliance Audit can be more effective

CMA Zitendra Rao Dendukuri
Practising Cost Accountant, Hyderabad

WHY do we need to maintain the Cost Records and where is the need for Cost Audit? We may refer to our Institute's website for an effective answer, viz.,"the objectives and reasons for ensuring that the companies keep proper records was to inculcate a culture of cost consciousness among industries for better resource management, to make the efficiency audit possible, and to make cost data available to the Government".

It's the rainy season. In line with the weather, I was relishing a bite of corn cobs roasted over an oven by a footpath vendor. Everyone would agree that even a corn cob vendor would do some sort of COSTING before kicking off his daily run. So, all that we can conclude is that the word 'COST' is important and it appears to be receiving its due credit finally from the statutory dimension as well.

In this article, I attempt to bring 3 Rules that make Costing more practical than simply remaining a passion so that the Cost Audit and Compliance Audit can be more effective.

Rule 1: Role of a professional

To begin with let us discuss the role for every Cost and Management Accountant – whether in Practice or in service.

- Every one of us must impress that while profits form part of the choice of the Owners (who will take market dynamics into account); cost efficiency aspects will ensure the well-being of an organization and in turn the well-being of the Public at large as well. The social aspects are certainly a matter of concern for the Government.
- Moreover, experts opine that the Cost Audit aptly integrates its activities to the Performance side of Enterprise Governance and therefore is a handy tool for the Management to check the product profitability that reduces cross subsidization.
- This also reminds me of the oath that I administered to the Students of Cost Audit in the Modular Training, viz., "I take the oath to promote the concept of Cost Records and Cost Audit in every organization I work with in my career".
- CMA and his/her Dharma: In the context of series of notifications influencing the Industry to maintain the Cost Records – a serious question is repeatedly coming on to the floor about the utility of the said compliance. Hence this is the time to realize is that there is a DHARMA attached to every CMA – particularly in practice. The DHARMA is to develop the competencies for oneself and at times disseminate the skills for the well-being of the profession and co-practitioners. Only then is Capacity building possible. Earning is a Joint Product.
- Continuing the discussion on Dharma, I fail in my duty if I do not talk about the Role of the "Recipients" of Knowledge from the so-called "Disseminators". A High Degree of Confidentiality with reference to the Intellectual Property they attain, Equivalent sense of gratitude towards the Trainer and Transparency at their overall professional life are the key concerns. I have noticed the *Guru Sishya Parampara* culture in every successful profession and our profession is no exception.

Rule 2: Role of IT (Information Technology)

The impact of Information Technology in every walk of life is substantial and so it acts as CATALYST even in "Costing". Let us study the 4 decade Journey of IT and examine how the COSTING is influenced. It will also be emphasizing what we missed all along.

- The 80s can be concluded as the decade as age of Computing. During this period typically - our Cost Sheets were half a mile away from IT. But our

senior CMAs did miracles with Pencil and Paper. We had a source document to give us the required information from the shop floor. "Costing" is under Control

• The 90s saw an explosion of information with the emergence of Internet and this decade can be termed as the age of Communication. The era of SAP and ERP recognized the importance of CMA for effective implementation. At this juncture - I am afraid to comment that most of the young CMAs stopped learning real costing and shifted their focus to IT. However the conventional CMAs were excited with the "Lover" in the form of MS-EXCEL. Primary and secondary allocations were very effective. But unfortunately the subject "Costing" did not explode the way it has to be.

• We can term the decade beginning 2000 as the age of Information. "Mother IT" became the necessity for data mining and data processing for everybody. One can do banking, shopping, correspondence, marketing etc.. Google is the new Friend Philosopher and Guide. With SAP connecting geographically the Business - the term COST CENTRE gained prominence. But plights of COSTING activity multiplied. We had 100s of COST CENTREs without good rationale which made the data collection next to impossible. As a result – you ask any information. The otherwise efficient IT environment kept on giving the stock reply "NOT POSSIBLE".

• You always have new "S" (Success) curve at an interval of 10 years. Thus the current decade beginning 2010 can be termed as the age of Innovation. By 2010, all that was possible had been almost achieved on Technology front. Now there seems to be a paradigm shift - from what can be done to how can it be done better. Taking the IT as Enabler – Government of India wanted the Cost Audit Reports to be filed in XBRL Mode.

• It has been an exciting and thrilling experience for most of us while filing the Cost Audit Reports (CARs) and Compliance Reports (CRs) under XBRL mode. Quite a few things were clear. Government wants to have the COST DATA collected in a more authenticated manner. Technology is enabling the DATA to be navigated for and converting the same into INFORMATION. Obviously we can expect the next fall out from the Government. That is "Apt Decision" for the welfare of all the stake holders. I thank my niece Durga Manasa an IT Professional for supporting me in this analysis.

• Now that the platform is ready - the real take-off is a matter of time. Clarity is emerging on various cost concepts by means of Generally Accepted Cost Accounting Principles, Cost Accounting Standards and Guidance Notes.

• The leftover is the Commitment and clarity of thought from us the CMAs to Join the movement with enthusiasm.

Rule 3: Institutions to be informed

I am sure all of you would have gone through the Cost Audit Order dated 6th Nov 2012 which superseded all the earlier Cost Audit Orders. This Order mandated the Cost Audit for varied products falling under 155 product groups in total. It would be interesting to note the importance of the Cost Audit for these products from 5 Dimensions.

• Costing and the Arm's length Relationship

While the Accounting Standard 18 insists for the disclosure of the value of the related party transactions - the Para 10 requirements go beyond the Schedule VI requirements and necessitate the companies to disclose additional information. In the process – the Government and the entities will be benefited with apt data that concludes the "Costs" on more scientific basis and helps in concluding whether the and Arm's Length relationship is maintained with the related parties. This will establish perfect synchronization between the interests of Investors of both the entities and also helps in ensuring the interests of Government Agencies such as Income Tax and Customs Departments. The sovereignty rating of our country also would be high as this will protect the interests of Investors at abroad. Maintenance of Cost Records as a matter of routine will be of immense help in this regard.

The Supreme Court of India suggested to the Ministry of Finance to make amendments to the Transfer Pricing Regulations (which are based on Arm's Length principle). Thus in Budget 2012 – amendments were initiated to make the Arm's length principle applicable even for Related Party Domestic Transactions with effect from 1st April 2013. In this context; our audit of Para 10 assumes lot of importance particularly for future years.

• Costing and Central Excise Duty

Normally - Transaction Value is the base for payment of Central Excise Duty. In case the excisable goods are not SOLD but are dispatched to related parties the Transaction Value/ Assessable Value is an issue for the payment of Central Excise Duty. At times the company may be having more than one manufacturing units and the goods in their intermediate stage move from one Unit to the other ; for further processing and for onward dispatch to the company's customers. The base in such case was the "Cost of production" plus notional profit margin. The issue is all the more critical when the intermediate goods are Excisable but the end goods are exempted from levy of Duty. The maintenance of Cost Records would ensure the Duty discharge obligations and as well protects the interests of the organization.

• Costing and the Common Man

There is an argument that when the rate regulated regime is not there – where is the need for Cost Data be reported to Government. Thus at least there appears to be no objection for the Cost Data collection in case of Price regulated Industries viz., Pharma, Power, Petroleum, Fertilizers, Telecom and Sugar. From the Common Man perspective the intervention of the Government in these sectors - is very much required. Visualize the protests that we witness by public at large whenever there is a price raise in any field of whatsoever. The common man is always affected if the proper balance is not established between their earnings and requirement. Thus keeping in view the cascading effect – certain other sectors are also covered for the purpose of Cost Audit. In case of Sugar Industry - while maintaining the minimum support price to the Farmer, the Government should also protect the interests of the Industry and the Consumer. Track of COSTS is the only solution.

• Costing – Industry - Investor

There is no second argument that any entity gives lively hood for good number of families. The Cost Consciousness across the organization will help and prevents the organization from slipping into sickness – particularly at times of economic turbulences. The Cost Accounting Policy that is framed and followed consistently establishes a direction for controlling the costs and for fixing the prices. An Investor also intends to have an assurance that his interests are always protected. Prevention of losses will ensure this.

• Costing – Industry – Confidentiality

With the converged Cost Sheets being submitted to the Government, the aspect of confidentiality that the industrys insists on is fully addressed. Unlike many filings with the Ministry of Corporate Affairs – the Cost Audit Report is not available for inspection by the public at large. Thus the data is fully insulated from loss.

Finally…

One has to keep the Cause and Effect theory in mind. If prices are the effects the Causes lie in the Costs. I wish every "Cost and Management Accountant" takes the lead role and active part in making the Costing Exercise more meaningful and successful. A quote I read might be of interest to everyone. "A Car Driver is normally different from a Car Mechanic. Though both of them know both the Trades; the skill set required for each of their roles demands expertise". Interestingly – a CMA is both a Driver and a Mechanic. Thus the CAR always runs and helps every one.

CASE STUDY

POWER INDUSTRY: ISSUES IN COST AUDIT

COMPANIES (COST AUDIT Report) Rules 2011 and the Industry specific Cost Audit Orders are the interesting notifications issued by Government of India of recent years. The Institute of Cost Accountants of India is made to connect itself fully to its Prime Objective, viz., ensuring that the companies keep proper records and inculcate a culture of cost consciousness among industries for better resource management, to make the efficiency audit possible, and to make cost data available to the Government.

M/s. KNJZ Power Private Limited (KPPL) is subjected to Cost Audit in terms of Sec.233B of the Companies Act for their Electricity Generation Activity with effect from the Financial Year 2011-12. The Company has Thermal power plants based on Coal, Natural Gas and Bio-mass. In addition they have small stand alone units in the form of "Special Purpose Vehicles" based on Wind, Solar and Hydel as well. All that the Cost Auditor knows is that Cost implies "What we give up". Thanks to Google, he got TONS of stuff on Electricity Generation activity.

Applicability

The Cost Accounting Records (Electricity Industry) Rules, 2001 issued in terms of Sec.209 (1)(d) prescribe the methodology in which the Cost Records are to be maintained. The records and accounts that are maintained and prepared should enable the preparation of the COST STATEMENTS as per the prescribed Proformae A, B, C etc.. After getting the Statements compiled for – the company compiles the 11 Paras prescribed under Companies (Cost Audit Report) Rules 2011. As the FY 2012-13 approached ; the Cost Accounting Records (Electricity Industry) Rules 2011 were made applicable to the company for the FY 2012-13.

Issues encountered

- In the very 2nd Para viz., Cost Accounting Policy – the company had tough time in identifying the Cost Centres for the main power generating facilities. Water collection, Fuel Handling and Ash Handling facilities could be identified as exclusive Cost Centres particularly in case of Thermal Plants. The main Plant in total is considered as ONE COST CENTRE for convenience. This approach has been considered as very apt in case of Wind and Solar. In case of Hydel Power plant the CHECK-DAM (which is away from the plant) where the water is stored and the FOREBAY (facility to transmit the water into plant) are preferred 2 additional Cost Centres.
- In Para 4 the Installed Capacity has been calculated for. For a 9 MW Hydel Power plant – the Installed capacity is expressed in Kwh (Number of Units) by applying the derivative of "24 Hours X 365 Days X 9 X 1000". Since there is no concept of stock adjustment of Opening closing balances – the power exported is considered as Power available for export to the GRID.
- Auxiliary consumption would be an issue since Cost of Production includes Auxiliary Consumption. The relevant cost of Power as an "Utility" for Generating the Power is arrived at a subsequent stage. This has raised an Issue of "Egg and Chick". The Guidance Note on Utilities states that no Utility cost need to be considered Power GENERATING COMPANIES. However – the relevant Cost accounting Record Rules speak of UTILITIES in Proforma A which excludes POWER. Therefore – it is advisable to ignore the same from "Value perspective". However – for quantitative controls the Auxiliary consumption is reported at appropriate places in Para 4 and Para 5.

- Abridged Cost Sheet - Para 5
  - ⋆ Data captured in Proforma C is used as the base for compiling the information
  - ⋆ One of their unit was achieving 50% of Capacity Utilization as the plant operated for only 182 days. However – the plant was available for generation for almost 250 days. They could not produce power as per the instructions of purchaser of the power with whom the company has a Power Purchase Agreement. The Buyer agrees to reimburse the Fixed Costs for the period for which the plant is available for generation even if the power is not produced for. These sort of decisions are resorted to - taking into account the Demand and Supply situation of Power. Under these circumstances – if we apply simple multiplication and division rules to arrive at per "Unit Data" we may not have a True and Fair view of the Cost Sheet. In such situation the concept of DEEMED GENERATION is brought into and Revenue attributable to "Capacity Billed but not used for power generation" is taken out of the Cost Sheet. To have a matching effect – the Fixed Costs attributable to the period are also kept outside the purview of Cost Sheet.
  - ⋆ Conventionally, we need to discuss Input/Output Ratios and report upon the efficiency of the Material cost. In case of the Power sector, the Fuel cost is the Material Cost. If

A DETAILED GUIDANCE NOTE FROM THE INSTITUTE OF COST ACCOUNTANTS OF INDIA, COVERING VARIOUS ASPECTS OF COST AUDIT FOR THE POWER INDUSTRY IS A WELCOME PROPOSITION

we adopt the concept of "MASS" to conclude the material cost the true and fair view may be missing. For Ex: if Coal is used as the Fuel we may get the consumption of Coal as 500 Grams (app.) per Kwh .However – if the Coal used has more Ash content than the HEAT - the consumption per Kwh may go up. Therefore the "Heat Rate" has significance than the quantity consumed for. However the structure of our Cost Sheet takes into account the 'Value' and the Units generated as the base to arrive at the Material (Fuel) Cost per Kwh. Hence, it is advisable to bring in the Heat Rate Concept in the Performance Appraisal Report with the data on 'Heat Consumed vis-a-vis Heat Billed'.

* Carbon Credits: In case of Wind-, Solar- and Biomass-based power plants, the company is eligible for Verified Emission Reductions popularly known as "Carbon Credits" for not polluting the environment. Normally, income from the sale of Verified Emission Reductions (VERS) is recognized upon realization and this is in line with the accounting policy of the company which is in line with Guidance Note issued by The Institute of Chartered Accountants of India. Normally revenues on this count need to be accounted for as Operating Revenues as the company spends lot of money on Capex for preventing the pollution. The company also incurs expenses for establishing the eligibility of Carbon Credit which are charged to cost of operations as and when incurred. In order to reflect a True and Fair view of the Revenue from Operations in the Cost Records, the Sale value of eligible Credits relevant to the year under review need to be considered on Notional basis with a specific methodology to be followed consistently. This also warrants the company to keep a track of year-wise data of Emission Reductions. If these proceeds are accounted for as operational income in the year of realization, the Cost Sheet would not reflect True and Fair View.

Few advisory notes

The Cost Auditor has also given a few suggestions for their Business Strategy as discussed here:

- With Government planning to sanction Solar Cities in various cities across India, the company can be advised to plan for expansion under the public-private partnership mode.
- Wind Farms/Met Towers are positioned at remote locations and often are subjected to variety of Risks which include Damage, Vandalism and even collapse. A Caretaker approach with local representatives having Entrepreneurial qualities would be ideal to mitigate these risks. Special purpose partnership strategy can be worked out to enhance the scalability of Wind Energy. "Project Management Expertise" and "O&M" expertise can be the subscriptions from company side while "CARE TAKING" is the subscription by the local representatives.

In conclusion

These days, the Power Industry is in focus because of the demand for power, substantial CAPEX and the social issues connected to pollution-related issues.

A detailed Guidance Note from the Institute of Cost Accountants of India, covering various aspects of Cost Audit for the Power Industry is a welcome proposition .

On the lighter side, if any individual does not use the 'LIFT' but uses the Staircase to reach, say, the 2nd Floor for say 10 years across 10s of buildings he commutes for, he or she can be can be rewarded for saving electricity of say at least 3,650 Units. He/she may be considered for an award of carbon credits as well. With technology such as RFID, TRACKING is a not a big issue these days. MA

dzrandco@gmail.com

INDUSTRY SPEAK

Compulsory cost audit is required to ensure effectiveness of cost data and costing system being relied upon by various stakeholders of companies. It can bring out strengths and operational inefficiencies if any requiring corrective steps to remain cost competitive. – CMA *Rajeev Mehrotra, Chairman and Managing Director, RITES*

Cost accounting cannot be underestimated: Justice Lahoti

Justice R C Lahoti
Former Chief Justice of India and
Member, SAFIM Advisory Board

This is a speech by Justice R C Lahoti at the National Seminar on 'Governance by Inner Consciousness' organised by the Institute on 13 July 2013 in New Delhi

IT gives me immense pleasure to find myself associated with the inauguration of this national seminar on Governance by Inner Consciousness co-organized by ICAI, the Institute of Cost Accounts of India and SAFIM, Sri Aurobindo Foundation for Integral Management.

Ever since the dawn of human civilization, the Mind of Men has been dreaming of a perfect society. In its search the humanity has reached the day where we are living in an industrial and commercial globalism led by multinational corporations and propelled by an increasingly efficient and sophisticated 'management' and technology, especially 'information technology'. Experience tells us that these are means of temporary success not an assurance of perfect society.

What is the cause of this failure? According to Shri Aurobindo '... to hope for a true change in human life without a change of human nature is an irrational and unspiritual proposition; it is to ask for something unnatural and unreal, an impossible miracle' .The futuristic vision of Shri Aurobindo has been the creation of a New Social Order. And, there enters the role of consciousness or inner conscience.

Let us be clear on the inter-relationship of conscience and consciousness. Conscience is an inner sense which tells us what is right and what is wrong. Consciousness is awareness of such sense. It is that awareness which enables exercise of discrimination by senses. Hence, the sane advice of the sages is: Be a master of your mind and a slave to your conscience.

SAFIM, a discreet unit of Sri Aurobindo Society, Puducherry is founded on the commitment to disseminating a new paradigm of management which proposes to transform values by applying in practice the teachings of Sri Aurobindo and the Mother. Sri Aurobindo has said – "we do not want to exclude any of the world's activities. Politics, trade, social organization, poetry, art, literature – all will remain; but all will be given a new life, a new form. If we are spread out everywhere as individuals, something no doubt will be done; if we are spread out everywhere in the form of a Sangh (i.e. a collective body, a divine fellowship), a hundred times more will be accomplished. SAFIM is, therefore, stretching its arms to collaborate wherever it can with any group of individuals, preferably, the professionals, who have potential to advent a new world – a new order, and a willingness to dedicate themselves to accomplishing this solemn objective. SAFIM has drawn upon the Western Management skills and technology and set down to restructure them with the touch of deeper spiritual philosophy of Sri Aurobindo acting as a catalyst. The core of this philosophy is: unless an individual learns to manage himself he cannot manage others. To do so the managers (professionals included) have to develop their inner potential and express themselves fully.

'The switch over from the present materialistic society to a spiritualised society i.e. a new social order will not be ushered in either by a Royal Charter or by an Administrative Arbitor or by a Parliamentary Proclamation or even by sermons, preaching or slogans. The new social order of the Aurobindonian thought will be ushered in only in MEN – the individual. A society that lives not by its man but by its institutions, is not a collective soul, but a machine, its life becomes a mechanical product and cease to be living growth. Therefore, the coming of a New Social Order must be preceded by appearance of increasing number of individuals who are no more satisfied with normal intellectual, vital and physical existence of men but perceive that a greater evolution is the goal of humanity.'

For the New Social Order to descend, where the society would be full of peace, prosperity and pleasure, we need people with conscience. Conscience is that faculty of intellect, an intuition which enables distinguishing right from wrong. An inner conscience is the 'voice within'. It is a debatable issue whether such voice is ruled by reason or the voice over over-rules the reason. But one thing is certain that conscience is that voice which originates from within and warns us that somebody may be looking though you are all by yourself. How beautifully the great poet Krishna Behari 'Noor' has put it in a couplet, which says:

Main andhere main rahoon, ya ki ujale main rahoon, *Aisa lagta hai ki koi dekh raha hai yaro!*

I am delighted to see SAFIM and ICA having joined hands to discuss certain aspects of Governance and creating right environment by realising the role of inner conscience as the tool of transformation. The importance of cost accounting as being central to the formation of Governmental and Corporate policies cannot be underestimated. Effective cost accounting assures efficiency and optimum utilization of scarce resources. Ever since cost accounting earned recognition it has been continuously contributing to the growth of the industrial and economic climate of the country. No wonder the prime object of the Institute of Cost and Management Accountancy is to function as a powerful tool of management control in all the spheres of economic activities. It seeks to promote and develop the adoption of scientific methods in cost and management accountancy. Often the Cost Accountant works in solitude dictated by none except by his own inner conscience, while formulating opinions and dictating his notes. Looking at the significance of the profession and far reaching implications which it has on shaping the economic growth it would be apposite to say that the conscience of a Cost and Management Accountant should be a sacred sanctuary where the supreme divine alone may be seated as a decision maker.

During the course of the day, the delegates will be deliberating over the Conscious Governance - need of the hour, role of values in Governance and creating the right environment. I would like to close by quoting the assurance of Sri Aurobindo in Savitri – "even if the struggling world is left outside, one man's perfection still can save the world." I hope that at the end of the day you find an answer to what the Mother had asked in one of her New Year Messages – The world is preparing for a big change. Will you help?

i) Dr. G.P. Gupta, 'Designing a New Social Order – an Insight into Aurobindonian thought', published by Shri Aurobindo Society, Pondicherry, pg-11.
ii) 'Towards Tomorrow – an introductory booklet', Sri Aurobindo Society, Puducherry, p.14
iii) Dr. G.P. Gupta, Supra, pg-11.
iv) If you have liked the couplet then yet another two lines for a change:
Jiska koi bhi nahin , uska khuda hai yaro,
Main nahin kahta, kitabon main likha hai yaro! - Noor

Need of the hour to be dead honest: Bandyopadhyay

R Bandyopadhyay
Former Secretary, MCA and
Member, SAFIM Advisory Board

This is a speech by R Bandopadhyay at the National Seminar on 'Governance by Inner Consciousness' organised by the Institute on 13 July 2013 in New Delhi

Salutations

Why Unethical Behaviour

• We see that scandals and scams in present-time are on the rise. What has really changed? Individual ethics, organization ethics or societal ethics? We may observe many similarities in India and in the Western Countries' individuals involved in recent scandals/scams.

1. Every major actor was a highly skilled professional in his or her respective field.
2. All of them also were very well off.
3. They were highly professional people with very sharp intellect, and
4. They were highly motivated people.

• With these combinations of high virtues that the people at the helm of affair possessed, yet the result was scams and scandals.

• Therefore, it is true that effective implementation of an ethical ideal or concept requires two factors: creating an ethical consciousness and promoting ethical conduct and behaviour. But for the outer conduct and behaviour to be authentic, sincere and effective, it has to be a spontaneous expression of a corresponding inner state of consciousness.

In the Corporate Boardroom

• The principal role of the board of directors – as representatives of the shareholders, is to oversee the function of the organization and ensure that it continues to operate in the best interests of all stakeholders. Given the complexity of today's organizations, that is no simple or straightforward task. Today, board effectiveness is a key performance driver of the Indian companies.

• With expectations of them continuing to increase, boards can take several actions to govern more effectively. Indian boards must move away from being a rubber stamp to being a strategic asset for the company. They need to set the tone from top in promoting a transparent culture that promotes effective dialogues among the directors, senior management, and various function and risk managers. Boards should look beyond the 'old boy network' and select directors with individual areas of expertise, and invest on an ongoing basis on their formal and informal education. Independent directors should significantly contribute to the functioning of the board through requisite understanding of the company and the business. Boards must take a hard look at its own performance evaluation and enable continuous feedback and communication cycle.

• Effective boards build capabilities within themselves and their organizations that allow them to do both, protect existing assets (compliance role), as well as, manage threats to future growth (strategy oversight role).

Inner Consciousness

• This level of Consciousness enables the human mind to make sense of the stimuli that it is capable of receiving from its environment with the help of mental consciousness. It includes three mental activities of feeling, willing and knowing. In the mental consciousness, thoughts propelled by external stimuli have not taken a specific shape; they are vague, amorphous and hence ineffective. But at the level of inner- consciousness, which develops in individuals as they physiologically grow, the mind is capable of interpreting the external stimuli and converting them into firm ideas, concepts, and knowledge and is ready for connecting the same with action.

• This level of consciousness consists of one's intelligence, i.e., thinking – abilities which include logical, rational, analytical comprehension, arithmetical and rational abilities and emotions i.e. feeling abilities which include: anger greed, fear, attachment, pride, hatred and jealousy etc.

• Aristotle posited an ethical system that may be termed "self-realizationism". When a person acts in accordance with their nature and realizes their full potential, they will do well and be content. At birth, a baby is not a person, but a potential person. In order to become a real person, the child's inherent potential must be realized. Unhappiness and frustration are caused by the unrealized potential of person, leading to failed goals and poor life. Aristotle said "Nature does nothing in vain"

• Therefore, it is imperative for persons to act in accordance with their nature and develop their latent talents, in order to be content and complete. Happiness was held to be the ultimate goal. All other things, such as civic life or wealth, are merely means to the end. Self-realization, the awareness of one's nature and the developments of one's talents is the surest path to happiness.

• Aristotle asserted that man had three natures: Vegetable (Physical), Animal (Emotional) and Rational (Mental). Physical nature can be assuaged through exercise and care, emotional nature through indulgence of instinct and urges and mental through human reason and developed potential.

• Rational development was considered the most important, as essential to philosophical self awareness and as uniquely human. Moderation was encouraged with the extremes seen as degraded and immoral. For, example, courage is the moderate virtue between the extremes of cowardice and recklessness. Man should not simply live, but live well with conduct governed by moderate virtue. This is regarded as difficult, as virtue denotes doing the right thing, to the right person, at the right time, to the proper extent, in the correct fashion for the right reason. Important Aristotelian virtues are: Courage, Self-control, Generosity, Magnificence, High-mindedness, Gentleness, Friendliness, Truthfulness, Wittiness, and Modesty.

• The scams and scandals in corporations and the deteriorating standards of officers occupying key positions and are responsible for controlling the growth and regulating the working of corporations have given rise to the need of a transparency practices for the formulations and reporting of financial policies of corporations. In India, in the wake of globalization perspectives, the practice of sound Corporate Governance has been gaining acceptance among Indian Corporations.

• The domain of Corporate Governance must take the view pertaining to its impact of economic activity at firm level on socio-economic development of the Country which, in India, has received a low priority.

• There are two important aspect of Corporate Governance namely, Structural and Cultural. The Structural aspects of Corporate Governance deal with systems and processes, norms and regulatory mechanisms, policies and guidelines. It is observed that companies in India have started giving increasing emphasis on these areas.

• The cultural aspects require that the Indian Corporate Sector must put in efforts for creating a vision and mindset among the top management to enable them to address towards integrated development involving the community and the environment at large. Which means the scope of Corporate Governance must be extended to include the assimilation of values in the members of the organization. Sensitization to ethical issues and sustenance of high ethical standards by individuals and organizations assume paramount importance.

• The attitudes, values, sentiments, rituals etc. bind people and societies together, and identity is necessary to generate the feeling of belongingness to particular society. In India, two things are important in the context of culture and traditions:

• 1. The individuals acquire in the process of growing (primary socialization) a strong need of family ties and affiliate relationship and have tendencies for dependencies and the like, and

• 2. The individuals are deeply influenced by values, attitudes and sentiments in the ancient writings, i. e. Our thinking and feelings have been shaped by our readings about Buddha, Mahavir, Mahatma Gandhi, Vivekanand, Rajaram Mohan Roy, Shri Aurobindo, etc.

• It brings us to the question whether 'business ethics' can be taught? I do believe that value formation starts much earlier than at the B-school level, though there is certainly a need for training, I would like to maintain that business ethics is a reflective discipline, and hence the need for innovative teaching methods, where students are actively engaged instead of being mere recipients of information. It cannot be stated better than in the words of Albert Einstein "I believe, indeed, that overemphasis on the purely intellectual attitude, often directed solely to the practical and factual, in our education, has led directly to the impairment of ethical values". To this extent, I think, there needs to be extensive compilation of thought-provoking case studies that encourage students to look at instances from wider stakeholders' points of view, issues and conflicts; live cases on companies; case writing by students themselves and listening to peers; simulation games that put students into situations to require tough ethical decisions. I am of the view that good training can embed these values in daily decision-making by business managers. And, business schools are rightly the vehicles to ensure this.

• Finally, it is the need of the hour to be dead honest in our duties and it is the responsibility of each and every individual concerned to obtain the desired growth and development of our self as a whole otherwise our Future will not forgive us for our intentional misdeeds.

Thank you.

Need to awake professional ethics: CMA S C Mohanty, President, ICAI-CMA

This is a speech by CMA SC Mohanty at the National Seminar on 'Governance by Inner Consciousness' held by the Institute on 13 July 2013 in New Delhi

FROM the Institute's side I am thankful to Mr Dani to associate us in this great venture to bring values to the human society which is the need of the hour and we look forward to associate with the body to play our role which is mandate to create leaders with values, ethics so that those leaders can serve the society with sovereignty and ensuring happiness and peace.

I could realise it is not only the need of the society or the human to our external peace or the prosperity but at the end of the day you should have to bring inner consciousness.

I would like to share few of my teachings and learnings what I have acquire in the process as a human being. What I realise, we are now belonging to the last stage, KALYUG, where there is a fight not with man and non-man and animals, there is a fight with man with himself. The inner consciousness is external comfort. This is the Kalyug. We have seen in 19th century we are the dependent, 20th century we became independent and this is the 21st century. We have to realise we can't survive without interdependence or collaboration.

We three Institutes met last month, President and Vice President and colleagues and we have taken decisions that there is a need to awake professional ethics and there is a need to awake quality service to awake specialise service to the society to ensure the inclusive society a society with prosperity.

We are blessed with a situation with Gandhiji but today we are moving towards what I should not mention we all know.

There is a need to correct the society to correct each and everyone of us. We the people, the blessed souls having a good education, good position. We are mandate to serve the society in different positions, but we should not forget there is a need and we are the only a trustee or agent of the society and we have to discharge our obligation and it have taken 10% from the society and I could always in state of mind to give back 90% to the society. So that the society will prosper and being the blessed souls and the best creature of the God. We can give a better days, a better opportunity to the next generation.

I assure from the Institute's point of view, we are determine to work for the society, for the economy and whatever the policy initiatives of the government bodies like Aurobindo Integral Management we will be associated with that and because we are mandate to create a society of leaders with human values and ethics who can serve the society and look after the economy for a better tomorrow.

THE SERVICE TAX AMNESTY SCHEME

Since the levy is new, defaults are widespread. In order to mitigate hardship to those who may not be aware of the implications of the levy, the Government has thought it fit to introduce an amnesty scheme

TCA Ramanujam
Chief Commissioner of Income Tax (retd.), Advocate High Court, Madras

TCA Sangeetha
Masters in Law

THE Finance Act, 2013 has brought in an amnesty scheme for those liable for paying service tax. Service tax itself is an innovation in the Indian fiscal system dating back to 1991-92 when Dr Manmohan Singh took over as Finance Minister under Dr P V Narasimha Rao as Prime Minister. We had known the agricultural sector and the manufacturing sector in the economy. It was given to Dr Manmohan Singh to point out that the Service Sector contributes as much as 50% to the GDP in India and has not been contributing much to the Government's coffers.

Service tax is part of the Central Excise duty regime in India. It is levied at 12% on all taxable services. Instead of defining what services are taxable, the Government has thought it fit to come up with a negative list indicating services which are not taxable. Obviously the idea is to make the levy all comprehensive. Since the levy is new, collection is also at a low level. Defaults are widespread. In order to mitigate hardship to those who may not be aware of the implications of the levy, the Government has thought it fit to introduce an amnesty scheme.

What is an amnesty?

Black's Law Dictionary defines amnesty as a sovereign act of forgiveness for past acts, granted by a Government to all persons or to a certain class of persons found guilty of crime or offense and often conditioned upon their return to obedience and duty within a prescribed time. The term is included in the concept of pardon which is similar in all respects to a full pardon, in so far as when it is granted both the crime and punishment are abrogated; unlike pardons however, an amnesty usually refers to a class of individuals, irrespective of individual situations. It condones infractions of the law. Express amnesty is one granted in direct terms. It is an executive action that mitigates or sets aside punishment for a crime.

Amnesty schemes under the Direct Tax laws

Income tax law has known a number of amnesty schemes from 1946 onwards. There was a demonetization of high denomination currency notes in 1946 and again 1978. In 1951, the Government came up with a Voluntary Disclosure Scheme and then we had the 60-40 scheme under Section 68 of the Finance Act, 1965. Again we had the VDS of 1975 and the Special Bearer Bonds Scheme under the Immunities and Exception ordinance Act of 1981. 1985 saw one more amnesty scheme covering both income tax and wealth tax. In 1991 Dr.Manmohan Singh came up with a number of schemes for mopping up black money. The National Housing Bank Deposits, the Foreign Exchange Remittance Scheme, the India Development Bonds in US$ and the Gold bond Scheme were all mooted. These were intended as fire fighting operations in the context of the precarious Balance of Payments crisis of 1991.

A common feature of all these schemes was the tying up of the hands of the income tax department with the direction that no questions should be asked. All these schemes had adverse effects on the fiscal system and the Revenue effect was not sizable. The Shankar N Acharaya Committee was highly critical of the VDS for favouring tax evaders at the cost of honest taxpayers.

The last such scheme, the VDIS of 1997, under the income tax law became highly controversial. It was roundly attacked by fiscal purists on the ground that it conferred a bonanza on the errant taxpayers at the cost of the honest payers. The matter was taken to court. The Supreme Court was not pleased with the scheme. A quietus was given to the controversy after the Supreme Court recorded and assurances from the Government of India that no such scheme would be repeated henceforth. The income tax law has not known an amnesty scheme after that assurance.

Service Scheme amnesty

Now comes the service scheme amnesty. The current exemption limit for service tax is a sum of Rs.10 lakhs and the tax rate 12%. Anybody providing any service to another for a consideration, other than salaried employees, can be visited with the service tax levy if it does not figure in the negative list. Default in the payment of service tax is sought to be condoned by the newly announced Voluntary Compliance Encouragement Scheme 2013. The Central Board of Excise and Customs had issued notifications providing clarifications about the amnesty scheme. First of all, if there is liability, the person concerned must register with the Service tax authority under the Service tax Act. After such registration, he can make a declaration under the scheme. Details of registration are available https://www.aces.gov.in/Reg_FAQ.jsp. If, after registration, return is not filed or if the return filed is incorrect in material particulars, then the amnesty scheme will come to help.

The Service Tax dues in respect of which the amnesty is available pertain to the period from 1 October 2007 to 31 December 2012. Half the tax dues will have to be paid by 31 December 2013. The balance must be paid by 30 June 2014. Default in paying the tax by June 2014 will attract interests for the delay from 1 July 2014. The rate applicable is the rate prevalent at the time these taxes were originally due and not those prevailing on the date of making the amnesty declaration or actual deposit under the scheme. Unused CENVAT credit cannot be used under the amnesty scheme for tax payment. The scheme requires actual payment of service tax dues.

The amnesty offers immunity from penalty, interest and any other proceeding under the service tax law provided the declaration under the scheme is truthful.

What is not covered?

The scheme will not apply to cases where Show Cause Notice or Order of Determination under Section 72,73 or 73A of the Finance Act, 2013 has been issued as on 1 March 2013. It will not also apply to cases of audit or investigation initiated by way of search or summons. Declaration has to be made in Form VCES-1. Within seven days an acknowledgement will be sent in form VCES-2. The scheme targets those who are not filing their returns (non-filers or those who have stopped filing). The importance of the scheme can be understood from the fact that out of 17 lakh registered assessees under Service Tax, only about 7 lakh file return. The Government hopes to collect at least Rs1000 crore under the scheme. False declaration will mean reopening of the case within a year. Excess taxes will not be refunded.

Conclusion

This is the first time that an Amnesty scheme has been floated by the Central Board of Excise and Customs. It may be appropriate to remember what Sydney Smith said about such taxes:

"The schoolboy whips his taxed top; the beardless youth manages his taxed horse, with a tax bridle, on a taxed road; and the dying Englishman, pouring his medicine, which has paid 7 percent, into a spoon that has paid 15 percent, flings himself back upon his chintz bed, which has paid 22 percent, and expires into the arms of an apothecary who has paid a licence fee of £100 for the privilege of putting him to death. His whole property is then immediately taxed from 2 percent to 10 percent. Besides the probate, large fees are demanded for burying him in the chancery. His virtues are handed down to posterity on taxed marble, and he will then be gathered to his fathers to be taxed no more". SydneySmith (TCA Ramanujam)& (TCA Sangeetha). MA

ramanuja@vsnl.com

AT THE HELM

Our heartiest congratulations to Mr Anil K Dhingra, a fellow member of the Institute of Cost Accountants of India, for his promotion to the post of Joint Advisor (F&EA) of the Telecom Regulatory Authority of India. He was previously Deputy Advisor in the same organisation.

We wish Mr Dhingra the very best in all his future endeavours.

TWO FAR-REACHING CASE LAWS FROM GOD'S OWN COUNTRY

The sweeping coverage of service tax has perhaps compelled the superior judiciary to pause and examine the levy of service tax in its necessary ramifications

Ravindran Pranatharthy
Advocate, Indirect taxes & IPRs

No tax law can be perfect and immune from human error. In spite of precautions, clear policy behind the introduction of a tax levy and the deployment of expert draftsmen in the enacting ministries, the tax laws passed by the legislature may get to be challenged in the Courts. The interplay between the complexity of statutory language and the human transactions is such that interpretational disputes can be expected to arise as a matter of certainty. Indeed when the law itself is not certain in any manner, there will be no end to interpretational disputes. There may never be a closure to interpretational disputes. When one set of disputes get resolved, new ones will take their place. It is beyond human ability to enact a law that will be beyond any dispute. Interpretational litigation has been a vexed area for all tax administrations, both ancient and modern. As a matter of fact, the Roman Emperor Justinian even forbade under severe penalties all commentaries on his legislation. A law of Bologna stated that its words should be taken precisely, without any interpretation (*Bennion on Statutory Interpretation* – page 170 – 5th edition). This literally meant that the word of the Government was the law in ancient Rome. However, such draconian clauses are impossible in modern day republican, liberal democracies presided over by a government of the laws and not government of the men.

The Service Tax Law has of late witnessed interesting and bold enunciation of principles in the hands of the Supreme Court and the High Courts. Gone are the days when the judiciary in the early period of Service Tax Law seemed to favour a strict interpretation of the levy against the taxpayer on considerations of genuine revenue interest. The rate of taxation was also relatively low in the early days when it did not exceed 8%. However, the sweeping coverage of service tax and the relentless increase in the tax rate has perhaps compelled the superior judiciary to pause and examine the levy of service tax in its necessary ramifications and not to step back from invalidating a service tax provision if it is found to be clearly *ultra vires* or unconstitutional or unreasonable. Against this backdrop, in this article, we will analyse two recent far-reaching decisions delivered by the High Court of Kerala.

Service Tax on restaurants and hotels

The deemed sales has been an area of irresistible attraction for the service tax department which has been targeting what it sees as its service component, real or perceived, substantial or collateral. It has even gone to the extent of declaring deemed sales as services under Section 66E of the Finance Act, 1994. Section 66E is a virtual gauntlet for the Courts. The developments on this front will be worth watching. The attempt of service tax authorities to coerce tax revenues out of perceived provision of service in the deemed sales has been vigorously contested by the affected taxpayers. The taxation by VAT and Service Tax authorities together has exceeded reasonable calculation of service and service profit in deemed sales. A case in point is the taxation of works contract under both VAT and Service Tax. The percentages of labour and labour profit as per VAT Law at 15 to 50% as well as the tax values of 40 to 70% in service tax Law are clearly way beyond reasonable limits. It is high time that the VAT and Service Tax authorities sit together and arrive at a consistent, reasonable and uniform pattern of taxation of works contracts.

Against this background, it is no wonder that Service tax on restaurants and hotels which has become a deeply unpopular tax has been seriously challenged by the taxpayers on the ground of unlawful Union intrusion into the domain of State legislative jurisdiction. The Service tax on Hotels is clearly in conflict with the luxury tax on the hotels levied by the States. The Service tax on restaurants is indefensible because it is a double levy along with VAT on restaurant sales. In the case of Kerala Classified Hotels and Resorts Association and Others v Union of India – 2013 – TIOL – 533 – HC – Kerala – ST, the Hon'ble High Court of Kerala dealing with the issue of double levy of VAT and Service Tax on restaurants and hotels has held that the levy of service tax is beyond the pale of legislative competence of the parliament. The Court analysed the relevant entries of Lists I and II of the 7th Schedule of the Constitution dealing with the levy of service tax and VAT under entry Nos.97 and 54 and 62 respectively. The respective entries detail their subjects as follows:

List I – Union List

97. Any other matter not enumerated in List II or List III including any tax not mentioned in either of those Lists.

List II – State List

54. Taxes on the sale or purchase of goods other than newspapers, subject to the provisions of Entry 92-A of List I.

62. Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling".

The issues in this case were framed by the Hon'ble Court for its consideration as follows:

i) Whether "taxes on the sale and purchase of goods" in Entry 54 of List II of the Seventh Schedule covers service in the light of the definition of "tax on sale and purchase of goods" under Article 366 (29A)(f) of the Constitution of India.

ii) Whether the service provided in a hotel, inn, guest house, club etc imposed with luxury tax under State Act in terms of Entry 62 of List II can be separately assessed and imposed by the Union with service tax, invoking the residuary power at Entry 97 of the List I of the Constitution.

The Court analysed various principles and ratios of leading cases on the issues posed for consideration. The court was of the opinion that the element of service is included in the sale of goods as seen from the definition of deemed sales vide Article 366(29A)(f). According to the Court, the transfer of goods occurs during the course of the service when food or alcoholic beverages are supplied as part of the service and therefore, when the constitutional deeming provision permits the State Government to impose a tax on such transfer, there cannot be a different component of service on which service tax could be imposed in the exercise of residuary power of the Central Government under Entry 97 of List I of the Constitution of India. The Court proceeded to declare as follows (vide paras 20 and 21 of the judgment) and it is worth quoting the Court in full on this:

"20. Therefore it can be seen from Article 366(29-A) (f) that service is also included in the sale of goods. If the constitution permits sale of goods during service as taxable, necessary Entry 54 has to be read giving the meaning of sale of goods as stated in the Constitution. If read in that fashion, necessarily service forms part of sale of goods and State Government alone will have the legislative competence to enact the law imposing a tax on the service element forming part of sale of goods as well, which they have apparently imposed".

21. Coming to the next question regarding the imposition of service tax in respect of hotel, inn, guest house, club or camp site etc, the contention of the petitioners is based on Entry 62 of List II. What exactly is the meaning of the expression "luxuries" in Entry 62 of List II has been held by the Constitution Bench judgment of the Supreme Court in Godfrey Philips India Ltd. (supra), wherein it is held that luxuries is an activity of enjoyment or indulgence which is costly or which is generally recognized as being beyond the necessary requirements of an average member of the society. While giving the said meaning to Entry 62 and if we look at the (service tax) sub Clause (zzzzw), the service tax is imposed on services provided in a hotel and other similar establishments when State Legislature had enacted the Kerala Tax on Luxuries Act by exercising their legislative power under Entry 62 of List II. When applying the dictum laid down in Godfrey Philips India Ltd (Supra) which gives an extended meaning to the word "luxuries", I am of the view that the amendment now made to the service tax trenches upon the legislative function of the State under Entry 62 of List II".

The High Court declared that the levy of service tax on restaurants and hotels is beyond the legislative competence of the parliament.

Implications of the judgment:

The decision of the Kerala High Court has not come a day too soon. The tax administrations in India have not properly delineated their levy and collection of taxes with one and another. There is no adherence to any proper taxable event. There is no demarcation of the respective spheres of VAT and Service tax. Both the Central and State authorities seem to have taken the taxpayers for granted. The purity of taxable event has to be meticulously observed by every tax law and it cannot be left to be inferred in the execution of the law. The area of deemed sales has been sought to be carved up by both the VAT and Service Tax authorities disregarding the principles behind the constitutional mandate in Article 366(29A). The judgment of the Kerala High Court is therefore a welcome check on the vague notions of the sanctity of service tax entertained by the tax authorities. The judgment has restored the integrity and purity of taxation of deemed sales as established by the constitution in Article 366(29A).

The ratio of the judgment will now pose a serious challenge to the maintainability of service tax on declared services listed in Section 66E of the Finance Act. For example, the levy of Service tax on Hire Purchase or any system of payment by installments appears to be particularly unlawful for the following reasons and in the light of the Kerala High Court verdict:

- Under a hire purchase transaction, the supply of goods is initially a contract of hire which culminates in a contract of sale when all the installments are completed and the buyer exercises his option to purchase the goods. During the contract of hire, the items involved in the hire purchase are in the possession and control of the user. It is well-known that a transfer of right to use the goods where possession and control of the goods is vested with the user makes it a deemed sale exigible to the levy of VAT. There is no case for imposition of service tax in the entire hire purchase scheme.
- The same philosophy will apply to the transfer of right to use intellectual property such as information technology software where the possession and control of the software is given to the user. Service tax levy in such circumstances clearly does not hold water. Therefore, the principles deriving from the Kerala High Court verdict are seen to have a negative effect on the desire of the Service Tax Department to enlarge their revenues by invading the deemed sales under Article 366(29A). In the light of the judgment of the Kerala High Court, the legality of declared services under Section 66E of the Finance Act, 1994 will be largely in doubt. It is certain that the service tax authorities will try to vigorously contest the court verdict. Ultimately, it would fall to the Apex court to put an end to this kind of uncertainty.

VAT vs Service Tax – trademark franchising

In a similar salutary enunciation of the basic principles of taxation, the Kerala High Court in the case of *Malabar Gold Private Limited, Calicut v Commercial tax officer, Kozhikode and Commissioner of Central excise and Customs, Kozhikode and state of Kerala* – 2013-TIOL-512-HC-KERALA-ST, the Hon'ble Court has drawn a dividing line between VAT and Service Tax. The issue involved was whether royalty received on the franchise for the use of Trademark and for sharing business know-how was leviable to VAT even if the service tax had been paid. The agreement to license the use of trademark from the franchisor to the franchisee was sought to be equated by the Kerala vat department to the transfer of right to use the goods which is a specie of the concept of deemed sales under article 366 (29A) of the Constitution. After surveying leading cases of Imagic Creative Pvt Ltd Vs Commissioner of Commercial taxes, BSNL Vs UOI and the TCS Vs State of Andhra Pradesh, the Court came to the heart of the matter:

"The crucial test, i.e. (whether) the respondent retained effective control and possession of the (goods)……. be the factor which is relevant. (Emphasis in brackets is added for aiding understanding)

42. Herein, it is submitted that the terms of the franchise agreement will show that the company retains the effective control and merely because there is an agreement by way of franchise agreement enabling the franchisees to use the trade mark on the products of the Company, it cannot be said that the franchisees have got effective control of the trade mark. Here, the franchisee's rights are limited. It is bound to sell the products of the Appellant Company. Even while the franchise agreement with one is in force, the company can use the trade mark on their own and can enter into franchise agreement with other parties. The effective control is with the appellant Company during the term of the agreement. We find force in the said submission and the dictum laid down by the Apex Court in BSNL's case (supra) will support the plea of the appellant Company…"

48. Therefore, even though both sides relied upon the provisions of Articles 246 and 254 of the Constitution of India, we need not enter into a finding on the said question, as we are of the view that the tests laid down in BSNL's case (supra) are squarely applicable here. Herein, it cannot be said that there are goods deliverable at any stage which is the test laid down by the Apex Court in paragraphs 78 and 79 of BSNL's case (supra) and for that reason also, there is no transfer of right to user at all. Coupled with the same, is the fact that during the period in question the franchisee is having the right, it is not to the exclusion of the franchisor and as it is seen that even during the period during which the transaction is going on, the franchisor can again transfer the right to others, the tests laid down in sub paragraphs (d) and (e) under para 97 of BSNL's case (*supra*) are not satisfied.

THE VEXED OVERLAPPING OF LEVY OF VAT AND SERVICE TAX ON DEEMED SALES AS WELL AS ON SOFTWARE HAS BEEN A MATTER OF GREAT CONCERN TO TRADE AND INDUSTRY

49. Therefore, we are unable to agree with the view taken by the learned Single Judge. The view taken in para 14 of the judgment is that the transaction in question is a deemed sale as defined under Section 2(x)(iii) of the KVAT Act. The above view was taken by concluding that the trade mark of the appellant is transferred to the franchisees for their use and the consideration received is the royalty paid to the appellant. In para 17, the principles stated in BSNL's case (supra) were distinguished on the facts of the said case and it was held that in the said case the Court was not dealing with a case involving transfer of intellectual property rights such as trade mark. It was held that there is total transfer of trade mark on payment of royalty which alone will attract the provisions of KVAT Act. With great respect, we are unable to agree with the same.

Accordingly, we allow the appeals reversing the judgment of the learned Single Judge and hold that the franchise agreement will not attract the provisions of the KVAT Act. No costs".

The implications of the case

The category of Transfer of Right to Use goods was analyzed in the BSNL case and the bedrock of the principles in that case was that the transfer of the right of use should result in effective possession and control of the goods by the user and that when the Transfer of Right to use subsists, the transferor cannot transfer the same thing to any other transferee during the contacted period. This was the requirement to justify the levy of VAT on the transfer of right to use the goods. The Service tax authorities saw an opening in the case. If the transfer of right to use did not result in effective possession and control of the goods by the transferee, Vat liability was not involved as there would be no deemed transfer of property liable to VAT. The Service tax Department inserted the non-Vatable context as a service in 2008 and brought it to tax under the category of Transfer of Right to Use tangible goods for use without transferring effective possession and control. The Kerala High Court verdict puts paid to VAT assumptions of taxability of any kind of transfer of Right to use goods. The case also seems to differentiate a mere license to use trademark from an assignment of the trademark in favor of the transferee. Even a non-exclusive assignment of trademark could now be outside the ambit of VAT.

This judgment has implications also for the Intellectual Property service in service tax law prior to 1st July 2012 and retained now as a class of declared services under section 66E of the Finance Act, 1994. It may be contended that a mere license (without sub-licensing right) to use the intellectual property will, in the light of this judgment, not amount to temporary transfer of intellectual right or permitting the use or enjoyment of such intellectual property right, if what is sought to be licensed is a mere trademark and not any right to such property. There cannot be a transfer of right to use the right as a taxable service.

Conclusion

The vexed overlapping of levy of VAT and Service tax on Deemed Sales as well as on software has been a matter of great concern to trade and industry. Practically, there has been a double levy of VAT and Service tax in many cases resulting in price escalation and cost overruns for the affected stakeholders. The well-argued differentiating principles delivered by the Hon'ble Supreme Court in the IMAGIC CREATIVE case that areas of VAT and Service tax are mutually exclusive has fallen on deaf ears. Neither the Union Tax Administration nor the State VAT authorities have initiated any steps to end the unedifying spectacle of double taxation of deemed sales/composite transactions in the country. There has been no meaningful attempt to draw a line between VAT and Service tax except by delegating in default the task to be performed by the Judiciary. Such inaction on the part of the Tax Administrations has not enhanced the image of India. The investors coming to India want tax clarity among other things. Leaving the responsibility of drawing a dividing line between VAT and Service tax to the Courts is neither fair nor wise. It is high time that an Empowered Committee of State VAT authorities and the CBEC is formed to resolve the issue without waiting for the unveiling of the GST which appears not in the offing for the next two years. MA

ravinpranaa@gmail.com

TAX TITBITS

CMA S Rajaratnam
Advocate and Tax Consultant, Chennai

Software development service providers – treatment of R&D expenses

There were two Circulars from the Central Board of Direct Taxes (CBDT) being Circular No. 2 and 3 of 2013 dated 26.3.2013 (2013) 352 ITR (St.) 1 and 3 respectively.

Circular No. 2 prescribed the requirements for adoption of profit split method in respect of R&D service rendered by those engaged in software development services in determination of arm's length price. Circular No. 3 of 2013 dated 26.3.2013 (2013) 352 ITR (St.) 3 imposed as many as five conditions on the same service providers engaged in software development for factoring cost for its R&D services for purposes of transfer pricing. The conditions were to be understood as cumulative.

A Press Release attributes the two Circulars Nos. 2 and 3 to a Committee constituted under the Chairmanship of Mr N. Rangachari, former Chairman of CBDT for giving a comprehensive, clear and sufficient guidance and that it was on the basis of the Committee Report, that the Circulars, it is stated, had been issued with a view to provide "additional" guidance to the Assessing Officers. It is on representations, the withdrawal of first Circular and modification of second Circular are stated to have been effected with a view to meet the need for providing "maximum clarity" as between the three categories of development centres, which are entrepreneurial or are based on cost sharing arrangement or undertake contract R&D.

It is in the above context, it has been stated in the Press Release, that Circular No.2 of 2013 dated 26.3.2013 is rescinded by Circular No. 5 dated 29.6.2013, but what is important is the reason given in the Press Release for rescinding the Circular, which is to correct the apparent impression that the profit split method was the preferred method in cases involving unique intangibles or in multiple inter-related international transactions. The withdrawn Circular, at any rate, was not consistent with Rule 10C for the choice of most appropriate method and its withdrawal should, therefore, be welcome.

The Press Release declares, that Circular No. 6 of 2013 dated 29.6.2013 modifies Circular No. 3 with the purported object of reconciling the divergence of views among the field officers and taxpayers regarding the functional profile of development centres engaged in contract R&D services covered by the Circular. It is added, that the mandates of Rules 10A, 10AB, 10B and 10C for choice of the most appropriate method would now be realised by this modification by the present Circular No. 6 of 2013. The five contingencies described as conditions for recognising contract R&D services is now made into six conditions in the new Circular No.6. The changes as regards conditions listed in Circular No. 3 at Serial Nos. and the changes therefrom in Circular No. 6 are noticed below:

The significant relaxation is that the conditions will no longer be cumulative, so that the burden, which the industry may have had to face in the light of Circular No. 3 dated 26.3.2013 is relaxed.

There was no need for creating any confusion requiring clarifications, when there are elaborate rules and precedents offering a fair degree of clarity. Better course of action would have been to withdraw Circular No. 3 also as had been done in respect of Circular No. 2 dated 26.3.2013.

Accrual system of accounting – matching principle

The Supreme Court in J. K. Industries Ltd. v. Union of India (2008) 297 ITR 176 (SC) dealt with the question of validity of Accounting Standards 22 in requiring recognition of advances. After elaborate discussion, it upheld validity of accounting standard, while it also noticed that timing differences may arise between accounting standards and tax accounting in matters of depreciation or in accounting of preliminary expenses and generally in matters relating to provisions, which are based upon matching concept.

Where the assessee had received advances towards beauty and slimming courses to be conducted in the next succeeding financial year, it had not treated the advances as income. Assessing Officer sought to tax advance apparently subject to provisions for the cost of obligation undertaken, relying on the accounting standard. The High Court recognizing, that tax law and company law can run on parallel lines, decided in CIT v. Dinesh Kumar Goel (2011) 331 ITR 10 (Del), that receipts towards advance were not liable on such unexecuted packages after an elaborate review of the case law on the subject. The inference in this case could have well been different, if the advances were not refundable, if the courses are not availed.

Contribution to welfare fund – whether deductible?

It is not unusual for employer to make grants for employees' welfare fund. But section 40A(9) bars deduction of payments relating to any fund except for statutory funds falling under sub-clause (iv), (iva) or (v) of sub-section (1) of section 36 as required by these sections or under any other law for the time being in force. Where an assessee had made a payment to Karamchari Welfare Fund, an organisation of employees, the contribution was treated on par with statutory payment, since assessee being a State Corporation, functioning under the directions of the Government, so that the payment on direction was obligatory as decided by the Tribunal in Maharashtra State Warehousing Corporation v. Dy. CIT (2013) 24 ITR (Trib) 595 (Pune).

There are, however, better and non-controversial reasons for such deductions. While there is no bar for deduction of normal welfare expenses, funding had restriction under section 40A(7) to (9), but there are further development of law on the subject. The intention behind these provisions is not to disallow expenditure "bona fide incurred" for the welfare of the employees as explained by the Central Board of Direct Taxes in Circular No.582 dated 6th July, 1984 (1985) 152 ITR (St.) 10. There is also an assurance by the Finance Minister in the Twenty Fourth Advisory Committee, that the exception under section 40A(9) is not confined to provisions for statutory deductions alone.

Again, section 43B inserted by the Finance Act, 1983 with effect from 1.4.1984 covering all welfare dues starts with a non obstante preamble, so that other sections including section 40A(9) are not applicable after this section. Such a view was taken with reference to the disallowance under analogous provision under section 40A(7) by the Calcutta High Court in CIT v. Sree Kamakhya Tea Co. (P.) Ltd. (1993) 199 ITR 714 (Cal), but the Gauhati High Court took a different view in George Williamson (Assam) Ltd. v. CIT (1997) 228 ITR 343 (Gau). After review of both the cases, the Kerala High Court decided to follow the Calcutta view in CIT v. Commonwealth Trust (P.) Ltd. (2004) 269 ITR 290 (Ker).

Back assessment notices – where scrutiny notice was not issued

Notice under section 148 for back assessments could be both for reassessment and where no regular assessment had been made, though return had been filed. Most Assessing Officers believe that, where no regular assessment had been made, there can be unfettered jurisdiction on wrong application of the decision in Asst. CIT v. Rajesh Jhaveri Stock Brokers P. Ltd. (2007) 291 ITR 500 (SC), in which case, jurisdiction for back assessment was upheld, where it was challenged on the inference of change of opinion, since there can be no change of opinion, where there had been no occasion for an opinion in absence of a regular assessment. Intimation could not be treated as assessment. But the decision does not provide a licence for exercise of jurisdiction in all cases, where there had been only an intimation. All notice under section 148 requires "reason to believe" escapement of income even after the drastic amendments made to procedural law from A.Y.1989-1990 as conceded in Board Circular No.549 dated 31st October, 1989 (1990) 182 ITR (St.) 1. There should be some information external to the return or any omission to report a taxable income or an untenable or excessive claim and not merely for checking the correctness of return as was decided by the Delhi High Court in CIT v. v. Cheil Communications India Pvt. Ltd. (2013) 354 ITR 549 (Del) following the decision of the Supreme Court in in CIT v. Kelvinator of India Ltd. (2010) 320 ITR 561 (SC) and the decision of the Bombay High Court in CIT v. Jet Airways (I.) Ltd. (2011) 331 ITR 236 (Bom) and its own decision in Ranbaxy Laboratories Ltd. v. CIT (2011) 336 ITR 136 (Del) and CIT v. Orient Craft Ltd. (2013) 354 ITR 536 (Del). If notice under section 148 can be issued for check of accounts, it would make a nonsense of the time limit for issue of scrutiny notice under section 143(2) meant for such verification of accounts. MA

s.rajaratnam@vsnl.com

THE GLOBAL FINANCIAL CRISIS: AN AFTERMATH OF SHADOW BANKING

The global financial crisis (2007-2008) has been described as the 'slap' of the invisible hand . It was beyond the imagination of the proponents of the invisible hand theorem that the long-lived 'invisible hand' can 'slap'

CMA Dr Joydip Dasgupta
Asst. Professor,
Nabadwip Vidyasagar
College, Nadia

A financial crisis is a disruption in the working of financial markets – associated with falling asset prices and bankruptcy of financial intermediaries –that spreads throughout the entire financial system, disrupting the capital allocation process (Eichengreen & Portes, 1987). An asset price bubble that generally precedes a financial crisis features a boom and a bust (formation of the bubble and its subsequent burst). During the bust, asset price declines steeply resulting in insolvency of the various financial market participants. The spread of the crisis is referred as financial contagion . The crisis is considered to be deep routed if the contagious effect is larger. The financial crisis that broke out in the U.S. mortgage market in 2007 was triggered by increasing mortgage default rate, real estate devaluation and financial asset depreciation. The contagion effect of this crisis was severe as the crisis that originated in the U.S. mortgage market transformed into a 'global' financial crisis. This 'global' financial crisis has been termed as the 'slap' of the 'invisible hand'. In this article, I endeavour to stress on the appropriateness of the name coined for the crisis. I propose to revisit the shadow banking system, which is considered by various authors as the epicentre of the crisis. I put forward two simple arguments for the cause of the global financial crisis (2007-2008) which has been termed as the 'slap'. In the last section I put forward two specific policy prescriptions for the policymakers.

The invisible hand

The global financial crisis (2007-2008) has been described as the 'slap' of the invisible hand . It was beyond the imagination of the proponents of the invisible hand theorem that the long-lived 'invisible hand' can 'slap'. A discourse on how the concept of 'invisible hand' has developed and used in economic parlance is presented in the next few lines.

The metaphor of 'invisible hand' was first used by Adam Smith in 'The Theory of Moral Sentiments'. He notes; "They (rich) are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species." (Smith, 1759: 165). Smith challenged the mercantilist economic system prevalent during the period in his famous work "An Inquiry into the Nature and Causes of the Wealth of Nations" which is considered fundamental work in classical economics and the most famous proponent for the market-oriented economists. A much quoted text from this book reads; "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest ... Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens" (Smith, 1776: 19). This underlines the philosophy he advanced as to why people want to work and offer products in the market. They do so in order to meet their own self interest and that becomes the driving force of the nation at large. The mechanism he offers for this is the 'invisible hand' which means that market forces would enable one to serve the society in ones endeavour to do good to oneself. He comments that even the capitalist is led "by an invisible hand to promote an end which was no part of his intention" (Smith, 1776: 364). Thus, Smith advances the issue of invisible hand which acts as the basic reasoning of an individual for making an economic decision. Classical economists like Walras, Pareto, Arrow, and Debreu developed these ideas of Smith in constructing the first theorem of welfare economics, also known as the 'Invisible Hand Theorem' . Reviewing the book 'Beyond the Invisible Hand: Groundwork for a New Economics' authored by Kaushik Basu (2011), it is commented that "one of the central tenets of mainstream economics is Adam Smith's proposition that, given certain conditions, self-interested behaviour by individuals leads them to the social good, almost as if orchestrated by an invisible hand. This deep insight has, over the past two centuries, been taken out of context, contorted, and used as the cornerstone of free-market orthodoxy" . Basu (2011) argues that mainstream economics have misrepresented Smith's insight and the idea of invisible hand. This argument is also corroborated by Gavin Kennedy , as he suggests that the meaning of the metaphor 'invisible hand' used by Smith in the books 'The Theory of Moral Sentiments' , and 'An Inquiry into the Nature and Causes of the Wealth of Nations' is about necessity and the avoidance of risk and have nothing to do with financial markets. It is imperative that the theory of 'invisible hand' cannot be assumed to be necessarily effective for financial markets.

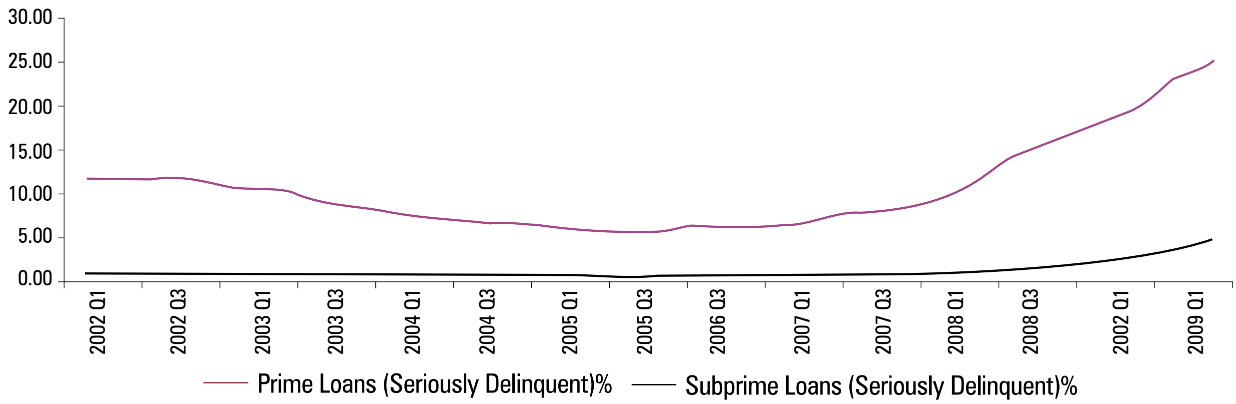
In 2007 a severe mortgage market crisis developed in the U. S. which is popularly known as the subprime crisis. There were widespread delinquencies on the mortgage loans as borrowers 'walked out' of their houses and failed to meet their mortgage liabilities. As the delinquencies rose, the mortgage backed securities became valueless and investors (individual and corporate) suffered catastrophic losses. Mortgage lenders, commercial banks and various other financial institutions filed bankruptcy. Gorton (2010) is one of the first authors to explain this mortgage market crisis as the 'slap' of the 'invisible hand' (considered as the invincible aspect of the free market mechanism for the last two hundred years). Various authors and policy makers have also elucidated the crisis as the failure of the invisible hand as denoted in the name coined for the crisis, 'slap' of the 'invisible hand'. But question arises as to the appropriateness of this as it has been noted earlier that the invisible hand theorem is very much out of context in the financial markets.

A house –shelter at its basic form –is one of the basic needs of a human being but unlike the other two basic needs, acquisition of a house requires substantial financial outflow. There is considerable gap between the cost of an asset and the monthly income of the potential homeowner. Sharma (1988) noted that the cost of an average-sized-house is usually thirty to fifty times the monthly income of an individual. Housing finance is financial assistance for the potential homeowner that helps him bridge the gap between the cost of the house and the equity at his disposal. The much quoted 'invisible hand' devised the amortized mortgage loan about which Nevitt (1966) commented that 'the 19th century invention of the amortized mortgage loan is of such importance … it ranks with the invention of steam engine in changing the face of Britain'. Invention of the amortized mortgage loan has a positive impact on the homeownership –age . In the various developed economies especially U.S., this simple banking transaction has been dominated by the shadow banking system that has created information opacity in the transaction.

Shadow Banking System (SBS)

Shadow banks are financial institutions which, unlike the traditional banks, do not have access to central bank funding or safety nets like deposit insurance. Neither do they accept public deposits (Poschmann, 2012). Hedge funds, money market funds, structured investment vehicle (SIV) – the main players of the shadow banking system –depends primarily on the Repo (Repurchase agreement) market for their funds. The special purpose entities (SPEs) that transform the illiquid mortgage loans into mortgage backed securities through the process of securitization is another important operator in the shadow banking system. These entities engineered various derivative products also known as structured financial instruments that reduced the visibility of the investment instruments i.e. the investors failed to recognise the risk perception of the transactions. In U.S. shadow banking grew considerably after the year 2000. The fact that the shadow banks are subject to less regulation is one of the major reasons for the disproportionate growth of shadow banks (Pozsar, 2010). The gross size of the system is estimated to be larger than the traditional banking sector (Poschmann, 2012). An estimate

Figure 1: Serious delinquencies (per cent)



Source: Self designed diagram, data collected from 'Historical Data, National Delinquency Survey', 2006 Q4, 2009 Q1, Mortgage Bankers Association

shows that the gross measure of shadow bank liabilities grew to a size of nearly $22 trillion in June 2007 in comparison to total traditional banking liabilities of around $14 trillion in 2007 . Gorton (2010) argues that the 'shadow banking' system, that was created out of many years of private decisions were sub-optimal, less efficient and prone to crisis. He comments; "the 'shadow banking system' is good till a panic occurs which turns things upside down" (Gorton, 2010: 15). During the financial crisis (2007-2008) most people were unaware of the significant growth of the structured financial products that were so rampantly used in the U.S. housing market. Excessive financial engineering reduced the visibility of the financial transactions and created a problem of information, or rather a lack of it as the investors of these structured financial products had only partial information of the products in which their money was invested. As long as the underlying assets (the mortgage loans) were performing well, the derivative products were good. With rising delinquencies of mortgage loans (especially subprime loans) the structured mortgage market products became valueless and the investors incurred substantial losses. Thus shadow banking, which effectively reduced the visibility of the mortgage transactions, is considered as the root of the crisis.

Other issues

There are certain other causes attributed to the crisis as a natural fall out of the shadow banking. I intend to present two specific arguments regarding the 'slap'. Firstly, the subprime mortgage loans were designed not to sustain bad weather. Secondly, the securitization process increased the information opacity of the mortgage backed financial products and the investors were naive to the risk perception of these products.

The subprime mortgages were targeted for borrowers with poor credit history and consequentially lower credit scores. These borrowers were beyond the purview of the conventional prime mortgage financing. Generally lenders prefer not to advance loan to such a borrower as the credit risk associated is higher. But in U.S. the mortgage originators started preferring the subprime borrowers because of the integral design of the subprime mortgages. The subprime mortgage was designed for credit accommodation of the borrower only over a short period of time. The underlying assumption was that the house prices would rise (as it has been rising for quite some time). With house prices rising, both the borrower and the lender reap capital gain over the short horizon before the mortgage is refinanced. The borrower accumulates considerable home equity (before the date on which the loan is refinanced) and become less risky for subsequent mortgages. To enable this short term model the subprime mortgages were primarily routed through a typical type of adjustable rate mortgage (ARM) namely hybrid- ARM that were designed to 'reset' at a higher level of interest (indexed to market interest rate). These loans were termed 'teaser' loans as these hybrid-ARMs initiated with lower interest rates to accommodate subprime borrowers (with lower financial affordability) and reset to indexed market rate of interest within two to three years of mortgage origination. With house prices rising, the basic assumption was that the subprime borrower would build up sufficient home equity before the reset date when he can afford to go for his second mortgage by refinancing his first subprime mortgage. Thus the underlying assumption of the subprime mortgage design was that house prices would go on increasing such that the subprime borrower would be able to build up home equity. A failure of the

Table 1: Mortgage Loan Origination in United States						
	2001	2002	2003	2004	2005	2006
Total Mortgage Originations (Billions)	2215	2885	3945	2920	3120	2980
Subprime Originations (Billions)	190	231	335	540	625	600
Share of Subprime in Total Originations (%)	8.58%	8.01%	8.49%	18.49%	20.03%	20.13%
Source: Inside Mortgage Finance, The 2007 Mortgage Market Statistical Annual, Key Data (2006), Joint Economic Committee (October, 2007).						

Table 2: Securitization of Subprime Mortgage Loans						
	2001	2002	2003	2004	2005	2006
Subprime Originations (Billions)	190	231	335	540	625	600
Subprime Mortgage Backed Securities (Billions)	95	121	202	401	507	483
Share of subprime mortgages securitized (%)	4.75%	6.04%	10.08%	20.01%	25.29%	24.08%
Source: Inside Mortgage Finance, The 2007 Mortgage Market Statistical Annual, Key Data (2006), Joint Economic Committee (October, 2007)						

Table 3: Social orientation in financial assistance of HUDCO													
Year	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
EWS	78.00	78.17	78.05	77.29	76.08	74.62	78.00	81.00	83.99	84.44	83.97	80.89	82.14
LIG	14.00	13.38	13.35	14.11	15.32	17.08	15.00	13.00	10.99	10.46	10.55	11.28	10.75
HIG	2.00	2.20	2.34	2.37	2.41	2.47	2.00	2.00	1.59	1.73	2.20	1.87	1.80
MIG	6.00	6.25	6.26	6.23	6.19	5.83	5.00	4.00	3.51	3.37	3.28	3.00	2.82
Source: Annual Reports of HUDCO													

primary assumption was bound to create a crisis.

The subprime mortgage –home finance for borrowers with improper credit history – is riskier as the default rate of these loans is higher. Figure 1 shows the serious delinquency rate of subprime mortgage loans as well as the prime mortgage loans. It is apparent from the chart that the serious delinquencies on subprime loans are higher than the prime mortgage loans.

In spite of the higher risk profile, the share of subprime mortgage loans increased significantly. Table 1 shows that subprime mortgage loan origination increased from $ 190 Billion in 2001 to $ 600 Billion in 2006. Subprime loan origination as a percent of total loan origination substantially increased from 8.01per cent in 2002 to 18.49 per cent in 2004 and 20.13 per cent in 2006.

Thus it is observed that in spite of the fact that the subprime mortgage loans are riskier, the mortgage originators favoured these loans. Table 2 shows that more and more proportion of subprime loans has been securitized during the period leading to the crisis that allowed the mortgage originators to get the subprime mortgage loans off their Balance Sheets. It is apparent from Table 2 that only 4.75 per cent of the subprime mortgages were securitized in 2001. This proportion increased steadily to 24.08 per cent in 2006. Various special purpose entities (SPEs) enabled the securitization process through the use of sophisticated structured mortgage backed securitized instruments, namely collateralized debt obligations (CDOs) . Even subsequent CDOs referred as CDO2 and CDO3 were issued which further complicated the mortgage market. As the volume of securitized products increased in the market, the SPEs became more and more profitable and the investors of the mortgage backed securities (MBSs) injected more and more financial resources to reap the benefit from these securitized products.

Conclusion

This paper notes that the global financial crisis (2007-2008) which is termed 'slap' of the 'invisible hand' is rather an outcome of the shadow banking system that grew significantly in the U.S. financial market. The increasing information opacity in the mortgage lending transaction due to excessive securitization and the complicated design of the subprime mortgage are two other aspects of the 'slap'. In the next few lines specific propositions are made which are beneficial for policymakers for avoiding mortgage market crises similar to the subprime crisis.

Housing finance, on one hand, is financial assistance for the individual to acquire his most desired asset –a house and on the other is an issue of profitability for a housing finance institution. In this context, the state plays a crucial role in framing housing policies since provision of shelter (basic issue imbedded in housing) is an important issue of government policies. Through housing policies the state addresses issues of financial inclusion as more and more populace are brought under the purview of shelter assistance. This paper endeavours two specific propositions for the policymakers. Firstly, the traditional models of housing subsidies, sites and services, and special circuits practised worldwide (In India housing and urban development corporation [HUDCO] incorporated as a special circuit is a very successfully example of this model) are better models for framing housing policies for financial inclusion than the subprime programme . Secondly, it may be noted that housing finance, which has been dominated by shadow banking transactions is basically a banking transaction. In U.S. the simple process of financial assistance for housing was transformed into a complicated network of mortgage originators, special purpose entities and insurance providers, some of which were government sponsored enterprises and featured various derivative products that increased the information opacity of the transaction. The basic assumption of the subprime model that house prices will always increase is attributed to short-sightedness of the policymakers. Policy framing, especially regarding housing should not be based on faulty assumptions and should be future oriented.

Notes

Asset price bubble arises when the parity between the technical value of an asset and the fundamental value of the asset is distorted. The technical value increases manifold in spite of stagnant fundamental value.

- Financial contagion is also known as 'ripple' effect and has been the subject matter of various academic studies. Longstaff, F.A (2010) provides interesting insight of financial contagion in the subprime crisis in US (2007).
- Pozsar, Adrian, Ashcraft, and Boesky (2010) and Gorton (2010) are some of the authors who have been critical about the shadow banking system and refer the shadow banking as the root cause of the global financial crisis (2007-2008).
- Gary Gorton (2010) is one of the first authors to coin the global financial crisis (2007-2008) as 'slap'.
- The theorem has been stated as 'if we have a competitive economy, where all the individuals choose freely according to their respective rational self-interest, then (given a few technical conditions) the equilibrium that will arise will be Pareto optimal'. Source: Basu. K (2010). Beyond the Invisible Hand: Groundwork for a New Economics, Princeton University Press, New Jersey, p 19
- http://books.google.co.in/books?id=ufj0xYUbuRUC&dq=kaushik+basu&source=gbs_navlinks_s
- Gavin Kennedy is Professor, Emeritus, Heriot-Watt University. This reference is drawn from his blog (Source http://adamsmithslostlegacy.blogspot.com/2010/03/modern-inventions-about-invisible-hand.html).
- In U.S., mortgage borrowers are classified as 'prime' borrowers or 'subprime' borrowers. Subprime borrowers are those with FICO (Fair Issac Corporation) credit score of 620 or less.
- (Source: http://en.wikipedia.org/wiki/Credit_score).
- Unlike the Indian borrower, who does not want to fail on mortgage repayments as the house is very close to his heart; the average American borrower opts for proper financial planning before making his mortgage payment. White (2010) elaborates the financial logic of 'walking away' as financial benefit of strategic default is greater than sinking into negative equity.
- Mortgage finance –a particular form of housing finance – is a banking transaction where the lender provides funds to the borrower which is to be repaid through monthly instalments (equated or level payments comprising of principal and interest) over a long period of time. The terms housing finance and mortgage finance are often used synonymously as this type of financial assistance is typically advanced against mortgage of the underlying asset –the house.
- Homeownership –age refers to the age of an individual at which he/she opts for homeownership. Linneman, P & Wacheter, S (1989) provides a detail discussion on how mortgage loan had impacted the rate of homeownership –age.
- The two most important types of structured finance instruments are asset securitization (which is mostly used for funding purposes) and credit derivative transactions (for hedging).
- Pozsar, Z et. al. (2010) furnishes an estimate of shadow banking is U.S. financial market.
- (source: http://www.ny.frb.org/research/staff_reports/sr458.pdf)
- Serious delinquency rate means the percent of housing loans on which installments is past due for more than ninety days plus inventory of housing foreclosures during the quarter.
- CDOs (Collateralized Debt Obligations) are sophisticated financial tools that financial institutions use to repackage individual loans into a product that can be sold to investors on the secondary market. These packages consist of auto loans, credit card debt, mortgages or corporate debt. They are called collateralized because the promised repayments of

the loans are the collateral that gives the CDOs value.
• (source: http://useconomy.about.com/od/glossary/g/CDOs.htm.)
• Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. (source: http://en.wikipedia.org/wiki/Financial_inclusion)
• In India, Housing and Urban Development Corporation (HUDCO) was started in 1970 to specifically cater to the shelter needs of the populace belonging to the low income group (LIG) and the economically weaker section (EWS). The breakup of the housing loans of HUDCO is furnished below to show the social orientation of the special circuit model in the Indian context.
• Chima (2010) notes that the subprime programme is a policy of financial inclusion as the housing finance borrowers who not eligible for prime mortgage loans and therefore deprived of housing, due to their poor credit history were brought under the purview of housing finance assistance through the subprime programme.

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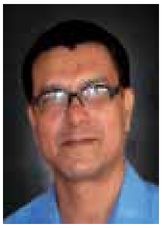
dasguptajoydip@gmail.com

LIQUIDITY MANAGEMENT IN PSUs IN POST-REFORM ERA: A CASE STUDY OF BHEL



Dr Debasish Sur
Professor,
University of Burdwan

Sumit Kumar Maji
Asst. Professor,
University of Burdwan

Deep Banerjee
Research Scholar,
University of Burdwan

Deregulation, globalization and liberalization have forced many of the well-managed PEs to make changes in their liquidity management practices

LIQUIDITY is a pre-requisite for the very survival of a firm. It should be neither excessive nor inadequate. Excessive liquidity implies accumulation of idle funds which earn no profit for the firm while inadequate liquidity results in business interruption and hurts the firm's earnings. Thus efficient liquidity management is an integral part of the overall corporate strategy to create shareholders value. The matter of designing appropriate strategies for enhancing efficiency of liquidity management in accomplishing the wealth maximization objective of corporates is of utmost importance. Considering the stiff competition that exists in today's business environment, measuring liquidity and making analysis of its impact on profitability are immensely important to the corporate executives to instigate managerial efficiency and excellence.

The global wave of privatization, which was initially shown in the U.K. in 1980's and subsequently spread over almost all over the world, has stimulated considerable debate in India on the rationality of denationalization its public enterprises (PEs). The increasing dependence on the international funding agencies like IMF, World Bank, Asian Development Bank etc due to the rising trend in adverse balance of payment situation in India has also provided the plea to adopt economic liberalization policy by the Government of India. In mid-1991, the Government of India set in motion a new economic industrial policy after discarding the old Nehruvian line of socialistic pattern. Since then, several policy statements pronounced by the Central Government have thrust towards deregulation, globalization and liberalization. As a result, a large number of PEs which had grown exponentially over the years in a virtually non-competitive environment have started facing increasingly severe competition. Thus, a notable change in the Indian public sector has also become inevitable to meet the new challenges (Jafar & Sur, 2006). The liquidity management practice in the Indian public sector has shown noticeable changes. Even many well-managed PEs in India have been forced to make suitable changes in their liquidity management practices during the post-liberalization period. Against this backdrop, the present paper seeks to examine the liquidity management of Bharat Heavy Electricals Limited (BHEL), the only Maharatna PE in Indian power plant equipment manufacturing sector during the period 2000-01 to 2011-12.

The remainder of this paper is structured as follows: Section II deals with the objectives of the study. Section III narrates the methodology adopted in this study. In section IV, a brief profile of the selected company is presented. Section V is concerned with the empirical results. In section VI, concluding remarks are given.

Objectives of the study

The present study has the following objectives:

1. To analysis the liquidity of the company under study using some selected ratios.
2. To assess the liquidity status of the selected company more precisely applying comprehensive scores.
3. To examine whether there is any uniformity among the selected aspects relating to the liquidity management of the company under study.
4. To measure the extent of relationship between liquidity and profitability of the selected company.
5. To identify the aspects relating to the liquidity management of the company among the selected ones which make significant contribution towards the company's profitability.

Methodology of the study

The data of BHEL for the period 2000-01 to 2011-12 used in this study were collected from secondary sources, i.e. Published Annual Reports of the company. For analysing the data, the technique of ratio analysis, simple statistical tools like mean, statistical techniques like analysis of trend movement, analysis of Pearson's simple correlation, Spearman's rank correlation analysis, Kendall's correlation analysis, analysis of Kendall's coefficient of concordance etc. were used. The t-test and chi square test were applied at appropriate places.

A brief profile of BHEL

BHEL, an integrated power plant equipment manufacturer and one of the largest engineering and manufacturing companies in India in terms of turnover, was established in 1964. It is the 7th largest power equipment manufacturer in the world. The company has a share of 59 per cent in India's total installed generating capacity contributing nearly 69 per cent to the total power generated from utility sets (excluding non conventional capacity) as of March 31,2012. BHEL has been generating surplus continuously since 1971-72 and making payment of dividend since 1976-77. Considering its outstanding performance and tremendous contribution to the national economy, the Government of India has granted 'Maharatna' status to BHEL on February 1, 2013.

Empirical results

A. In Table I, an attempt was made to analyse the liquidity of BHEL, by using some selected ratios. In this table, for identifying the nature of the trend in each of the selected ratios during the period under study linear trend equation was fitted and in order to examine whether the slopes of the trend lines were statistically significant or not t-test was used. For assessing the liquidity of the selected company, the following ratios were analyzed.

- Working Capital Ratio (WCR): It is a basic measure of liquidity. The higher the WCR, the larger is the amount of funds available for meeting short term obligations and accordingly, the greater is the margin of safety to short term creditors. Table I exhibits that the WCR of BHEL fluctuated between 1.82 in 2000-01 and 1.30 in 2008-09. On an average, it was 1.55. The linear trend fitted to the WCR series showed a declining trend which was founded to be statistically significant at 5 per cent level. It indicates that there was a significant downward trend in the company's ability to meet current obligations during the study period.
- Acid Test Ratio (ATR): This ratio is a refinement of

Table I					
Bharat Heavy Electricals Limited					
Selected Ratios relating to liquidity management					
Year	WCR	ATR	ITR	DTR	CTR
2000-01	1.82	1.33	3.01	1.52	19.06
2001-02	1.71	1.28	3.60	1.59	15.29
2002-03	1.75	1.32	3.05	1.84	5.66
2003-04	1.64	1.31	2.74	1.87	3.26
2004-05	1.59	1.23	2.70	1.73	3.25
2005-06	1.58	1.22	2.77	2.03	3.51
2006-07	1.46	1.16	3.21	1.93	3.23
2007-08	1.40	1.11	2.54	1.79	2.55
2008-09	1.30	1.02	2.59	1.75	2.72
2009-10	1.33	1.05	3.01	1.65	3.49
2010-11	1.32	1.04	2.68	1.58	4.50
2011-12	1.70	1.22	2.20	1.68	7.42
Average	1.55	1.19	2.84	1.75	6.16
Maximum	1.82	1.33	3.60	2.03	19.06
Minimum	1.30	1.02	2.20	1.52	2.55
Slope of the Trend line	-0.036	-0.025	-0.064	0.000	-0.860
t-value	-3.111*	-4.141**	-2.610*	-0.047	-2.228*
*Significant at 5% level, ** Significant at 1% level					
Source: Compiled and computed from Published Annual Reports of BHEL for the years 2000-01 to 2011-12.					

WCR and it is concerned with the establishment of relationship between the quick assets and quick liabilities. As this ratio excludes inventory which may be slow moving, it can measure more effectively the short term debt paying capability of the company. Table I discloses that the ATR of the company ranged between 1.33 in 2000-01 and 1.02 in 2008-09. The mean ATR of the company during the study period was 1.19. The straight line trend fitted to the ATR series indicated a decreasing trend which was found to be statistically significant at 1 per cent level. It reveals that a notable declining trend in the instant capacity of the company to meet its quick liabilities during the period under study was noticed.

- Inventory Turnover Ratio (ITR): This ratio helps in determining the liquidity of a company in as much as it indicates the rate at which the inventories are converted into sales and then into cash ultimately. It also throws light on the inventory policy pursued by the company and reasonableness of the same. A high ITR is good from the liquidity point of view while a low ratio implies excessive inventory levels than warranted by volume of operation. It is observed from Table I that the ITR of BHEL varied between 3.60 in 2001-02 and 2.20 in 2011-12. On an average, it was 2.84 during the study period which indicates that one rupee invested in inventory could be able to generate Rs. 2.84 worth sales. The linear trend equation fitted to the ITR series showed a downward trend which was found to be statistically significant at 5 per cent level. So a significant negative growth in the efficiency of inventory management of the company, which resulted in notable deterioration in the company's liquidity, was observed during the study period.
- Debtors Turnover Ratio (DTR): It measures the efficiency of the credit and collection policies adopted by the company. It also reflects the quality of debtors. The higher the DTR, the greater is the degree of efficiency in credit management and better is the liquidity of debtors. Table I shows that BHEL registered an overall increasing trend during the first half of the study period while an overall declining trend during the second half regarding its DTR. It was the highest in 2005-06 which stood 2.03 and least in 2010-11 which was 1.58. On an average, the ratio was 1.75. However the straight line fitted to the DTR series for the entire period failed to identify any significant specific (upward or downward) trend. It reveals that any noticeable change in the efficiency of the company's credit management with the passage of time was not found during the period under study.
- Cash Turnover Ratio (CTR): This ratio is used to see if

Table II

Bharat Heavy Electricals Limited

Statement of ranking in order of liquidity and analysis of Kendall's Coefficient of Concordance among selected liquidity indicators

Year	WCR (A)	ATR (B)	ITR (C)	DTR (D)	CTR (E)	Liquidity Ranks					Sum Of Ranks ($A_R+B_R+...+ER$)	Ultimate Rank
						AR	BR	CR	DR	ER		
2000-01	1.82	1.33	3.01	1.52	19.06	1	1	4	12	1	19	2
2001-02	1.71	1.28	3.60	1.59	15.29	3	4	1	10	2	20	3
2002-03	1.75	1.32	3.05	1.84	5.66	2	2	3	4	4	15	1
2003-04	1.64	1.31	2.74	1.87	3.26	5	3	7	3	8	26	4.5
2004-05	1.59	1.23	2.70	1.73	3.25	6	5	8	7	9	35	8
2005-06	1.58	1.22	2.77	2.03	3.51	7	6	6	1	6	26	4.5
2006-07	1.46	1.16	3.21	1.93	3.23	8	8	2	2	10	30	6
2007-08	1.40	1.11	2.54	1.79	2.55	9	9	11	5	12	46	10
2008-09	1.30	1.02	2.59	1.75	2.72	12	12	10	6	11	51	12
2009-10	1.33	1.05	3.01	1.65	3.49	10	10	5	9	7	41	9
2010-11	1.32	1.04	2.68	1.58	4.50	11	11	9	11	5	47	11
2011-12	1.70	1.22	2.20	1.68	7.42	4	7	12	8	3	34	7

Kendall's coefficient of concordance among five sets of liquidity performance ranks (W) is 0.4338 and Chi- square ($æ^2$) value of W is 23.859 being significant at 5% level.

Source: Compiled and computed from Published Annual Reports of BHEL for the years 2000-01 to 2011-12.

Table III

Bharat Heavy Electricals Limited

Analysis of Spearman's Rank Correlation between Liquidity and Profitability

Year	Liquidity Rank (as shown in Table II)	ROCE (%)	Profitability Rank (on the basis of ROCE)	
2000-01	2	6.46	12	Spearman's rank correlation coefficient between liquidity and profitability (RLP) is -0.81 and t value of RLP is -4.36 being significant at 1% level
2001-02	3	14.69	11	
2002-03	1	16.86	10	
2003-04	4.5	19.59	9	
2004-05	8	26.63	8	
2005-06	4.5	36.68	7	
2006-07	6	48.90	4	
2007-08	10	49.93	3	
2008-09	12	48.05	5	
2009-10	9	50.75	2	
2010-11	11	54.94	1	
2011-12	7	45.48	6	
Average Maximum Minimum		34.91 54.94 6.46		
Slope of the Trend line		4.382		
t value		7.701		

Source: Compiled and computed from Published Annual Reports of BHEL for the years 2000-01 to 2011-12.

Table IV					
Bharat Heavy Electricals Limited					
Analysis of correlation between ROCE and selected Liquidity Indicators					
Correlation measures	Correlation between ROCE and selected liquidity indicators				
	WCR	ATR	ITR	DTR	CTR
Pearson	-0.858**	-0.894**	-0.461	0.152	-0.674*
Spearman	-0.877**	-0.900**	-0.434	0.049	-0.552
Kendall	-0.739**	-0.791**	-0.321	0.300	-0.424
*Significant at 5% level, ** Significant at 1% level					
Source: Compiled and computed from Published Annual Reports of BHEL for the years 2000-01 to 2011-12.					

there is adequacy of cash and whether or not cash has been effectively utilized in making sales. A higher ratio implies by and large a more efficient use of cash. Table I depicts that the CTR of BHEL ranged from 2.55 in 2007-08 to 19.06 in 2000-01 and the mean value of it was 6.16 for the period under study. The CTR series of the company followed a downward trend during the study period which was found to be statistically significant at 5 per cent level. It implies that a significant declining trend in the company's efficiency in respect of maintaining its cash balance during the period under study was observed.

B. The liquidity of a company is largely affected by the composition of working capital in as much as any considerable shift from the relatively more efficiency in managing elements of working capital to their relatively less efficiency or vice versa, will materially affect the company's ability to pay its current debts promptly. Therefore, for assessing the liquidity of the company more precisely a comprehensive test based on the sum of scores of separate individual ranking under the five criteria viz. WCR, ATR, ITR, DTR and CTR was made in Table II. For measuring the degree of uniformity among the five sets of ranking, Kendall's coefficient of concordance (W) was used. In order to examine whether the computed value of W was statistically significant or not, Chi-square ($\chi 2$) test was applied. In case of any criterion mentioned above a high value indicates a more favourable liquidity position and ranking was done in that order. Ultimate ranking was done on the principle that the lower the points scored, the more favourable is the liquidity position. Table II shows that the computed value of W, which was 23.859 was found to be statistically significant at 5 per cent level. It indicates that there was a close as well as significant association among the selected indicators of liquidity performance of the company under study during the study period. This table discloses that the year 2002-03 registered the most favourable liquidity position of the company and was followed by 2000-01, 2001-02, 2003-04 and 2005-06, 2006-07, 2011-2012, 2004-05, 2009-10, 2007-08, 2010-11 and 2008-09 respectively in that order. It reveals that the overall liquidity of BHEL in the first half of the study period was better as compared to that in the second half.

C. In Table III an analysis of overall profitability of BHEL was made by using mean value and linear trend equation of the company's return on capital employed (ROCE) and t test. It was also attempted to measure the extent of relationship between liquidity and profitability of the company by using Spearman's rank correlation coefficient (RLP). To test whether the computed value of RLP was significant or not t-test was used. In this regard the composite ranks of liquidity (as ascertained in Table II) and the ranks of profitability (based on ROCE) were applied. It is observed from Table III that the company, on an average, maintained at 34.91 per cent during the study period, the range being 54.94 per cent (2010-11) to 6.46 per cent (2000-01). The straight line trend fitted to the ROCE series during the study period exhibited an upward trend and the change in ROCE for each unit change in time period was found to be statistically significant at 1 per cent level. This table also shows that the computed value of RLP was -0.81 which was found to be statistically significant at 1 per cent level. It reflects that there was a very significant degree of negative association between liquidity and profitability of the company during the study period. Thus the company was able to manage its business in such a way as to ensure lower liquidity-higher profitability blend.

D. In Table IV for identifying the factors making significant contribution towards the profitability of the company an effort was made to ascertain the closeness of association between the liquidity and the overall profitability of BHEL through correlation coefficients between the selected liquidity and profitability measures taking into consideration their magnitudes (i.e. by Pearson's simple correlation coefficient), rankings of their magnitudes (i.e. by Spearman's rank correlation coefficient) and the nature of their associated changes (i.e. by Kendall's correlation coefficient). These correlation coefficients were tested using t-test. This table shows that the notable association was found only in between WCR and ROCE and in between ATR and ROCE. All the correlation coefficients in these two cases were negative and found to be statistically significant at 1 per cent level. It again confirms a significant negative association between liquidity and profitability of the company under study during the study period. This outcome conforms to the theoretical argument that the higher the liquidity, the lower is the profitability. However, the correlation coefficients between ITR and ROCE and between CTR and ROCE were negative while the correlation coefficients between DTR and ROCE were positive and almost all these coefficients (except in Pearson's correlation coefficient between CTR and ROCE) were not found to be statistically significant at 5 per cent level. It indicates that while the influence of the inventory management and cash management on the company's overall profitability was negative, the effect of debtors management was positive but these influences were not at all noticeable during the study period.

A SIGNIFICANT DECLINING TREND IN THE SHORT-TERM DEBT PAYING CAPABILITY AS WELL AS THE IMMEDIATE DEBT PAYING CAPABILITY OF BHEL WAS NOTICED DURING THE STUDY PERIOD. MOREOVER, THE EFFICIENCY IN INVENTORY MANAGEMENT AND CASH MANAGEMENT OF THE COMPANY STEPPED DOWN NOTABLY WITH THE PASSAGE OF TIME

Concluding remarks

A significant declining trend in the short-term debt paying capability as well as the immediate debt paying capability of BHEL was noticed during the study period. Moreover, the efficiency in inventory management and cash management of the company stepped down notably with the passage of time during the period under study. All these negative attributes had definitely an adverse impact on the overall liquidity status of the company. This is also reflected in the outcome derived from the comprehensive rank test which indicates that there was a clear deterioration in the overall liquidity of the company during the second half of the study period. Another notable outcome of the study is that the association among the major liquidity indicators of the company during the study period was very significant. The study also reveals that there was a remarkable improvement in the overall profitability of BHEL throughout the period under study, although the company was not able to enhance the efficiency of its inventory management, debtors management and cash management during the same period.

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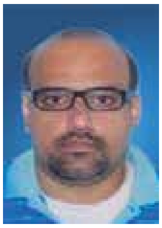
debasishsur@yahoo.co.in

AN EMPIRICAL STUDY ON THE VOLATILITY OF GREENEX INDEX (AN INITIATIVE OF BSE)

One of the industry steps towards coping up with the hazards of climate change is the establishment of the BSE GREENEX index

CMA Arindam Banerjee
Cost Accountant, Kolkata



WHEN everyone around the globe are going gaga regarding climate change and its impact on environment, there is immediate need to look into this issue urgently and devise a strategy to cope up with the risk associated with the climate change.

Climate change is one of the major challenges faced by any country and in particularly India the industry is slowly reacting to the changes in environment due to climate change and the specific risk associated is being given due preference. Due to the major risk faced by the country due to climate change the industry understands the importance of shifting to low carbon growth path.

One of the industry steps towards coping up with the hazards of climate change is establishment of the BSE GREENEX index. This index model is developed by Bombay Stock Exchange (BSE) in collaboration with premier B School IIM, Ahmedabad. This index was basically developed to assess the carbon performance of the stocks based on purely quantitative performance based criteria.

As the concern of climate change is growing among the different stakeholders, this benchmark index will enable investors to take more informed decisions on companies in energy intensive areas.

Presently GREENEX includes 25 companies from industries like power, steel, cement etc which are good in terms of carbon emission, Free Float Market Capitalization and Market Turnover. Thus the index is based on the above factors and is thus a Cap Weighted Free Float market Capitalization weighted index.

These are the companies derived basically from BSE 100 and enable the investors to derive benefit from related cost savings by following energy efficient norms. GREENEX Index is perhaps the first concrete step taken based on market mechanism to highlight the issue of climate change for promotion of efficient energy practice mechanism in large business houses in India developed by BSE in close association with g-trade Carbon ex rating service limited(G trade).

Advantages of GREENEX Index

Some of the advantages of GREENEX Index developed and initiated by BSE can be summarized as below:

It is first step towards establishing benchmark index which assesses the carbon performance of the stock based on purely quantitative performance based criteria.

BSE GREENEX applies sector specific proprietary algorithms developed in cutting edge research facilities to assess energy efficient performance of various companies on publicly disclosed energy and financial data.

One of important parameters of measuring environmental performance of different companies is the carbon emission intensity which is measured by Total Carbon Emission/ Total Revenue. This provision in mandatory disclosures enables to identify companies which are energy efficient.

The index will help to create an inclusive market based mechanism for promotion of energy efficient practices among the different corporate houses in India.

The index can be used to develop green financial products including mutual funds, exchange traded funds and structured products.

Though in global arena there are other indices focusing on green credential but in India, GREENEX Index is the first which based on actual performance in energy efficient front.

Besides the Index also focuses on retail as well as institutional investors as asset managers and pension funds which are searching for investing in avenues with strong long term prospects and develops green financial products.

Companies in BSE GREENEX Index

There are basically 25 companies in BSE GREENEX Index:

	NAME	INDUSTRY
1	ITC LTD	FMCG
2	HOUSING DEVELOPMENT FINANCE CORP.LT	FINANCE
3	ICICI BANK LTD.	FINANCE
4	INFOSYS LTD	INFORMATION TECHNOLOGY
5	LARSEN & TOUBRO LIMITED	CAPITAL GOODS
6	HINDUSTAN UNILEVER LTD.,	FMCG
7	TATA MOTORS LTD.	TRANSPORT EQUIPMENT
8	MAHINDRA & MAHINDRA LTD.	TRANSPORT EQUIPMENTS
9	BHARTI AIRTEL LTD.	TELECOM
10	NTPC LIMITED	POWER
11	DR. REDDY'S LABORATORIES LTD.,	HEALTHCARE
12	BAJAJ AUTO LIMITED	TRANSPORT EQUIPMENTS
13	MARUTI SUZUKI INDIA LTD.	TRANSPORT EQUIPMENTS
14	CIPLA LTD.,	HEALTHCARE
15	ULTRATECH CEMENT LTD	HOUSING RELATED
16	LUPIN LTD	HEALTHCARE
17	TATA STEEL LIMITED	METAL,METAL PRODUCTS & MINING
18	HERO MOTOCORP LIMITED	TRANSPORT EQUIPMENTS
19	GAIL (INDIA) LTD.	OIL & GAS
20	BHARAT HEAVY ELECTRICALS LTD.,	CAPITAL GOODS
21	TATA POWER CO. LTD	POWER
22	STERLITE INDUSTRIES (INDIA) LTD	METAL, METAL PRODUCTS & MINING
23	TITAN INDUSTRIES LTD	CONSUMER DURABLES
24	DLF LIMITED	HOUSING RELATED
25	RELIANCE INFRASTRUCTURE LTD	POWER

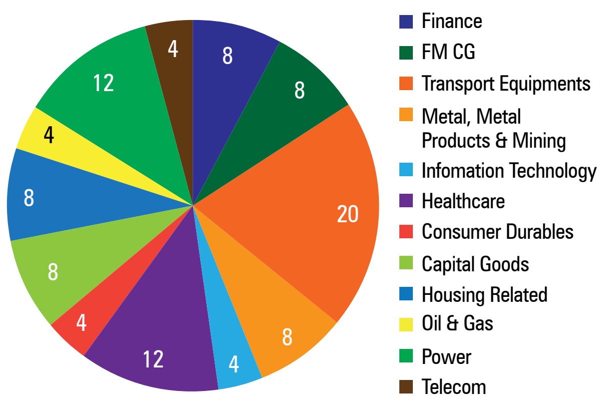
Source: BSE Website

The categorization of the different industries of the companies in the BSE GREENEX Index is shown in the table below:

Industry	Number of Companies
Finance	2
FMCG	2
Transport Equipments	5
Metal, Metal Products & Mining	2
Information Technology	1
Healthcare	3
Consumer Durables	1
Capital Goods	2
Housing Related	2
Oil & Gas	1
Power	3
Telecom	1
Total	25

Source: BSE Website

If we represent the above table by a pie graph (% of total number of companies) it can be shown below:



It is very interesting to note that from the above Table and Graph that three companies represents Power and 5 represents Transport Equipments.

Objectives of the study

The major objectives focused in the study are as follows:

1. Introduction to the BSE GREENEX Index
2. Measuring the Volatility of GREENEX Index (February 2012 to April 2013)
3. Measuring the Volatility of BSE Sensex, BSE 100,BSE

Table 1 Volatility Table

Days (in Febraury)	Index	Daily Returns	Days(in March)	Index	Daily Returns
1/2/2012	1432.9		1/3/2012	1,459.20	
2/2/2012	1,442.56	0.00671895	2/3/2012	1,467.13	0.005419771
3/2/2012	1,458.38	0.010906918	3/3/2012	1,467.88	0.000511072
6/2/2012	1,466.33	0.00543645	5/3/2012	1,441.37	-0.01822513
7/2/2012	1,449.27	-0.011702699	6/3/2012	1,415.85	-0.01786399
8/2/2012	1,459.02	0.006704996	7/3/2012	1,412.72	-0.00221313
9/2/2012	1,470.02	0.007511029	9/3/2012	1,449.07	0.025405047
10/2/2012	1,463.60	-0.004376852	12/3/2012	1,459.27	0.007014339
13/02/12	1,466.22	0.001788506	13/03/12	1,478.36	0.012997055
14/02/12	1,473.16	0.004722093	14/03/12	1,489.99	0.007836043
15/02/12	1,513.03	0.026704509	15/03/12	1,475.93	-0.00948111
16/02/12	1,507.04	-0.003966801	16/03/12	1,447.86	-0.0192017
17/02/12	1,524.18	0.011309098	19/03/12	1,429.67	-0.01264296
21/02/12	1,527.15	0.001946693	20/03/12	1,435.32	0.003944172
22/02/12	1,484.87	-0.028076027	21/03/12	1,463.96	0.019757272
23/02/12	1,481.13	-0.002521916	W22/03/12	1,426.49	-0.02592821
24/02/12	1,467.59	-0.00918371	23/03/12	1,438.35	0.008279742
27/02/12	1,430.37	-0.025688448	26/03/12	1,407.26	-0.02185207
28/02/12	1,469.06	0.026689588	27/03/12	1,424.14	0.011923571
29/02/12	1,469.93	0.00059204	28/03/12	1,416.50	-0.00537908
	Volatility	0.014052429	29/03/12	1,414.94	-0.00110191
			30/03/12	1,443.04	0.019664872
				Volatility	0.014843456

Table 2 Volatility Table

			Green ex	Bse 100	BSE Sensex	BSE 500	Nifty
2012	1	Feb	1.405243	1.24008	1.084429	1.27162	1.165419
	2	march	1.484346	1.349708	1.28902	1.308721	1.349863
	3	April	0.792654	0.806217	0.818991	0.788822	0.855985
	4	may	1.057388	0.968805	0.980872	0.922122	1.000368
	5	June	1.184791	1.050276	1.055246	0.965627	1.064073
	6	July	0.947684	0.880859	0.894529	0.844851	0.907317
	7	august	0.70659	0.563397	0.579288	0.519973	0.634876
	8	Sept	1.079955	0.885049	0.92055	0.790341	0.973755
	9	Oct	0.782773	0.727757	0.706259	0.701539	0.724799
	10	Nov	0.868073	0.735645	0.741567	0.693526	0.746484
	11	Dec	0.672343	0.546475	0.500941	0.539844	0.529107
2013	12	Jan	0.593921	0.583843	0.540484	0.603982	0.540341
	13	Feb	0.742951	0.759849	0.699951	0.758642	0.710175
	14	march	0.814396	0.909394	0.837035	0.906301	0.86075
	15	April	1.057398	1.009911	1.055335	0.942042	1.057129

500 and Nifty
4. Comparing the Volatility of (2) and (3).
5. Investigating into the trend of BSE GREENEX Index and Sensex.

Research methodology

This study is conducted based on secondary data derived from BSE Website (for BSE 100, BSE 500, BSE Sensex and GREENEX Index) and NSE Website (for Nifty Data). The data obtained has been analyzed by using statistical tools like standard deviation etc to find out the volatility.

Analysis

In this section, emphasis is accorded to study the volatility of GreenEx Index vis a vis other indices like BSE 500, BSE 100, Sensex and Nifty (NSE).

Volatility in GREENEX index vis a vis BSE sensex, BSE 100, BSE 500 and nifty

As data of GREENEX from BSE Website is available from February, 2012 the period for calculation of the volatility is taken from February 2012 to June 2013. The daily index is taken from the month of February, 2012 to April, 2013. Example in February, 2012 and March, 2012 the volatility is calculated for GreenEx Index in **Table 1** on the preceding page.

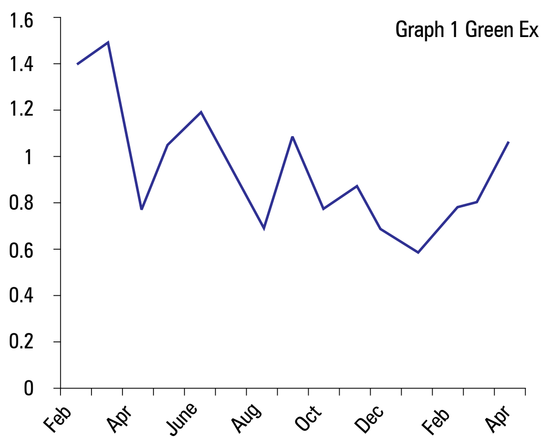
Daily Return on Index is calculated by LN (Natural Log). It is calculated by Log (Today's Close Index/Yesterday's Close Index). Volatility is calculated as standard deviation of the returns by excel sheet.

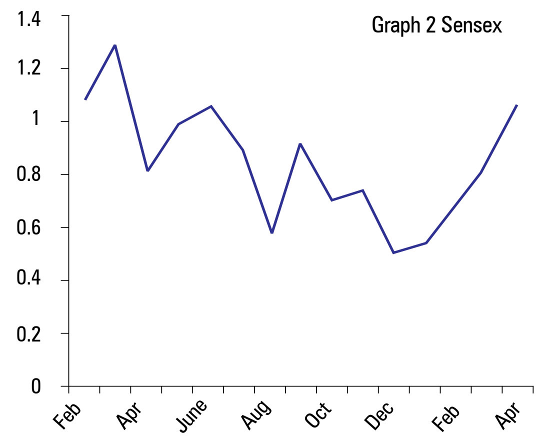
Hence it can observed from the Table 1 that volatility in the month of Febraury, 2012 is 1.40% while in case of March, 2013 is 1.48% for GREENEX Index. The same exercise is repeated for the month of April, 2012 to April, 2013.

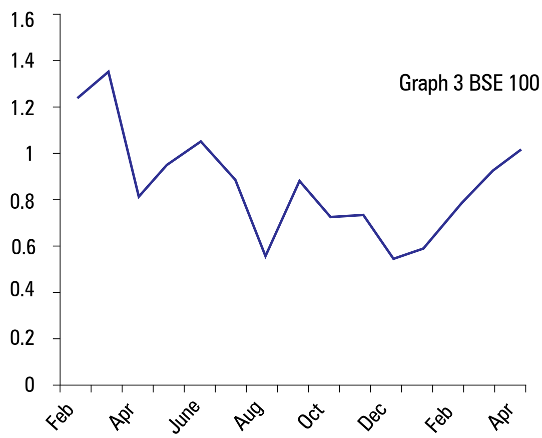
Similarly Volatility is calculated with the same procedure for Sensex, BSE 100, BSE 500 and Nifty from the time period of February, 2012 to April, 2013 (15 Months)

The results of volatility of the indices are produced below in **Table 2** (in % terms) on the preceding page.

If we graphically try to depict the volatility of the different indices it can be shown as below in Graph 1, 2, 3 & 4







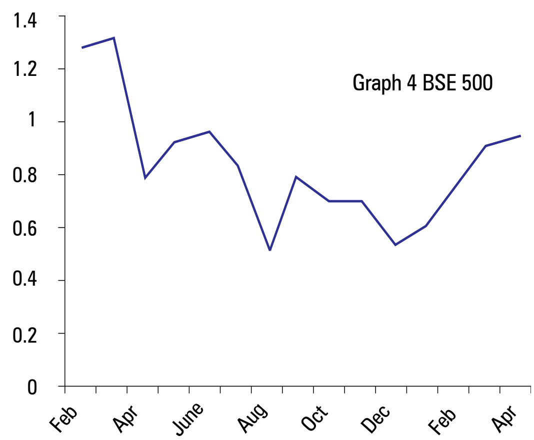
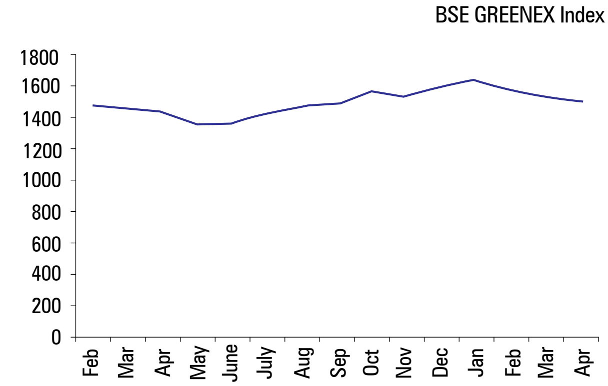
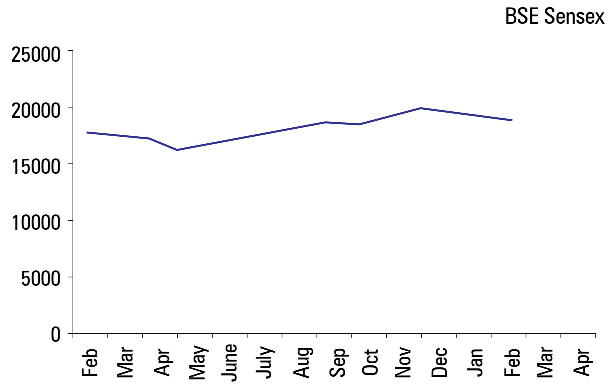


Table 3

		Green ex	Sensex
2012	Feb	1472.7905	17836.33
	Mar	1443.8318	17415.88
	Apr	1443.139	17282.96
	May	1350.6173	16396.23
	Jun	1368.019	16737.14
	Jul	1427.0918	17210.19
	Aug	1463.3929	17583.89
	Sep	1492.346	18125.3
	Oct	1554.83	18720.92
	Nov	1533.039	18672.11
	Dec	1600.2565	19365.19
2013	Jan	1633.6957	19874.66
	Feb	1566.5555	19463.74
	Mar	1525.0321	19147.18
	Apr	1499.6005	18815.78





Trend of GREENEX Index and BSE Sensex

The trend in the indices performance of GREENEX Index and BSE Sensex is produced in Table 3 above.

In the above table the average of the closing indices values is taken for calculating the index values for different months giving due consideration to the number of trading days. (Example in Febraury, 2012: 20 days, March, 2012:22 days etc).

If the data in the above table are shown graphically the graphs are produced above right.

Conclusion

It can be observed from the above analysis that GREENEX Index of BSE is one of the better options available with the investor to invest their money.

The volatility analysis also reflects that Sensex showing a much steeper slope after Dec, 2012 compared to GREENEX Index. Besides GREENEX takes into consideration Carbon Emission Intensity apart from Market Capitalization and Market Turnover compared to Sensex.

The trend graph also reflects that GREENEX showing more or less the same trend compared to Sensex.

Hence it can be said that GREENEX Index is perhaps one of the better option to mitigate the adversity of climate change due to the green house gases emission as it considers all those companies in their index which conform to the environmental norms and follow better environmental practices.

As the latest slogan raises the concept of 'GO GREEN' GREENEX is one of the avenues where the investors can invest their money to diversify the ill effects of climate change.

Limitation of the study

As the data for the study for GREENEX Index was available from BSE Website from Febraury,2012 hence the range of the period of the study was taken from Febraury,2012 to April,2013.

Reference

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arind2001@yahoo.com

INTANGIBLE ASSETS: VALUATION AND CHARACTERIZATION

This paper presents a systematic approach in characterizing the form of protection that an intangible asset manifests and estimating its perceived value in the market

Dhruv M Joshi
Specialist-IP, Infosys Limited, Bangalore

Emerging economies across the globe have witnessed transition from an agriculture-based economy to the one driven by manufacturing and then to a service intensive economy. To a significant extent, the current course of competition in economies is characterized by knowledge and skills, which is often referred as a knowledge economy. While we participate in a transition from service intensive to knowledge driven economy, it is essential to characterize the form of knowledge or the intangible asset an organization or a sector creates and realize its potential value, which can be leveraged. This paper presents a systematic approach in characterizing the form of protection that an intangible asset manifests and estimating its perceived value in the market.

Executive summary

Intangible assets are enablers of business in today's competitive market place. This paper elaborates on the methodology of deriving and bridging a gap between the value of intangible assets and its performance and public perception. Over a long term, these assets manifest themselves in form of deliverables and hence impacts business valuations. This paper provides an overview of a methodology of estimating the value and the form of protection of intellectual property adopted by an organization/sector.

Introduction

An eminent essayist – Nassim Nicholas Taleb, in his book titled – "The Black Swan" refers to the American economy as one which is driven by idea generation (Taleb, 2008). Since ideas are tightly knit to creation of intangible assets that may assume various forms, this opinion can be corroborated with one of the facts cited in a report by OECD that refers to huge investments made by advanced economics like United States, Europe, and Japan in generating and nurturing intangible assets (Nolan, 2001). However, following the TRIPS agreement, which was an approach towards standardizing intellectual property regime across countries, developing countries have also made a gradual shift towards an economy that is driven by knowledge and skills and not stagnated with agricultural or manufacturing activities or service and maintenance driven approach (Vogel, 2006). In view of such developments, it is important to characterize the intangible asset created from the following two viewpoints: the form or protection suited to protect an intangible asset and the estimated or perceived market value of it.

Sectorial study – An overview

This study presents a matrix based sectorial view of companies listed on Bombay Stock Exchange (BSE). For the purpose of this study, top companies by market capitalization across the following sectors have been chosen to derive a sectorial view. The following are the sectors chosen for this study:

- Finance – Housing
- Banking - Private Sector
- Computer Software
- Chemicals
- Cement
- Personal Care
- Auto - LCVs/HCVs
- Pharmaceuticals

All these sectors have intangible assets which can be characterized with respect to the format of protection it assumes. For instance, pharmaceutical companies are more impacted/driven by patents, which confers formal method of protection since it involves filing/registering an application for a patent with the jurisdictional patent and trademark office, while for banking and housing finance companies, a majority of goodwill or operational activity is directed towards semi-formal or informal mechanism of contracts that do not involve registering the asset with a jurisdictional patent or a trademark office. A comparative overview of the form of protection and its perceived value is presented in this paper.

Intangible assets, its importance and application of proposed framework

Price Waterhouse Coopers, a leading consulting firm, refers to intangible assets playing a crucial role in mergers and acquisitions (commonly and hereinafter referred as M&A). It also states that it often difficult to measure the value of intangible assets and determine its characteristics (Yu, 2013). To overcome such difficulties, intangible assets can be characterized by the form of protection it manifests.

Another research articles refers to employee satisfaction as one of the asset class that may not provide a prompt enhancement of stock price, but provides better returns over a longer period. It also states that the stock price shall take into account the value of an intangible if the intangible asset is able to manifest itself in a tangible format which can be assessed by the market (Edmans, 2011). This principle, if extended to other variety of intangible assets created by organization that enables business continuity provides an investor an investment opportunity to realize the potential of commercialization (introducing tangible form of results using intangible assets owned), and hence gain from the enhanced future stock value. For corporate, such assessment enables to focus on key areas of asset protection that enable business continuity.

Thus, the current framework is relevant with respect to identifying and assessing the prospective acquisition target and also depicting the requirement and strategy that may be adopted post-merger or an acquisition.

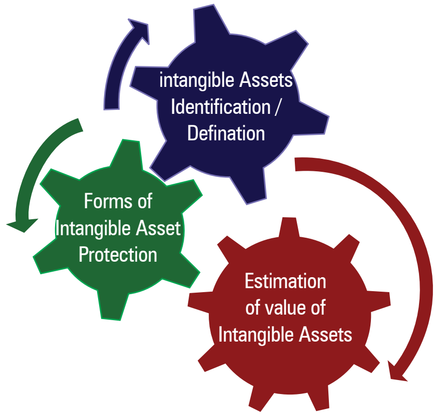
The scope of the proposed framework is not restricted to inter-sectorial applications. The proposed methodology can be used by a firm to assess and benchmark its performance with respect to its peers in a given sector, specifically for organizations with diversified product/service domains. In such cases, instead of sectors being rated using ordinal values, firms involved in benchmarking study can be individually rated. On the other axis, market capitalization can be proportionately allocated to each of the product/service domains based on the sales revenue or profit recorded in the income statement. A practical illustration of it can be demonstrated in case of companies such as Abbott Inc. which operates in proprietary drugs, generic products and medical devices or Honeywell Inc. that operates in specialty chemicals, automation processes and aviation sector. Thus, while evaluating competitive position of Abbott Inc. in the medical device industry, revenues/profits from its medical devices should be taken into account to apportion the market capitalization and the debt. Needless to say, with the product/service domain, competitors may also change. Thus, the proposed framework can also provide a domain specific view of firm's position in a competitive market.

The practical aspects of the proposed framework are described in further details in the subsequent sections of the paper.

Literature survey

The following figure depicts the interlocking ideas that lead to matrix that provides an insight into sectorial performance.

Intangible Assets: Research Roadmap



Source: Compiled by Researcher

Intangible assets/intellectual capital

Intangible assets include intellectual property, goodwill, and other items that lack physical property, but add value to the organization (American University, College of Arts and Science, 2011). Human capital, use of software applications, client lists and vendor/supplier information also form an important component of the intangible assets as they enable business continuity (Mishra & Jhunjhunwala, 2009). The proposed framework is in view of the key deliverables in each of the identified sectors and not just the operational items that enable business sustainability. Hence some of the forms of intangible assets such as human capital, software licenses are assumed to be equally important across the all the sectors relevant to current research as no organization cannot continue to be in business without these.

Formal and other methods of protection of intangible assets

A report by World Intellectual Property Organization (WIPO) refers to three methods of protection of intangible assets. The three categories are formal, semi-formal and informal methods of protection (WIPO (CDIP/8/3 REV./STUDY/INF/1), 2012). Patents, copyrights, trademarks are examples of formal mechanisms of protection, and contracts and agreements are considered as semi-formal mechanisms of protecting intangible assets. Confidentiality and secrecy are considered to be informal mechanisms of protecting intellectual assets (OECD, 2011). For the purpose of this research study, the above stated protection mechanisms have been categorized under two categories – formal mechanisms and semi/informal mechanisms. The rationale of such broad classification is - the formal methods of protection involve registration and hence, validation from a third party, in most cases the patent and trademark office of a specific jurisdiction, while semi/informal methods do not involve registering the intangible asset with any third party, however, alleged misappropriation can be challenged within the specific jurisdiction.

Market driven approach for estimation of value of intangible assets

Ocean Tomo LLC, on its website, suggests that the value of intangible assets in S&P 500 organizations have risen from 17% to 80% of the total market capitalization, which emphasizes on the value of intangible assets in today's economy (Ocean Tomo LLC, 2013). In past, on April 2, 1993 (also known as Marlboro Day), when Phillip Morris International announced reduction in prices of cigarettes, analysts forecasted a loss of revenue by $2 billion, which led to a reduction in market capitalization by $13 billion. Owing to loss of market capitalization by $13 billion, the brand value of Marlboro was revised by the same amount from $65 billion to $52 billion (Smith & Parr, 2005). These approaches highlight the importance of market capitalization, and hence the perceived value of an enterprise in valuation practices.

Intangible assets valuation experts Mr. Gordon Brown and Mr. Russell Parr in their book titled - "Intellectual Property –Valuation, Exploitation, and Infringement Damages" refers to the following formula that can be used to estimate the total business enterprise value:

Business Enterprise = Monetary Assets + Tangible Assets + Intangible Assets = Value of Equity + Value of Long Term Debt.

Thus, it can be estimated that:

Estimated Value of Intangible Assets = Value of Equity + Value of Long Term Debt – Monetary Assets – Tangible Assets (Smith & Parr, 2005).

The monetary and tangible assets can be estimated based on the fixed assets, investments and the networking capital (Investopedia, 2013).

Thus, the proposed framework involves estimating business enterprise value of an organization by summation of its market capitalization and long term debt, followed by subtraction of the fixed assets, investments and net working capital to estimate the perceived value of intangible assets.

Research and analysis

Sectorial Data Set Selection

The data set for current research has been chosen based on sectorial classification available on moneycontrol website. Across each of the following stated sectors, the top 10 firms have been taken into consideration to represent the respective sector. Only five firms were listed on the stated source under the Auto-LCV/HCV sector and hence, the data set for this sector comprises only five organizations.

Sector	No. of Firms for Study
Auto - LCVs/HCVs	5
Banking - Private Sector	10
Cement	10
Chemicals	10
Computer Software	10
Finance - Housing	10
Personal Care	10
Pharmaceuticals	10

Source: Compiled by Researcher

Estimation of intangible assets to business enterprise value ratio

As stated in the preceding section, value of intangible assets in an organization can be estimated by subtracting the value of tangible assets owned by an organization from the total business enterprise value, which itself is a summation of market capitalization and the long term debt. Once the value of intangible assets is measured, it can be characterized by two ratios: value of intangible assets with respect to the total business enterprise value and value of intangibles with respect to the market capitalization. Ocean Tomo LLC, as described earlier, presents an index based on value of intangible assets as a fraction of market capitalization (IA/MC). However, the approach proposed as part of this framework is estimating the ratio of value of intangible assets to the business enterprise value (IA/BEV) taking into account the following considerations:

a) While estimating value of intangible assets, in addition to market capitalization, business enterprise value takes into account the long term debt, which implies that higher the debt, higher shall be the value of estimated intangible assets provided market capitalization (the denominator in estimating IA/MC) and value of other tangible assets remain the same. By this measure, firms shall be encouraged to leverage in an unprecedented manner, which is inappropriate. Practically, calculating value of intangible asset value with respect to market capitalization shall result in exceedingly high ratio for sectors that are driven by debt such as banking and housing finance companies, while ratios shall be insignificant for other equity financed companies

b) Market capitalization is affected daily due to movements in the stock price. However, taking into account the value of long term debt, which can be assumed to be fairly constant over a significant period of time, ratio of estimated value of intangible asset with the business enterprise value shall have a smaller variation

Hence, taking in account the above mentioned reasons, the current framework proposes characterizing a firm by ratio of estimated value of intangibles with respect to the business enterprise value and not market capitalization.

Protection mechanism score

The protection mechanism score forms the basis of comparative characterization of a sector or a set of organizations under consideration. The characterization is based on ordinal values assigned by an analyst or a researcher to each of the identified forms of protection. For the purpose of this research paper, five forms of protection have been identified since it is assumed to cover major forms of methods adopted to protect its intangible assets. The value assigned to each form of protection is based on the relative importance of a chosen protection method over the other available alternatives.

The following forms the basis of crediting a score to each forms of protection taking into account the sectorial characteristics:

Pharmaceutical Sector

The market perception or share price of a MNC pharmaceutical company is said to be driven by proprietary drugs that are patented. For example, it is noteworthy that with expiration of patent on Lipitor, Pfizer‘s profit fell 14% in the last quarter of 2012 (Wall Street Journal, 2012). On the other hand, compared to MNCs, despite the fact that Indian companies have taken a stride towards patent driven proprietary drugs; Indian companies may not be as matured and sophisticated as compared to its foreign counterparts. Even today, the market capitalization of Indian pharmaceutical companies to a large extent is driven by approvals for manufacturing generic drugs or deals with MNCs to commercialize proprietary products. Recently, there have been two instances that corroborate this argument – Ranbaxy's share price surged on the Indian markets once it was permitted to manufacture generic version of blockbuster drug Lipitor (Reuters, 2011). In another instance, Biocon's share price headed downwards owing to cancellation of a deal with Pfizer that involved commercialization of Biocon's biosimilar versions of insulin products (Times of India, 2012). Thus, patent protection for MNCs has greater criticality compared to its Indian counterparts, especially when measured with respect to market perception or market capitalization. However, patents and related rights (in form of ANDA) are critical to the business in this sector.

Personal Care Sector

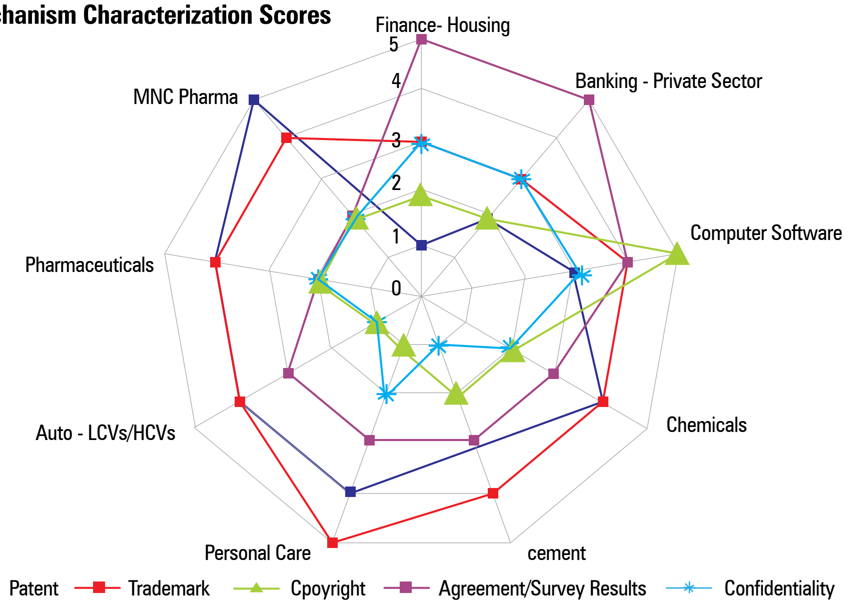
Referring to personal care sector, unlike pharmaceutical companies that enjoy legal monopoly through patented drugs or marketing exclusivity granted by regulatory authority, this sector majorly operates in a perfectly competitive market. This sector majorly comprises of companies involved in manufacturing hair oil, soaps, and other detergent products. In this sector, there may not be a significant extent of product differentiation. Even if product differentiation were to exist, the demand for a differentiated product may be relatively elastic due to availability of alternatives, if not substitutes. Hence, more than patent protection, trademark protection has a critical importance in selling a product to a consumer and hence, trademark protection is rated on a higher scale compared to patent protection.

Private Banking and Housing Finance Sector

In private sector banking and housing finance sector, a huge proportion of the debt is unsecured debts which is borrowed from Reserve Bank of India (RBI) or National Housing Bank (NHB) and then lend to consumers. In this process of securing and lending funds, confidentiality on the cost of borrowing and contracts and agreements with consumer while lending these funds are the two most critical actions that drives this sector. Hence, these have been rated at a higher scale than any other formal methods of protection.

Industry	Formal Protection Mechanisms			Informal Protection Mechanism		Formal/ Informal Score
	Patent	Trademark	Copyright	Agreements/Survey Results	Confidentiality	
Finance - Housing	1	3	2	5	3	0.75
Banking - Private Sector	2	3	2	5	3	0.88
Computer Software	3	4	5	4	3	1.71
Chemicals	3	4	2	3	2	1.80
Cement	3	4	1	3	1	2.00
Personal Care	4	5	1	3	2	2.00
Auto - LCVs/HCVs	4	4	1	3	1	2.25
Pharmaceuticals	4	4	2	2	2	2.50
Source: Compiled by Researcher						

Sectorial Protection Mechanism Characterization Scores



Source: Compiled by Researcher

Information Technology Sector

In the computer software sector, the data set for the research mainly involves Indian IT companies (except Oracle which has extensive product focus) that provide services to various other enterprises across the globe. In most service based IT organizations, under the client service engagements, the right to intellectual property under the agreement is with the client. This intellectual property is predominantly in form of computer code or training materials, which is copyright protected. Protection of such code from being leaked ensures business continuity and client's faith. Hence, copyright has been credit highest score among the methods preferred. The second highest score in this sector is credited to contracts and trademarks since contracts translate into revenues and being a near–to–oligopolistic market (few companies dominating a huge market), the identity and brand of a service provide matters.

Cement and Chemical Sector

The chemical and cement sectors may be rated high on patent protection since new molecules or compositions may earn proprietary gains to firms in these sectors. However, in the current context, most of the organizations that form a data set under consideration are bulk manufacturers of chemicals and cement. Hence, brand value and not patent protection has been credited the highest importance among the available forms of protection mechanisms.

Auto – LCV/HCV Sector

The Auto LCV/HCV segment has five companies in the data set and has products with marked differentiation. Besides product differentiation, brand is also a consideration for a consumer in this sector since it is mainly B2C (Business to Consumer) market. In this sector, Tata Motors has a horizontally integrated product line that extends from low cost mass product - Nano to a high end product such as Land Rover. Similar is the case with Ashok Leyland that manufactures public transport vehicles as well as other commercial vehicles. Thus, product variation is not just a sectorial characteristic, but is an enterprise characteristic as well. Taking into perspective such product variation, Tata Motors has said to have filed a few patents related to Nano (Silicon India, 2009) and Ashok Leyland seems to have followed the suite (Motor India, 2012). In view of these reasons, patents and trademarks have been credited equal scores for this sector. The following table presents a summary of sector specific scores:

The data presented in the last column in the above table is simple addition of scores in each of the major categories and subsequently ratio of summation of scores in formal and informal category. This computed ratio forms the basis of characterizing the importance of form of protection (represented on X-axis) adopted by a sector or an organization, in case a competitive depiction of firms is to be presented. The following figure is a pictorial view of the scores assigned to each form of protection to each of the sectors:

The above presented scores are subjective in nature. Based on statistical data in terms of number of patents filed/granted, the nature of key deliverables, the importance of brand from consumer's perspective captured in form of a survey results, etc. these scores may vary.

The create and commercialize axes

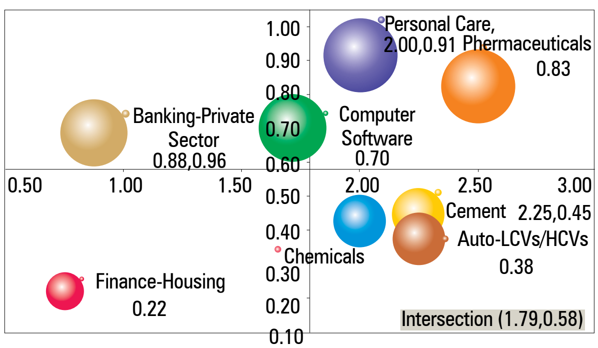
While characterizing a firm/sector using the current framework, the score on X-axis is influenced by the predominant form of protection of intangible assets adopted by the said firm/sector. It is important to note while a firm attempts to seek formal protection, it involves verification of merits of information by a third party, mainly the patent and trademark office, while informal protection is mainly governed by a transaction evidence that is restricted among the concerned parties, without scrutiny by any third party. Another notable difference is – generally formal protection is granted in exchange of public disclosure while informal protection is generally conferred by a constant and conscious attempt to maintain data and records privately held. For instance, an FMCG firm cannot afford to reveal the results of survey which may detail on brand recollection, data on repurchases by its consumers (allegiance). On the other hand, if the same firm has a unique formulation, in the race to patent office to file first, it enters into a quid pro quo arrangement of public disclosure with the patent and trademark office which confers legal rights. Hence, the information represented on this X-axis is extremely critical to foresee the nature of asset and strategy to protect it. To summarize – while there is a movement or a shift from informal to formal form of protection, the degree of involvement of scrutiny by third party and the extent of disclosure widens. Irrespective of form of protection, it signifies creation of intangible assets that is useful for a firm and hence, this axis can also be referred as "Create" axis.

Following creation of intangible assets, commercializing it to realize its true potential is extremely important. One of the news articles reflect on Ms. Kiran Mazumdar Shaw's opinion on unlocking the value of intellectual property to build a successful organization (Shaw, 2012). Thus, following creation, commercialization is equally important. Based on the extent of success of commercialization, the value of intangible asset can be estimated using the formula proposed in section 5.3. With respect to the current framework, the success of extent of commercialization or the perceived value of the intangible assets is represented on the Y-axis, which can be termed as the "Commercialize" axis.

Thus, any sector or a firm can be characterized using the Create-Commercialize framework proposed.

The following figure represents the sectorial view of the sectors stated above:

Sectorial Overview: Characterization and Valuation



Source: Compiled by Researcher

For the data set under consideration, the average of the formal/informal score ratio is 1.79 and average IA/BEV is 0.58. Hence, the "Create" and "Commercialize" axis intersect at (1.79, 0.58). The intersection in the above graph can be adjusted to suit to end application of the current research framework.

Observations, inferences and applications

The IA/BEV ratio is high for pharmaceuticals and personal care sector, which implies that the perceived value of intangible assets have probably translated into their offerings. Another observation may be - these seem to be trading at a higher premium compared to the other sectors such as housing finance companies, cement sector and auto companies in LCV/HCV segment. A factor that can explain such difference in trading premium may be the prevailing interest rate scenario. While personal care and pharmaceutical products have a relatively inelastic demand, with the current high interest rate scenario, the demand for cars or cement may be subdued and hence it may be governing lower premiums. Interesting point here is – with the change in interest rate cycle, which may have a southward trend going forward, if an organization, or collectively a sector has an intangible asset that can enable differentiation or transformation in a product or a service, these sectors shall then have a huge potential upside. These may also be a potential merger or an acquisition target in view of current attractive valuations which can be leveraged in future.

Among banking and housing finance companies, banking governs higher premiums in the market. Going forward, the demand for housing finance and consumer allegiance may enhance valuations. Another noteworthy point is – banks tend to have a diversified loan portfolio, while housing finance companies do not have a significant extent of diversification. In the United States, banks too seek patent protection on its offerings and processes (Kim, 2013). However, such protection may not be permissible in India in view of the patent act in India. Thus, banks are likely to continue to grow in the second quadrant, but with better regulation and improved macroeconomic scenario, housing finance companies may gain greater goodwill and reputation and govern market premium.

Thus, the proposed framework can be used to perform competitive benchmarking, analyzing the degree of synchronization between the intangible assets and intellectual property and its performance in the market. It can also be extended to identify potential M&A targets.

Appendix

The data presented in the subsequent tables is compiled by researcher based on data recorded in the consolidated balance sheet of a given firm for year ending 2012. The data was retrieved from money.rediff.com (in INR billion, except for ratios) and then compiled in its current format.

Company Name	Market Cap (I)	Debt (II)	BEV (III = I + II)	Current Assets (IV)	Current Liabilities (V)	Net Block (VI)	Capital WIP (VII)	Investments (VIII)	Fixed Assets (IX = IV-V+VI +VII+VIII)	Intangible Assets (X=III-IX)	IA/BEV (XI=X/III)
Auto - LCVs/HCVs Sector											
Ashok Leyland	71.17	23.96	95.13	47.96	53.34	37.13	5.77	15.34	58.25	42.26	0.444
SML Isuzu	6.85	1.00	7.85	4.88	2.90	1.35	0.08	0.00	1.43	4.44	0.565
Eicher Motors	74.71	0.17	74.88	1.40	2.29	1.12	0.15	5.18	6.46	69.30	0.926
Force Motors	6.27	0.60	6.87	11.19	4.61	4.51	0.93	0.01	5.45	-5.16	-0.751
Tata Motors	1041.95	110.12	1152.07	155.38	248.72	171.22	20.74	204.94	396.90	848.51	0.737
Banking - Private Sector											
HDFC Bank	1561.50	2467.06	4028.57	217.22	374.32	23.47	0.00	974.83	998.30	3187.37	0.791
ICICI Bank	1374.77	2555.00	3929.77	346.19	175.77	46.15	0.00	1595.60	1641.75	2117.60	0.539
Axis Bank	598.02	2201.04	2799.06	64.83	86.43	21.89	0.71	931.92	954.51	1866.15	0.667
Kotak Mahindra	469.50	385.37	854.87	19.36	25.54	4.50	0.00	215.67	220.17	640.87	0.750
IndusInd Bank	216.87	423.62	640.49	17.64	18.11	3.95	0.43	145.72	150.09	490.86	0.766
Yes Bank	185.09	491.52	676.60	41.53	56.77	1.69	0.08	277.57	279.34	412.50	0.610
ING Vysya Bank	87.98	351.95	439.94	18.17	21.29	3.87	0.11	127.16	131.13	311.93	0.709
Federal Bank	86.35	489.37	575.72	16.10	17.42	3.21	0.00	174.02	177.23	399.82	0.694
JK Bank	63.75	533.47	597.22	6.93	15.88	4.15	0.05	216.24	220.45	385.72	0.646

Company Name	Market Cap (I)	Debt (II)	BEV (III = I + II)	Current Assets (IV)	Current Liabilities (V)	Net Block (VI)	Capital WIP (VII)	Investments (VIII)	Fixed Assets (IX = IV-V+VI +VII+VIII)	Intangible Assets (X=III-IX)	IA/BEV (XI=X/III)
Karur Vysya	58.41	321.12	379.53	8.99	8.43	2.44	0.00	105.06	107.51	271.45	0.715
Cement Sector											
Madras Cement	57.22	21.14	78.36	11.45	19.01	41.20	5.34	2.66	49.21	36.72	0.469
Chettinad Cement	35.91	9.89	45.80	6.45	4.73	17.44	1.53	0.01	18.97	25.10	0.548
Birla Corpn.	25.01	11.24	36.25	11.99	7.38	13.45	5.10	10.45	28.99	2.65	0.073
ACC	263.51	0.85	264.36	32.03	44.68	59.34	3.11	24.78	87.23	189.78	0.718
Ambuja Cem.	305.58	0.49	306.08	39.11	34.21	61.86	5.77	8.64	76.28	224.89	0.735
India Cements	27.77	22.69	50.45	31.11	19.14	41.33	1.45	8.52	51.30	-12.82	-0.254
J K Cements	23.15	10.79	33.95	11.93	9.97	20.76	0.85	0.11	21.72	10.26	0.302
Prism Cement	24.71	10.39	35.10	13.48	15.30	19.13	0.66	3.90	23.70	13.23	0.377
Shree Cement	156.84	9.61	166.45	18.20	22.78	15.21	0.97	25.35	41.53	129.50	0.778
UltraTech Cem.	539.83	38.08	577.91	45.02	64.20	116.35	31.63	37.89	185.87	411.23	0.712
Chemicals Sector											
BOC India	32.39	8.38	40.77	9.22	8.90	9.91	10.60	0.15	20.66	19.78	0.485
Guj Alkali	11.04	3.11	14.16	10.22	9.06	15.99	0.43	1.61	18.04	-5.03	-0.355
Elantas Beck	9.32	0.00	9.32	0.99	0.41	0.33	0.15	0.80	1.28	7.46	0.801
BASF India	31.17	1.75	32.91	17.05	9.70	4.05	0.84	0.00	4.89	20.68	0.628
Guj Fluorochem	37.80	7.63	45.43	12.22	5.58	16.27	3.20	2.93	22.40	16.38	0.361
Himadri Chemical	9.39	10.45	19.84	8.71	2.68	7.85	2.83	2.71	13.39	0.41	0.021
Pidilite Inds.	117.09	2.64	119.73	10.96	6.73	4.96	3.84	3.33	12.13	103.37	0.863
Solar Inds.	17.63	2.22	19.84	3.62	1.38	1.79	0.19	0.68	2.67	14.93	0.752
Tata Chemicals	95.10	24.59	119.69	41.85	33.98	18.10	2.65	46.14	66.89	44.93	0.375
United Phosp.	61.84	14.52	76.36	39.95	13.31	13.75	1.35	7.82	22.93	26.78	0.351
Information Technology Sector											
Financial Tech.	53.31	5.63	58.94	10.48	2.39	4.70	0.01	17.38	22.09	28.76	0.488
HCL Technologies	443.10	6.99	450.08	54.16	35.72	16.14	5.50	32.98	54.61	377.03	0.838
Infosys	1337.97	0.00	1337.97	295.94	63.28	40.61	10.21	14.09	64.91	1040.40	0.778
MindTree	29.51	0.44	29.96	7.46	3.33	2.59	0.20	3.11	5.90	19.94	0.666
MphasiS	85.58	2.69	88.27	19.81	11.91	1.33	0.00	29.78	31.11	49.26	0.558
Oracle Fin.Serv.	282.49	0.00	282.49	59.75	8.67	3.56	0.54	7.29	11.39	220.02	0.779
Satyam Computer	126.53	0.23	126.76	58.40	24.64	7.54	2.00	2.38	11.92	81.08	0.640
TCS	2500.35	0.96	2501.31	227.80	93.06	40.64	17.27	56.88	114.79	2251.78	0.900
Tech Mahindra	120.48	11.27	131.74	22.65	17.76	6.53	1.75	32.53	40.81	86.04	0.653
Wipro	978.62	52.43	1031.05	231.21	90.00	46.50	4.90	103.35	154.75	735.09	0.713
Housing Finance Sector											
HDFC	1263.06	959.74	2222.80	1551.24	525.68	2.34	0.04	122.07	124.45	1072.78	0.483
LIC Housing Fin	141.28	478.70	619.98	641.92	108.80	0.62	0.15	1.64	2.41	84.46	0.136

Company Name	Market Cap (I)	Debt (II)	BEV (III = I + II)	Current Assets (IV)	Current Liabilities (V)	Net Block (VI)	Capital WIP (VII)	Investments (VIII)	Fixed Assets (IX = IV-V+VI +VII+VIII)	Intangible Assets (X=III-IX)	IA/BEV (XI=X/III)
GRUH Finance	39.87	38.29	78.16	43.02	1.23	0.12	0.00	0.24	0.36	36.01	0.461
Dewan Housing	25.46	169.53	194.99	208.48	25.72	0.64	1.82	4.63	7.09	5.14	0.026
GIC Housing Fin	7.61	31.67	39.28	42.67	6.19	0.06	0.00	0.10	0.17	2.64	0.067
Shristi Infra	3.86	0.94	4.80	2.35	1.17	0.73	0.00	0.00	0.74	2.89	0.601
Can Fin Homes	3.68	19.82	23.50	26.96	3.86	0.03	0.00	0.17	0.20	0.20	0.009
Sharyans Res	0.94	0.37	1.31	1.20	0.05	0.00	0.00	0.86	0.87	-0.70	-0.534
India Home Loan	0.62	0.01	0.63	0.11	0.01	0.00	0.00	0.01	0.01	0.52	0.824
Sahara Housing	0.49	1.17	1.66	1.59	0.16	0.01	0.00	0.00	0.01	0.22	0.130
Personal Care Sector											
P & G Hygiene	85.81	0.00	85.81	8.71	4.02	1.98	0.29	0.00	2.27	78.84	0.919
Gillette India	82.99	0.00	82.99	6.82	2.40	1.24	0.34	0.00	1.58	76.99	0.928
Bajaj Corp	35.88	0.00	35.88	1.15	0.66	0.39	0.00	3.40	3.79	31.60	0.881
Colgate-Palm.	209.35	0.00	209.35	7.59	6.94	2.54	0.69	0.47	3.71	205.00	0.979
Dabur India	223.62	2.73	226.35	16.48	12.88	5.85	0.25	5.53	11.62	211.13	0.933
Emami	88.25	1.08	89.32	5.98	3.56	4.01	0.80	0.81	5.62	81.28	0.910
Godrej Consumer	242.58	2.38	244.96	11.33	8.24	11.81	0.78	11.93	24.52	217.35	0.887
Godrej Inds.	108.97	5.07	114.04	7.78	8.89	3.21	1.64	13.54	18.39	96.75	0.848
Hind. Unilever	1152.62	0.00	1152.62	63.40	76.34	21.57	2.11	24.38	48.06	1117.49	0.970
Marico	147.48	5.53	153.01	11.15	3.97	2.40	0.47	6.72	9.59	136.24	0.890
Sun Pharma	737.65	0.40	738.05	40.61	12.21	10.03	2.49	40.57	53.09	656.56	0.890
Cipla	327.79	0.12	327.91	45.35	14.31	29.94	4.21	10.35	44.50	252.38	0.770
Pharmaceuticals Sector											
Dr Reddys Labs	325.51	15.33	340.84	54.11	21.72	18.97	6.38	24.78	50.12	258.33	0.758
Lupin	263.17	9.93	273.10	34.02	14.79	17.07	4.09	6.87	28.04	225.82	0.827
Ranbaxy Labs	205.09	43.34	248.43	96.66	89.13	18.72	2.23	34.11	55.05	185.85	0.748
GlaxoSmithKline	186.35	0.05	186.40	27.63	11.23	0.99	0.25	1.60	2.84	167.15	0.897
Wockhardt	184.08	9.64	193.72	11.98	13.44	11.93	4.90	3.08	19.91	175.26	0.905
Cadila Health	179.87	10.96	190.83	20.00	11.12	12.18	3.35	12.12	27.65	154.30	0.809
Divis Labs	138.80	0.53	139.33	13.36	5.75	7.38	2.49	4.80	14.67	117.05	0.840
Glenmark	138.24	4.76	143.00	17.77	5.07	2.27	0.81	10.83	13.92	116.38	0.814

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dhruv_joshi01@infosys.com

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RELEVANCE OF FOREX PRODUCTS FOR MINERAL-RICH STATES: A CASE STUDY OF JHARKHAND

Devesh Kumar
Manager-Audit (North Zone), Janalakshmi Financial Services Pvt Ltd

Dr Amitava Samanta
Asst Professor, Markham College of Commerce

Dr Parimal Kr Sen
Associate Professor, Goenka College of Commerce and Business Administration

Mineral-rich states like Jharkhand still adopt the typical British pattern of industrialisation where mined ore is exported to foreign locations from where manufactured goods are imported back. But both movements come at a cost of foreign exchange

The genesis of the foreign exchange market is in the formation of International Monetary Fund. When International Monetary Fund was formed, the fixed exchange rate system was adopted to maintain a common price level for tradable goods. Except the USA, all major industrialized countries had to follow the suit. At that time US Dollar was the central unit of account and prime means of settlement of international transactions. This legacy continued till the remarkable entry of Euro as another means of international transactions.

In India, foreign exchange was being conserved prior to 1990s. But the Foreign Exchange Management Act 1999 changed the outlook of Indian foreign exchange market. It has facilitated external trade & payment and promoted the orderly development & maintenance of foreign exchange market. As a result, India as a foreign exchange starved country has been transformed into a $250 billion+ club member. Now various disadvantages of hoarding surplus reserve in the country are as appreciation of $, opportunity cost, sterilization cost, inflationary impact etc. As per a recent Assocham study* (retrieved from www.banknetindia.com/banking/120111 on 14th September, 2012) on "Rupee Exchange Depreciation: Impact Analysis" – nearby 18% of rupee depreciation between May and December 2011 has added additional rupee cost of imports to the nation by Rs. 66,000 crores despite decline in the global prices of two major imported products crude oil and thermal coal. Means we are at loss at both end by using $ as a means of transactions.

In this paper we explore the relevance of forex products for mineral-rich states of India, with special reference to Jharkhand. Mineral-rich states are still adopting the typical British pattern of industrialization: ores mined in these states are transported and exported to other distant locations for manufacturing purpose. Manufactured goods then imported to our native states for our own use, but come at extra manufacturing and transportation costs. In both movements, foreign exchange is involved.

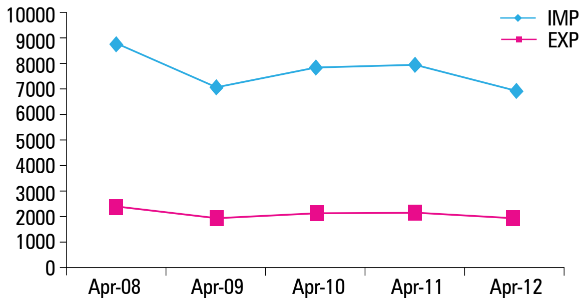
Jharkhand is the richest state in terms of mineral reserves and variety of minerals [Metallic/Non-metallic/Atomic minerals]. This uniqueness is due to its geographical formation of different geological periods. As per the Annual Report Mines 11-12, the value of mineral production in Jharkhand during the year 2010-11 at $3649 Million got increased by about 6.35 % over the previous year. The State claiming fourth position in the country accounted for 7.72% of the total value of mineral production during 2010-11. Based on a Working paper estimation by Jaya

Prakash Pradhan [ref. ISID Working Paper 2007/03], if we are converting the minerals into finished goods at our own places, we would be able to make at least 7 times more money. If we will consider the projection, in Jharkhand alone, we can make finished goods worth $25543 Million.

We will explore the possibility to promote Rupee-dominated export. We have an example of recent India-Iran Pipeline deal in which 60% of the payment will be done in Indian Rupee. So we compared the Export and Import data of Minerals on all India bases, we can see the gradual decrease in export/import value with appreciation in all major currencies. We can observe the same for US Dollar/Sterling Pound/Euro/Japanese Yen:-

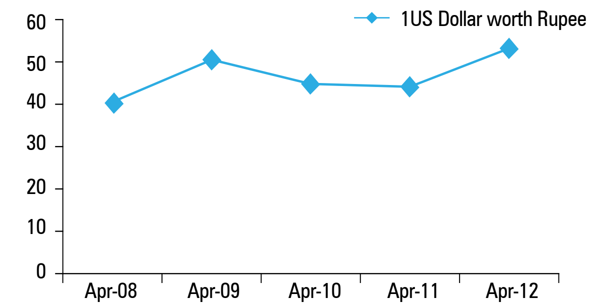
In this paper we have argued that rupee-based export should be promoted from mineral-rich states of India. It will be more relevant when Indian Rupee is losing its reputation. Rupee has been depreciated as against Dollar by 26% in the period of Apr-10 and Apr-12; 30% against Euro; 60% against Japanese Yen and 3% against Pound Sterling for the same period.

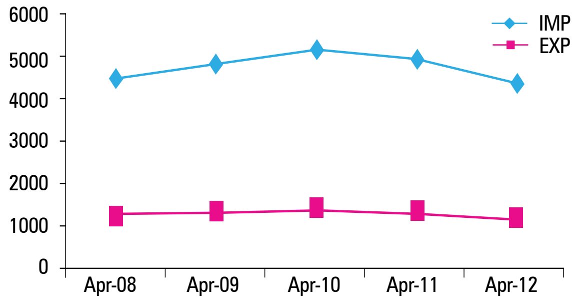
It is also observe the lesser depreciation in export/import value against comparatively strong currency. With the help of this analysis we can take a logical decision to move forward for the import of raw materials or export of our finished goods. Mineral-rich states should embark on programs of import substitution so that they need not purchase



Export Vs Import (in $)

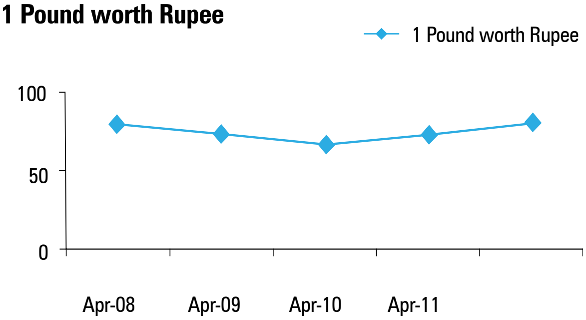
1US Dollar worth Rupee

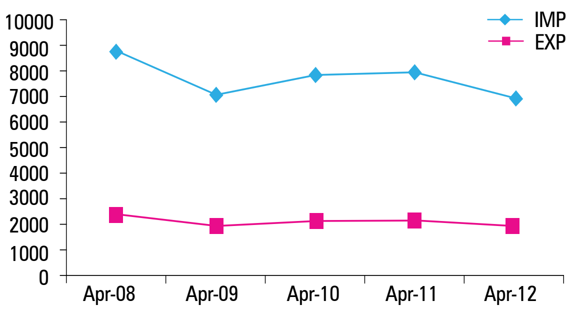




Export Vs Import (in Pound)

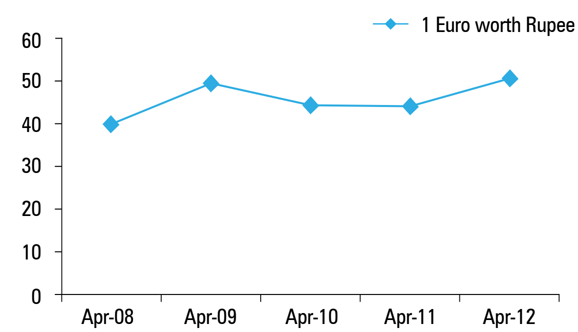
1 Pound worth Rupee

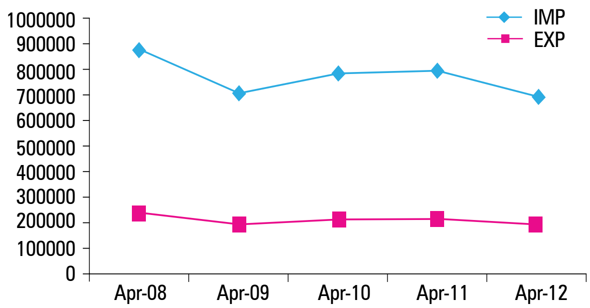




Export Vs Import (in Euro)

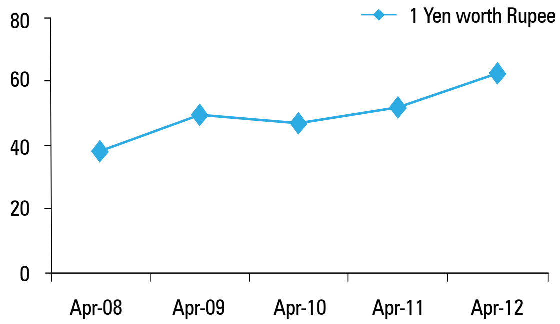
1 Euro worth Rupee





Export Vs Import (Japanees Yen)

1 Yen worth Rupee



the manufactured products from the richer countries. State has move forward in this direction in 2011 when SAIL had signed a Memorandum of Understanding (MoU) with South Korea's Posco to form a joint venture company at Bokaro in Jharkhand for setting up a three-million tonne per annum steel-making unit with a Rs 16,000 crore investment. In the case of SAIL-Posco venture, the South Korean major would bring an iron-making technology that is not available anywhere other than in its own domestic plant. Though decision is not yet finalized due to share-holding issues between both the parties.

It will analyze the role of State Bank of India, because it has the proficiency and the largest share in this specific market. In 2008-09, State Bank of India has the trading volume in Forex transaction was around Rs.1811194 Cr. We will do a Time Series analysis of the Forex transaction in State Bank of India network available in Industrial Belts in Jharkhand from 2008 to 2011.

The analysis has several limitations that should be kept in mind when giving the conclusion. One of such limitation is unavailability of access to Intranet of State Bank of India. We plan to address this limitation in future work. We expect that the basic intuition developed in this paper will survive some more realistic environment.

Opportunities

The mining industry is largely a capital-intensive industry, which acts as a significant barrier to entry and also raises the exit costs. In the world-mining scenario, there is a growing tendency towards consolidation, with a few multinationals dominating in several segments. The consolidation also led to backward or forward integration, especially with the metals producers (steel and aluminium) joining the minerals segment, principally to defend the margins against escalating raw material prices. Major end-user segments of steel and aluminium are automobiles, aerospace and construction sectors. The mining sector in the country is an age-old sector and it requires significant investment for technology infusion. Because obsolete equipments will lead to lower productivity and diseconomies of scale. Policy initiatives to do on-line registries & to increase competitiveness will be a differentiator for the Industry. India's exports have largely been confined to only iron-ore. It is therefore wise to diversify its export basket with mineral products that have a longer life index or with a larger reserve-base.

Present scenario of Jharkhand

The topic will be chosen for research to explore the possibilities to establish an export-based economy in Jharkhand.

Abundant availability of coal makes Jharkhand an ideal state for setting up thermal power plants at the coal pits. The installed power capacity (excluding Damodar Valley Corporation - DVC) is 2,017 MW, with thermal power plants contributing 1,875 MW.

The DVC has an installed capacity of 2,840 MW. About 9,000 tones of fly ash being generated everyday from the coal-based thermal power plants is being used for reclaiming abandoned mines, cement manufacturing and brick making.

Jharkhand ranks high in the list of states having vast mineral resources. It has large reserves of iron ore, coal, copper ore, mica, bauxite, manganese, limestone, china clay, fire clay, graphite, kainite, chromite, asbestos, thorium, sillimanite, uranium (Jaduguda mines, Narwa Pahar), gold (Rakha mines), silver and several other minerals. The easy availability of raw materials has lead to rapid industrialization. The following are some of the state's achievements in the industrial sector:

- Largest fertilizer factory of its time in India at Sindri;
- First iron and steel factory at Jamshedpur;
- Largest steel plant in Asia at Bokaro;
- Biggest explosives factory at Gomia
- First methane gas well of the country.

Currently, the state has three Industrial Area Development Authorities (IADAs) headquartered at Adityapur, Bokaro and Ranchi. A fourth IADA is also being planned at Dumka. The state is establishing three-tier growth centres at mega, mini and micro levels. Provision of facilities and incentives to these centres include capital investment and interest sub-

sidy, infrastructure support and priority in power allocation.

There are 28,468 registered small-scale industry (SSI) units in the state along with an estimated 134,752 unregistered SSIs. An auto components industry cluster has been established at Jamshedpur under the Small Scale Cluster Development Programme. Most SSIs are ancillary industries, which are spin-offs from mega-projects and industrial clusters such as Jamshedpur and Bokaro. Entrants like Timken and Cummins have helped introduce best practices, including state-of-the-art operating procedures in the local production environment.

A Single Window System office is operational since August 2003, creating a favorable environment for business. A state-level committee for speedy clearance of projects exceeding $11 million in investments has also been formed. The State Industrial Policy 2001 aims at infrastructure development, lesser number of regulations and speedy clearance of new projects.

Due to above initiatives taken by State Government, prominent Investors have invested in Jharkhand. Examples are Jindal Steel & Power Ltd. in Ghatshila & Patratu [Pellet Plant, Sponge Iron & Steel Plant]; Aadhunic Alloy & Power Ltd. in Kandra [Pelletisation, Sponge Iron & Steel]; Essar Steel in West Singhbhum [Pellet Plant, Sponge Iron & Steel Plant]; Tata Steel Ltd (Green Field Project) in Manoharpur & Chandil; Tata Integrated Steel Plant in Jamshedpur; JSW Steel Ltd. in Heslong & Nimdih; Mukund Steel in Hazaribagh & Barlanga; Rugta Mines in Khunti [Integrated Steel Plant].

Exports have not been commensurate to the state's potential. But the resources remain largely unexploited due to inadequate infrastructure support and connectivity. For instance, Jamshedpur, which is an important manufacturing centre for a number of engineering products, is not connected by air with any capital city in the country.

Along with it, some more key Industries which are having business potential in Jharkhand is Fertiliser, Zinc, Cement, Locomotive and Lac-based Industries.

Research priorities

There have been many researches but still there is a further scope of studies in the following areas:-

1. Forecasting of Revenue generation through State's resources either production at home [like in SAIL-Posco deal] or Ores are exported for another raw material used in production of Steel/Chemicals etc. [through barter system]
2. Role of SBI in these transactions
3. Behaviour of Rupee against Major currencies [Asian Countries/Euro/US$] to analyze the Market and suggest the possible Silk route for further business moves
4. Possible location for Investors – [Jharkhand is not in the Top 15 list of Investor's choice. Maharashtra tops the list].

Conclusion

Wide ranging process of economic reform was witnessed in India during the last one and a half decade. The main component of this process is the opening up of the foreign trade segment. The policies relating to import liberalization, export promotion and attracting foreign investment are the main features. Due attention has been paid to enhance the competitiveness of the domestic industry by importing quality and cost-effective inputs and technology and thus increasing its efficiency. The objective is to make exports grow faster and turn it into an engine of growth for the economy as a whole.

But it does not apply to all regions of the country. Jharkhand is one such state which is lagging behind in the foreign trade segment. The State claiming fourth position in the country accounted for 7.72% of the total value of mineral production during 2010-11. The value of mineral production in Jharkhand for the same period was at Rs.16,402.08 crore. If we are able to use the forex products extensively in mineral-rich states like Jharkhand, we will certainly lessen the gap of vertical inequality (rich and poor populations) and horizontal inequality (mineral-rich & mineral-poor regions like Sighbhum and Plamu districts). ("How Mineral-Rich States can Reduce Inequality" - Michael L. Ross).

A further study can be done in this area to investigate the relevance of forex products for a particular product in Jharkhand as well as in other states with the same methodology applied in this research work.

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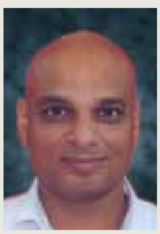
parimalsen123@gmail.com

AT THE HELM



Our heartiest congratulations to Mr Rajiv R Ghosh, an Associate Member of the Institute of Cost Accountants of India for taking over as Executive Director–Corporate & Finance of Selvel Advertising Private Limited. He has been with Selvel for over 15 years and worked in various capacities in areas like Finance and General Management.

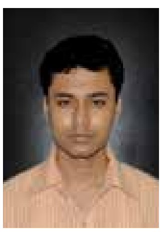
We wish Mr Ghosh the very best in all his future endeavours.

Benchmark Stock Market Index of Royal Securities Exchange of Bhutan Ltd

GUIDE FOR COST CONSCIOUS INVESTORS IN BHUTAN

This paper focuses on developing a 'suggestive' benchmark stock index based on the two methods, 1) a Price Weighted Index and 2) a Market Capitalization Weighted index, and then testing them on different parameters to reveal what could be the most suitable for investors

S M Gomes
Professor,
Gaeddu College of Business Studies,
Royal University of Bhutan



Aditya Banerjee
Lecturer, Gaeddu College of Business Studies, Royal University of Bhutan

Stock indexes are the 'barometers' of an economy. A well-constructed stock index can systematically demonstrate the effects of various events occurring across the economy and the market and also determine how well the stock market is functioning as a whole.

The Royal Securities Exchange of Bhutan Limited (RSEBL), the national stock exchange of Bhutan was established in the year 1993 and had 22 listed companies by end of year 2011. As of now there is no benchmark stock index present in the RSEBL.

This paper focuses on developing a 'suggestive' benchmark stock index based on the two methods, 1) a Price Weighted Index and 2) a Market Capitalization Weighted (also known as Value Weighted) index, and then testing them on different parameters to reveal what could be the most suitable for investors. This paper attempts to furnish the current and prospective investors with a comparable benchmark portfolio, thus providing them with a better knowledge of the current investment scenario of the country's stock markets. This paper also strives to compare the two indices built, and gives suggestions regarding improving upon them.

Introduction

Among the most well-known features of modern stock exchanges is a 'stock market index'. Most stock markets across the world have their own benchmark stock index, some of the most popular names that come to mind are the Dow Jones Industrial average (Dow-30), S&P 500, the NASDAQ Composite, FTSE, NIKKEI 225, BSE SENSEX, and many more. A table showing some of the major stock indices around the world is presented on the next page.

An index is a representation of the whole market or segments of it, built to systematically reflect any significant market wide movement during a given period of time. This is extremely important since a well-designed stock index minimizes any 'noise' and captures factors that have an economy-wide impact.

An index provides miscellanea of other services to an investor. As an important tool in the hand of fund managers, stock indices act as ideal portfolios and allow investors to invest their fund in them through proxies. For investors, an index also acts as a benchmark against which they can evaluate their own portfolios.

Bhutan is at present one such nation where stock markets are at a nascent stage, there were

Table 1: World Major Stock Market Index				
Index	Stock Exchange/ Company	Country	Date Introduced	No. of Components
The Dow Jones Industrial Average (DJIA)	NYSE, The Dow Jones & Co., CME Group.	United States of America	May 26, 1896	30
The Standard and Poor 500 Index (S&P 500)	Operated by the Standard and Poor's	United States of America	Year 1957	500
FTSE-100	London Stock Exchange, FTSE Group	United Kingdom	January 3, 1984	100
NIKKEI 225	Tokyo Stock Exchange	Japan	September 7, 1950	225
BSE-SENSEX	Bombay Stock Exchange	India	January 1, 1986	30

20 companies listed on Bhutan's national stock exchange, the 'Royal Securities Exchange of Bhutan Limited (RESBL)' by the end of year 2012. However, there is currently no benchmark stock index in Bhutan at present.

The researchers in this paper strive to build a benchmark stock index out of the available listed shares in the stock exchange, using two of the most popular methods available for doing so namely, the Price Weighted method, and the Market Capitalization Weighted method. The objective behind this is to try and study the general trend of stock markets in Bhutan over the years, and also to provide a cost conscious investor with a benchmark portfolio that they can use to compare their own portfolio.

Research gap

This paper focuses on developing 'suggestive' indicesfor the Royal Securities Exchange of Bhutan Ltd with the help of two widely practiced methods (Price weighted and Market Capitalization weighted),currently adopted worldwide. The RSEBL has thought of introducing its own indices for the stock market, this paper thus strives to build a suggestive index of its own as a pioneering work in the country. In doing so the researchers aim at providing the small and retail investorsin Bhutan with a benchmark portfolio against which they can compare their own portfolios, and also hope that this index could be used by the RSEBL for future references.

Objectives

The author(s) have set the following objective(s):

Primary:

- To develop a 'suggestive' stock market index that may be helpful to an investor.

Secondary:

- To provide a guide to small and retail investors, to measure the performance of their portfolios.

Review of key literature

As per the National Stock Exchange of India Ltd (NSE), "an Index is used to give information about the price movements of products in the financial, commodities or any other markets. Financial indices are constructed to measure price movements of stocks, bonds, T-bills and other forms of investments. Stock market indexes are meant to capture the overall behaviour of equity markets". While describing how an index is created, the NSE website points out: "A stock market index is created by selecting a group of stocks that are representative of the whole market or a specified sector or segment of the market. An Index is calculated with reference to a base period and a base index value."

This brings us to a very important question, as to why a diversified stock index is necessary. In their ground-breaking paper, E. J. Elton and M. J. Gruber (1977) showed through their research on portfolio diversification that going from a one security portfolio to a ten security portfolio reduces approximately one fourth of portfolio risk (variance). Increasing the number of securities beyond 50 actually reduces a very small amount of risk. The study (conducted with 3,290 securities) showed that, between a portfolio of 28 securities and that of 3,290 securities, the risk was higher by only 20% in the former. The paper also showed that there is a higher reduction in 'total risk' as we increase the number of securities in a portfolio. Thus a well-made stock index serves the purpose of providing the investors with a better risk management tool.

According to Budi (Financial Mathematics, 2008), most stocks move in line with the index. Thus, if an index has moved up or down, it is highly likely that a portfolio of stocks will also follow suit. The higher the number of stocks in a portfolio the closer it will track the movement of an index.

According to Reilly and Brown, (Investment Analysis and Portfolio Management, 2006), securities analysts, portfolio managers and academicians doing research use security market index to study certain factors that affect the aggregate security price movement. Index can be used to compare risk adjusted performance of various asset classes. Another group called 'technicians' use the index to study past price changes with a hope of forecasting future price movements.

The two most popular stock market index constructions are the 'Price-Weighted' method and the 'Market-capitalization' weighted method; none are free of biases and shortcoming. As per Shoven and Sialm (2000), The Dow Jones -30, one of the most popular price weighted index, has a drawback in the sense that, higher priced stocks have a higher weight compared to lower priced stocks irrespective of other factors. This drawback may be addressed in a market capitalization weighted index however, as per Reilly and Brown (2006); using market capitalization to weight stocks has another drawback, in the sense that it stocks with large market capitalization dominate the index.

Research methodology

As mentioned above, the researchers have adopted two widely practiced methods to construct suggestive indices. In both these methods, a sample portfolio of 10 companies was used across the entire time frame. The researchers have followed suggestions made by Elton and Gruber (1997) in doing so. The methodology adopted for index construction are expounded below,

The price-weighted method

The most popular example is the Dow Jones Industrial Average, or the Dow-30. This is one of the oldest indexes in the world. The DJIA originally consisted of only 12 stocks when its founder Charles Dow introduced it for the first time in 1896. Since October 1928, DJIA has 30 of the largest companies of United States.

The methodology for calculating Dow Jones Index can be formulated as below:

$$DJIA_t = \sum_{i=1}^{n} \frac{P_{it}}{D_{adj}}$$

Where:

- $DJIA_t$ is value of DJIA at time t
- P_{it} is the closing price of stock i on day t
- D_{adj} is the adjusted divisor on day t
- n is 30 for DJIA, for us it is 10

The unique divisor of DJIA accounts for any stock splits and reverse splits, and any changes in the component stocks. The divisor is adjusted to so that index value is same before and after any changes. The divisor adjustment method can be formulated as below:

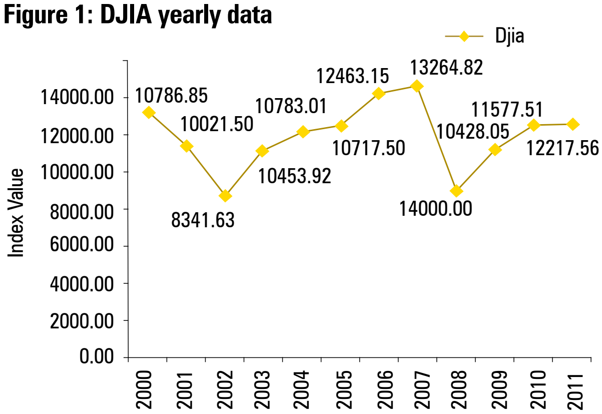
$$D_t = \frac{\sum_1^n P_{i,t}}{\sum_1^n P_{i,t-1}} \times D_{t-1}$$

Where:

- D_t is the new divisor at time t.
- D_{t-1} is the previous divisor value, before adjustment.
- $\sum_1^n P_{i,t}$ is the new sum of prices of component stocks, after the adjustment.
- $\sum_1^n P_{i,t-1}$ is the previous sum of prices of component stocks, before the adjustment.

It will be interesting to note that stock splits have an effect of reducing the value of divisor. For instance, The DJIA divisor was 30 on 1st October 1928; as on Friday, June 07, 2013 this value stood at 0.130216081. The annual index value(end of the period) of DJIA for a period between year 2000 and year 2011 (the same period of time for which this study was conducted) is depicted below:

Figure 1: DJIA yearly data



As evident from the index graph above, the DJIA has clearly reflected the impact of 2002 U.S. market downturn and the 2008 sub-prime crisis in U.S.

The Market Capitalization Weighted Index

This type of index (often known as value-weighted index) is arguably the most popular index construction method today, and includes well known indices such as the NASDAQ, AMEX, NYSE composite, FTSE-100, Hang Seng Index (Hong Kong), BSE-SENSEX (India), and many more. This method of constructing an index employs 'market-capitalization' for weighting the stocks. In other words, this index essentially includes companies that have the largest market capitalization. The method for computing this type of index can be formulated as below:

$$Index\ Level = \frac{\sum_i P_i \times Q_i}{Divisor}$$

Where:

- $\sum_i P_i \times Q_i$ = the sum of market capitalization of all stocks in the index
- P_i is the price of stock i.

- Q_i is the quantity of stock *i*.

The divisor needs to be adjusted for any corporate action that can change the market capitalization of a company (excluding stock splits, as they do not affect market capitalization). This generally includes issue or repurchase of shares in any form. Any change in the index portfolio also requires a readjustment. The method for adjusting the divisor can be formulated as below:

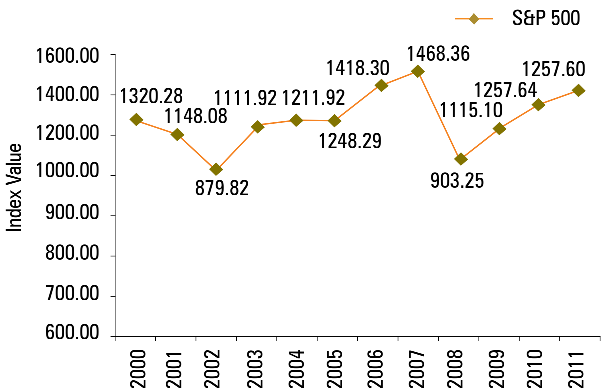
$$Divisor = \frac{Market\ value}{Index\ Level}$$

It is adjusted as below:

$$Divisor_{new} = Divisor_{old} + \frac{CMV}{Index\ Level}$$

Where, CMV is any change in the overall market value of the index due to any adjustments. Since most of the changes happened during the year, and overall information about the market was not available for that point in time, new divisor was calculated by using the index level at the beginning of the year. This new divisor was then used to compute index value at the end of the year. The annual index value (end of the period) of S&P 500 for a period between year 2000 and

Figure 2: S&P 500 yearly data



year 2011 is depicted below:

As seen from graph above, the downturn of 2002 and financial crisis of 2008 are well reflected by the S&P 500.

Challenges faced

Some of the challenges faced by researchers in their efforts can be pointed out as below:

- Historical price data was available on yearly basis through the stock exchange website, thus the index constructed is essentially a yearly index.
- Fewer companies (only 13 in the year 2000), to work with, with number of companies at 20 by the end of 2012.
- The portfolio of stocks in the indices and any adjustment thereof is purely based on the index construction methodology; no other factors are taken into consideration, making them strictly experimental indices.

Analysis and key findings

The price-weighted method:

In estimation of index made in this paper, an initial value of divisor of 10 was set in the first year and it reduced to a value of 2.50 in the ending year. The resulting index is represented below:

The initial value of index was set to 1000 for easy un-

Figure 3: Price Weighted Index

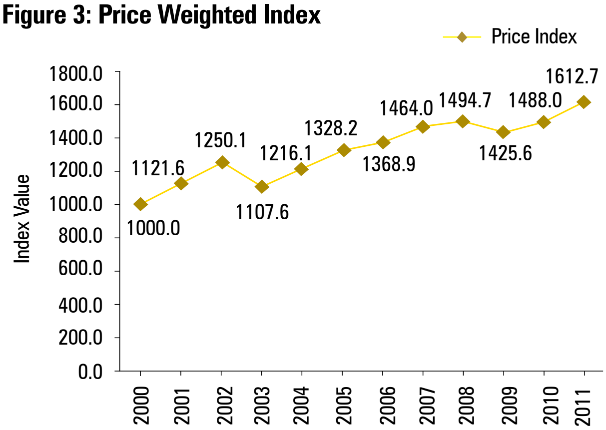
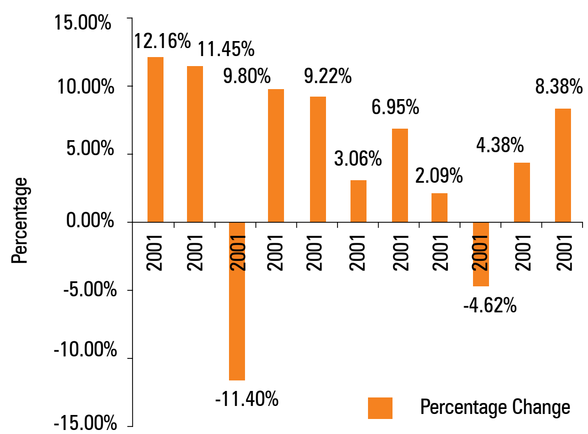


Figure 4: YoY Percentage Change in Index Values



derstanding and comparison among both methods. During 2003, the index saw a sharp fall, which was attributed to a fall in value of shares of Bhutan National Bank after a fresh issue of shares, whereas in 2009, it was due to a general decline in prices of almost all the component company's shares. Of the initial component stocks in the index, 60% remained unchanged till the end.

The market capitalization weighted index

The beginning index value was set to 1000 for this method.

Figure 5: Market Capitalization Weighted index

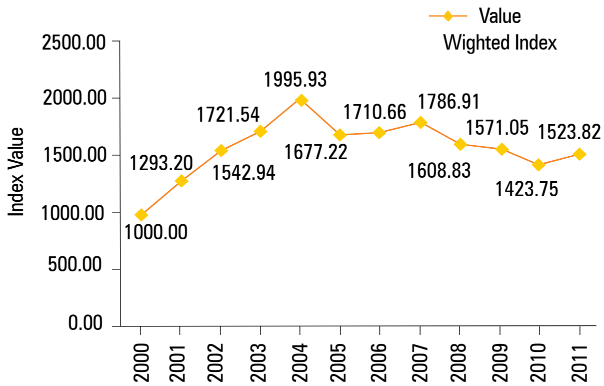
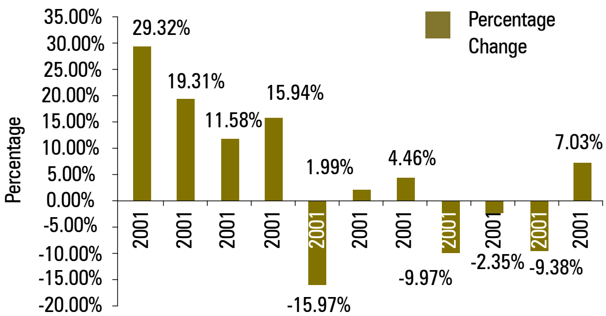


Figure 6: YoY Percentage Change in Index Values



Graphical results from the study are shown below:

During the period of this study, the index divisor had to be changed in almost every year, except for the first. The sharp decline in the year 2005 is due to corporate actions resulting in an increase in the divisor value coupled with fall in the value of certain shares. The declines in 2008, 2009 and 2010 were due to several corporate actions and revisions in index portfolio, which affected the divisor value.

Comparative study between indices

A comparison was drawn among both indices using graphical method, and descriptive statistics.

As evident from the above table and graph, the two indices built using two different methods show similarity on

Figure 7: Graphical Comparison

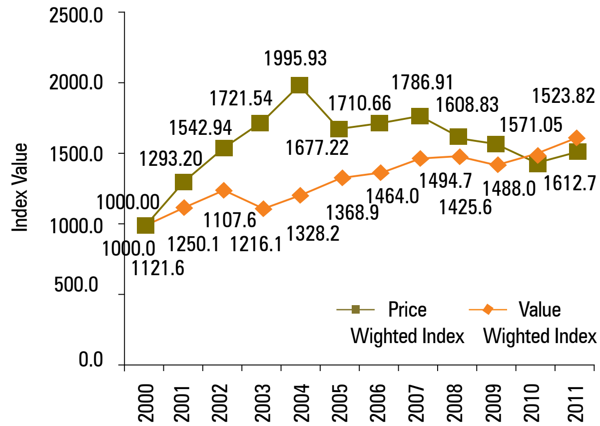


Table 2: Comparative analysis of the two indices.				
Index	Average YoYCange	Skewness	Kurtosis	Volatility
Price-Weighted Index	-1.28453	1.279754	0.47%	0.47%
Market Capitalization Weighted Index	0.229667	-0.59085	1.72%	1.72%

some fronts and are different on some other fronts. The price-weighted index shows a more uniform trend and is less volatile when compared to market capitalization weighted index. However, price weighted index is negatively skewedas compared to the market capitalization weighted index. The price weighted index is also more leptokurtic, whereas market capitalization weighted index shoes more dispersion.

Interestingly, none of the indices reflected any significant changes during the period of 2008 financial crisis which affected stock markets across the globe. The decline in the index value of market capital weighted index during this period was due to very different reasons as mentioned above. This points out to the fact that Bhutanese economy was able to shield itself from the impact of the recent crisis very well.

Conclusion

The researchers arrived at the following conclusions at the end of their research:

- Either of the methods selected for constructing a stock index can be applied to create an index for RSEBL.
- In order to make the index more widely effective, it needs to be published and updated more frequently, such as on a weekly, daily or even hourly basis, or as the situation demands.
- As of now, most of the transactions in stock market hap-

pen through corporate actions which have maximum contribution towards changes in stock price and therefore index volatility.

- Secondary market transactions have not yet picked up in Bhutan. However, regular stock market news and information, especially an index can incite the prospective investors to invest in these markets, and help the secondary market flourish in the country.

Recommendations and scope for future research

The researchers believed in making the following recommendations:

- The RSEBL is expecting to launch its own stock market index. They can however, still incorporate the methodologies followed in this paper.
- Future researchers can apply the methodology followed in this paper with more currently available data for more accurate results.
- The indices developed with the given methods can be tested on more parameters, which were not employed in this paper. This will help in narrowing down the

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INTERESTINGLY, NONE OF THE INDICES REFLECTED ANY SIGNIFICANT CHANGES DURING THE PERIOD OF 2008 FINANCIAL CRISIS...

smgomes123@gmail.com

Region & Chapters News

Eastern India Regional Council

Cuttack-Bhubaneswar Chapter of Cost Aaccountants

The Chapter organized a Seminar on "Contemporary issues in Service Tax' on 23rd June, 2013. An open house discussion covering topics like recent changes in Service Tax Rules,Valuation, Reverse Changing, Abatement, Assessment, Return filing, Interest etc. Mr. H.P. Nayak, IRAS, Director (Finance), Orissa Power Generation Corporation Ltd, Bhubaneswar was the Chief Guest of the occasion. CMA Mrityunjay Acharjee, Associate Vice President (Taxation & Internal Audit), Balmer Lawrie Co. Ltd., Kolkata was the Guest Speaker discussed the issues relating to service tax in detail. More than 125 Members and 42 student pursuing final course attended the programme and the session was quite interactive and lively.

The Chapter organized a Practitioners Meet on 26th June, 2013 to discuss on the newly introduced Cost Accounting Standards viz CAS - 15, 16 &17. Around 43 Practicing members of the Chapter and Members of the Managing Committee participated in the said Panel Discussion. CMA S.B. Samal, Chairman made detailed deliberation on the stated Cost Accounting Standards and shared their rich experience in the practical aspects. All the members and practitioners shared their valuable suggestions/views/comments.

Northern India Regional Council

Jodhpur Chapter of Cost Accountants

A three-day seminar and students training programme from 28th June 2013 to 30th June 2013 was organised by the Chapter. The objective of the programme was to make a step towards the overall development of the Students and the Members of the Chapter. The topics covered in the programme included Theoretical aspects, Practical application of the concepts, Personality Development, Time and Life Management, Government Departmental Liasoning and many more.

Lucknow Chapter of Cost Accountants

The Chapter organized an Inaugural Function for new session on 7th July, 2013 at its premises. Dr. Ashok Bajpai, Ex-Cabinet Minister, Government of U.P. and National General Secretary of Samajwadi Party was the Chief Guest and Mr Murlidhar Nayak, Commercial Head, Reliance India Ltd and Mr Vidya Charan Shukla, AGM-Commercial, Dalmia Bharat Sugar and Industries Ltd. were the Guest of Honour of this Inaugural Function. Chief Guest Dr. Ashok Bajpai, Ex-Cabinet Minister, Government of U.P. and Guest of Honour Mr Murlidhar Nayak, Commercial Head, Reliance India Ltd and Mr Vidya Charan Shukla, AGM-Commercial, Dalmia Bharat Sugar and Industries Ltd. distributed awards to 22 Meritorious Students of ICAI. In the speech of Chief Guest Dr. Ashok Bajpai, Ex-Cabinet Minister, Government of U.P. and Guest of Honour Mr Murlidhar Nayak, Commercial Head, Reliance India Ltd and Mr Vidya Charan Shukla, AGM-Commercial, Dalmia Bharat Sugar and Industries Ltd. said that there is absolutely no doubt that Cost and Management Accountants (CMA) career is the Best Course out of other professional courses because CMAs are competent to space the Indian economy & control the inflation of our nation. A large number of new & old students of Chapter attended the programme.

Western India Regional Council

Aurangabad Chapter of Cost Accountants

The Chapter organized Career Guidance Programme for High school and Graduate Students at the premises of The Institution of Engineers, Aurangabad. CMA Umesh Ruparel, Secretary and CMA Namdeo Kuyate, Chairman, highlighted the future prospects of the ICAI profession. The Chapter organized inauguration of oral coaching and felicitation function at the premises of The Institution of Engineers, Aurangabad on 2 July 2013. During the programme Chief Guest of Honour Mr Shrikant Joshi, Guest of Honour CMA Ashish Thatte, CMA Namdeo Kuyate, were present.

Indore – Dewas Chapter of Cost Accountants

A Symposium on the New Mechanism of Cost Records and Cost Audit was organized in the chapter by WIRC on 29th June 2013. CMA D.V. Joshi, Past President was the key note speaker for the event. Dr. R. K. Verma, Additional Commissioner - Central Excise, Custom & Service Tax was the Chief Guest for the programme. CMA Sanjay Bhargave, Central Council Member highlighted theme of the seminar. He emphasized that cost accountants play a vital role in bringing transparency to the affairs of any industry. The seminar was well attended by CFO, Directors and Unit Head of Industries and academicians from management institute located in and around Indore.

Raipur Chapter of Cost Accountants

The chapter organized a seminar on 'A Transformational Journey: An Update on Changes' on 6th April 2013, Chief Guest Mr S.K. Pandey, Vice Chancellor of Ravi Shankar Shukla University, Raipur was present at the occasion. The Conference was aimed to make a detailed analysis of the theme by deliberating the changing business environment in the technical session viz. Usefulness of Cost Audit for Stakeholders, Role of Cost Accountants in the changing scenario, Way Forward to GST – Taxation breakthrough and Latest changes in Central Excise and Service Tax.

Southern India Regional Council

Bangalore Chapter of Cost Accountants

A Professional Development meet was organized on 22nd June 2013 by the Bangalore Chapter. The Professional Development Meet was on "Implementation of Important Export Benefits Schemes under EXIM, Excise and Customs Acts". CMA K.S. Kamalakara. CMA Suresh R Gunjalli, Chairman, welcomed the Speaker and the Members. The speaker CMA K.S. Kamalakara, brought out the salient features of Export Benefit Schemes under various statutory provisions in Indirect Taxation. There was live interaction with the speaker and members at the end of the lecture. The programme was concluded by CMA. Devarajulu. B, Secretary of the Chapter with a vote of thanks.

Cochin Chapter of Cost Accountants

The Cochin Chapter on 21st June 2013 organized a joint programme in association with Kochi Chapter of ICSI, on "Workshop for Promotion of LLPs". Mr. E. Selvaraj, Regional Director, Southern Region, Ministry of Corporate Affairs, Chennai was the Chief Guest and Mr. K G Joseph Jackson, Registrar of Companies, Kerala and Lakshadweep was the Guest of Honour on occasion. C S M R Thiagarajan, Coimbatore initiated the proceedings of the programme. The porgramme was well attended by the members from the two professional bodies.

Coimbatore Chapter of Cost Accountants

The Chapter participated in Edu Exhibition organized by U TV at Coimbatore. A large number of students and their parents visited the Institute stall and registered them for getting more information about the CMA course. Members along with Oral Coaching students were present at the stall during the fair and disseminated information about the CMA course to the students. A special PDP Meet was also held at Chapter premises. CMA Dr. P.V.S. Jagan Mohan Rao, Central Council Member in his address focused on Companies Bill 2012, Corporate Governance and Bhagavath Geetha. A good number of Members, Faculties and Students of both the Institutes attended the programme.

CAS ORIENTATION PROGRAMME

A CAS orientation program was conducted on 11th July, 2013 at Mumbai by CMA Dr. S K Gupta Director (Technical). The programme was attended by over 60 participants both from practice and industry. The program was also attended by Mr. V. V. Deodhar Past President, Mr Ashish Thatte, Vice Chairman WIRC, CMA Aruna Soman Central Council Member were also present during the opening session. The participants actively interacted during the day-long programme.

One-day Training Programme on 'Risk-based Internal Audit'

OFFERED JOINTLY BY

Indian Institute of Corporate Affairs (IICA) & ICWAI Management Accounting Research Foundation (ICWAI MARF)

Promoted by 'The Institute of Cost Accountants of India'

Targeted at: internal auditors, accounting professional, and executives who manage internal audit function

Date: 27 August 2013 Venue: CMA Bhawan, Lodhi Road, New Delhi

Purpose: The workshop will provide an understanding of the philosophy and techniques of Risk Based Internal Audit (RBIA).

Take Home

Competence to design and implement Risk-Based Internal Audit programme

Topics to be covered

- Corporate Strategy- An Overview
- Enterprise Risk Management- COSO Framework- An Overview
- Risk Based Internal Audit-Philosophy and Techniques

Course Director

Professor Asish K. Bhattacharyya: FCA, FCMA, ACMA (UK), GCMA, DMA (ICA), D.Phil (Allahabad University)

Registration fee

a. Rs7500 (plus 12.36% service tax) per participant for practicing CMAs
b. Rs10,000 (plus 12.36% service tax) per participant for others

REQUEST A BROCHURE FROM:	
Ms Kimi Thareja Assistant Director The Institute of Cost Accountants of India Contact No. (011)24622156/57(Ext.141) e-Mail ID- advstudies.kimi@icmai.in	Ms. Amrin Sultana Indian Institute of Corporate Affairs Contact No. 9999978401 e-Mail ID- amrin_s@rediffmail.com

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)
CMA Bhawan, 12, Sudder Street, Kolkata-700016

Kolkata, the 11th July, 2013

NOTIFICATION

BY-EL–2013/28: Fresh Election (By-Election) to the Council, 2013 against one vacant seat arising out of death, falling in the Southern India Regional Constituency was held in pursuance of the Cost and Works Accountants Act, 1959 as amended, the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended, the Cost and Works Accountants Regulations, 1959 as amended and as per the following Notifications :

1. Notification No. BY-EL – 2013/1 dated 4th April 2013
2. Notification No. BY-EL – 2013/2 dated 4th April 2013
3. Notification No. BY-EL – 2013/3 dated 4th April 2013
4. Notification No. BY-EL – 2013/4 dated 4th April 2013
5. Notification No. BY-EL – 2013/5 dated 4th April 2013
6. Notification No. BY-EL – 2013/6 dated 4th April 2013
7. Notification No. BY-EL – 2013/7 dated 4th April 2013
8. Notification No. BY-EL – 2013/8 dated 4th April 2013

and other notifications and notices.

In pursuance of Rule 36 of the Cost and Works Accountants (Election to the Council) Rules, 2006 as amended and order of the Council of the Institute of Cost Accountants of India, it is hereby notified that the following member has been declared elected to the Eighteenth Council of the Institute of Cost Accountants of India for the term 2011 – 2015 :

SOUTHERN INDIA REGIONAL CONSTITUENCY

Sreshti, D.L.S. (M/11843)
Flat No. 204, Mount Santoshi Apartment,
Mayuri Marg, Begumpet,
Hyderabad – 500 016.

(Kaushik Banerjee)
Returning Officer

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)
CMA Bhawan, 12, Sudder Street, Kolkata-700016

NOTIFICATION

No. CMA(11)/2013

June 1, 2013

Sub: Fee Structure (Revised)

It is hereby notified for general information that the fee structure is revised and made applicable w.e.f. respective dates as mentioned herein:

(1) Fee Structure (amalgamated) (w.e.f. 1st June, 2013)						
	Foundation		Intermediate		Final	
	Oral (₹)	Postal (₹)	Oral (₹)	Postal (₹)	Oral (₹)	Postal (₹)
For Indian Students	4,000	4,000	20,000	16,000	17,000	12,000
For Foreign Students (inclusive of postal charges)	$ 250		$ 1,100		$ 800	
(2) ICSI qualification-based subject exemption fee(revised w.e.f. 1st February, 2013)						
For Foreign Students	$ 100 per subject					
For Indian Students	(₹) 1,000 [Rupees One Thousand only] per subject.					
(3) Computer Training Exemption Fee (applicable for students registered to the Institute w.e.f. 1st April, 2013 and onwards)						
(₹) 3,000 [Rupees Three Thousand only]. After registration, application is to be made to Directorate of Studies for this purpose with requisite documents. Refund to be made to the eligible students would be (₹) 3,000 [Rupees Three Thousand only						
(4) Mode of Payment (For all Courses of the Institute)	(i) Through "Punjab National Bank – PNB Pay Fee Module"					
	(ii) Through On-line Registration and Payment by Credit Card or Debit Card					
	(iii) Demand Draft drawn in favour of "The Institute of Cost Accountants of India" payable at Kolkata					

This issues with the approval of the competent authority.

(Kaushik Banerjee)
Secretary (Acting)

Round Table Conclave on Practical Aspects of Sustainability Reporting

6 p.m., 10 July 2013, Hotel Taj Vivanta, New Delhi

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA organised a Round Table on Practical Aspects of Sustainability Reporting on 10th July 2013 in association with PHD Chamber of Commerce and Industry at Hotel Taj Vivanta, New Delhi.

Sitting from left to right: CMA Dr. SK Gupta, Director (Technical), CMA S.C. Mohanty, President, Mr. Ramesh Adige, Co – Chairman, Corporate Affairs Committee, PHDCCI, Mr. Dipankar Ghosh, Advisory Partner, Climate Change & Sustainability Services, Ernst & Young LLP and CMA Sanjay Gupta, Chairman, WTO & IA Committee of ICAI-CMA

The conclave was attended by 35 participants including professionals, academicians, Industry representatives and representatives of Government departments. CMA Dr. S.K. Gupta, Director (Technical), ICAI-CMA initiated the discussions followed by CMA Sanjay Gupta, Chairman, WTO & International Affairs Committee of the Institute, who welcomed the delegates and speakers by presenting bouquets. CMA Sanjay Gupta said in his welcome address that the Institute is leading efforts in bringing about a mechanism of Cost linked performance management and evaluation framework so as to enable the companies to become cost competitive for sustainable development in this era of global dynamics and rising stakeholder expectations.

CMA S.C. Mohanty, President of the Institute said that the Institute is taking initiative to develop a Water Accounting Standard to guide the companies in appropriate monitoring of the water flow, usage and storage as water is emerging as a very critical corporate and societal resource. The President also thanked the PHDCCI for associating with the Institute for this conclave and hoped that this association will be a long term one and will benefit both the Institutions and its members.

Mr. Dipankar Ghosh, Advisory Partner, Climate Change & Sustainability Services, Ernst & Young LLP, Mr. Ramesh Adige, Independent Director and Co – Chairman, Corporate Affairs Committee, PHDCCI, Mr. Ritwik Bhaumik of Jubilant Life Sciences were the other speakers at the Conclave. This roundtable was moderated by CMA Dr. S K Gupta.

Highlights of the National Seminar

GOVERNANCE BY INNER CONSCIOUSNESS

THE Institute of Cost Accountants of India (ICAI) in association with Sri Aurobindo Foundation for Integral Management (SAFIM) organized a National Seminar on "Governance by Inner Consciousness" on Saturday, 13 July 2013 at New Delhi.

Seminar was inaugurated by Hon'ble Justice Ramesh Chandra Lahoti, Former Chief Justice of India & Chairman, SAFIM Advisory Board, Mr R Bandyopadhyay, Member, Central Administrative Tribunal, Former Secretary, MCA &Member SAFIM Advisory Board, CMA S C Mohanty, Vice President, ICAI and CMA Sanjay Gupta, Council Member, ICAI and Mr O P Dani, Vice Chairman, SAFIM & Former President, ICSI.

Hon'ble Justice Ramesh Chandra Lahoti quoted that, ever since cost accounting earned recognition it has been continuously contributing to the growth of the industrial and economic climate of the country. The Cost Accountant works in solitude dictated by none except by his own inner conscience, while formulating opinions and dictating notes.

Mr R Bandyopadhyay quoted that, it is the need of the hour to be dead honest for our duties and it is the responsibility of each and every individual concerned for obtaining the desired growth and development of our self as a whole otherwise our future will not forgive us for our intentional mis-deeds.

Mr S C Mohanty, Vice President assured on behalf of the Institute that, the Institute is determined to work for the society, for the economy and whatever the policy initiatives of the government bodies like SAFIM. The Institute will be an associate to create a society of leaders with human values and ethics who can serve the society and look after the economy for a better tomorrow."

First Technical Session on Conscious Governance: Need of the Hour was chaired by Justice Shiv Narayan Dhingra, Member, Competition Commission of India and discussion was taken through by the panelists CMA J K Puri, Former President, ICAI, Ex-Chief Advisor Cost & Member, SAFIM Advisory Board, Prof. Saikat Sen, Member, SAFIM Governing Board, MCA and Mr T K Arun, Editor – The Economic Times, Delhi. Deliberations concluded that no governance is possible without exercising some kind of discretion which one should know, is best for the institution and nation. The secret of good governance lies not in efficient systems but on the people who create and govern the system. Change yourself and circumstance will change.

Second Technical Session on Role of Values in Governance was chaired by Mr Shashi Budhiraja, Management Advisor, SAFIM and further discussed by the Panelists Prof. Asish K Bhattacharyya, Advisor (Advanced Studies), ICAI & Prof. & Head, School of Corporate Governance & Public Policy, IICA & Member SAFIM Advisory Board and CMA (Dr.) P V S Jagan Mohan Rao, Council Member, ICAI & Former President, ICSI. During the session the values were explored and its role in performing our professional and personal responsibilities. It was concluded that each one of us to be a passive leader, Gentlemen are not made by Tailors, they are made by Characters. Whenever we try to establish ethics we should also be very careful that others are there who may not like us to follow values and ethics. To bring light to uneducated and more light to educated.

Third Technical Session on Creating the Right Environment was chaired by Mr Jitesh Khosla, Addl. Chief Secretary, Government of Assam and deliberations by the panelists Mr A K Awasthi, Former Deputy Comptroller and Auditor General of India, Dr. Ashok Haldia, Director, PTC India Financial Services Ltd., Member SAFIM Governing Board and Former Secretary, ICAI and CMA (Dr.) A G Agarwal, Former Chairman & Managing Director, Central Electronics Ltd. The session concluded that, only civilization which has an expression to deal with collectivity of morality, thought, action is probably the Indian civilization, because it got has a word, which is very difficult to explain "SANSKARA". The awareness ability to feel or experience having a sense of selfhood or executive control system of mind, philosophy of mind, relationship of mind with the world or God. Explained the difference between legal and ethical compliance? Law is concerned primarily with conduct and ethical requirements are concerned with regions, motives, intentions and more generally with the character that expresses itself in conduct.

The seminar was well received by the professionals.

ADMISSION TO MEMBERSHIP

The Institute of Cost Accountants of India
Advancement To Fellowship

Date of Advancement: 20th July 2013

M/5892
Mr Anil Kumar Soni, BSC, FCMA
General Manager (Finance) CMPDIL
Gondwana Place Kanke Road
RANCHI 834008

M/6619
Mr Jitendra Nath Ghosh, BSC, FCMA
Proprietor J.n. Ghosh & Associates
H/o. Shri Manik Mukherjee
Lower Chhinamasta R. N. Road
BURNPUR 713325

M/7751
Mr Abhijit Chakraborty, MCOM, FCMA
General Manager (F & A) Nicco Corporation L T D Nicco
House Project Division 2 Hare Street 3rd Floor
KOLKATA 700001

M/7871
Mr Varadachari Venkatesh, BCOM, FCA, ACS, FCMA
Director & C E O Athreya Investment Services Limited 102,
Raheja Villa 49, 1st Main Road Gandhi Nagar Adyar
CHENNAI 600020

M/9923
Mr Aloke Kumar Ghosh, BCOM HONS,ACS, FCMA
Chief Finance Officer (C F O) Mahindra Holidays & Resorts
Ltd Mahindra Towers, Worli 1st Floor, A -Wing Dr. G M Bhosle
Marg P K Kurne Chowk
MUMBAI 400018

M/10993
Mr Saurabh Datta, ACS, BSC, ACS, FCMA
General Finance Manager Associated Cement Company Ltd.
Jamul Project Ofiice
P O Jamul Cement Works
District Durg
BHILAI 490024

M/12283
Mr Sravanam Pradeep Kumar, MCOM,FCMA
Manager APSFC 17/23,
Flat No-301 Krishnanivas,
krishnapuri Colony West
Marrdpally
SECUNDERABAD 500026

M/12684
Mr D K Swamy Gowda, BCOM,FCMA
Accounts Officer K S I I D C Khanija Bhavan 4th Floor, East
Wing No. 4q Race Course Road
BANGALORE 560001

M/13012
Mr Loganathan Bhaskar, MCOM,FCMA
Management Adviser Thriveni Earthmovers Pvt. Ltd., Plot
No. 4, Karpagam Nagar 1st Street, Ponniammanmedu, Near
Kolathur,
CHENNAI 600110

M/13071
Mr Subrata Saha, MCOM,FCMA
Senior Manager (Finance)
NHPC Limited Loktak Power Station P.O. Loktak Komkeirap
LOKTAK 795124

M/13117
Mr Niladri Moitra, BCOM, FCMA
Sr. Manager (Finance) South Eastern Coalfields Limited C 38
Urja Nagar SECL, Gevra Area
GEVRA 495452

M/13707
Mr Kothandeth Raghavan Pillai Raghu, MCOM,FCMA
Manager - Accounts Gulftainer Company Limited
P.O. Box : 225
SHARJAH 225

M/13954
Mr Hema Rajendra Gaitonde, BCOM,FCS,FCMA
505, Santoor Lokpuram Co.op. Hsg. Ltd.
Lokpuram
THANE 400610

M/14044
Mr Saroj Dutta, BCOM,FCMA
Chief Manager M/s Iffco Ltd S. J. Nagar Musadia
Dist - Jagatsinghpur,
PARADEEP 754142

M/14417
Mr K Ranganathan, BA,FCMA
Dy. General Manager (Finance) Bharat Electronics Ltd. P. B. No.
981 Nandambakkam
CHENNAI 600089

M/14850
Mr Kavita Kathuria, MCOM,FCMA
Dy General Manager (F & A) Hindustan Insecticides Ltd Scope
Complex Core-6 Lodhi Road
DELHI 110003

M/15409
Mr Joshy Jose V, BSC,FCMA
Accounts Manager Emirates Ceramic Factory
P.o. Box 3040
FUJAIRAH 3040

M/15617
Mr Rakesh Kumar Jain, MCOM,FCMA
Chief Manager Punjab National Bank Zonal Audit Office
Old Railway Road
JALANDHAR 144001

M/16067
Mr Yogesh Chimanlal Bhuta, BCOM,FCMA
Proprietor Bhuta & Associates B/15, Zenith, Sector 3
Charkop, Opp. Saraswat Bank Kandivli (West)
MUMBAI 400067

M/16209
Mr Thangadurai Renganathan, BCOM,FCMA
Asst.Vice President Polaris Financial Technology Ltd Polaris
House 244 Anna Salai Chrompe
CHENNAI 600006

M/16629
Mr Satya Nand Srivastava, BA,MBA,FCMA
Business Strategy Mis Head Recron (M) Sdn Bhd 7,8,9
Wisma Gold Hall 67, Jalan Raja Chulan
KUALALUMPUR 50200

M/17185
Mr Goursankar Mitra, BSC,FCMA
Proprietor G S Mitra & Associates G S. Mitra & Associates, M.
G. Road, Bakultala, Uttar Dinajpur
RAIGANJ 733134

M/17605
Mr Nitin Senan, BSC,FCMA
Deputy Managing Director Grimaldi Agency Nig Ltd P T M
L Terminal C Omplex Tincan Island Apapa
LAGOS 31

M/18841
Mr Rabindra Kumar Sahu, MCOM,PHD,FCMA
Controller of Examinations North Orissa University Takatpur
Dist - Mayurbhanj
BARIPADA 757003

M/18852
Mr Brij Mohan, MCOM,FCMA
Plant Finance Controller RFCL Limited Plot No. 1 GIDC
Panoli
BHARUCH 394116

M/19150
Mr Ravi Ranjan Drolia, BCOM HONS,FCMA
Senior Manager - Commercial Wrigley India Pvt. Ltd.
Carlton Estate 4 A-84 DLF City, Phase V
GURGAON 122009

M/19452
Mr Amiya Mondal, MCOM,FCMA
Proprietor Mondal & Associates 45, Akhil Mistry Lane P S-
Muchipara
KOLKATA 700009

M/19832
Mr Manoranjan Nayak, BCOM HONS,FCMA
Chief Finance Officer NIMITAYA GROUP OF
COMPANIES 2a, Avenue Cassia, Westend Greens Rajokri
DELHI 110038

M/20736
Mr Ashoka Kumar Swain, MCOM,LLB,FCMA
Dy Manager Damodar Vally Corporation T S C Accounts D V
C Panchet Dam P O - Panchet Dam
DHANBAD 828206

M/20868
Mr Lokesh Kumar, BCOM HONS,FCMA
D G M Commercial Complete Surveying Technologies Pvt.
Ltd. D-139-141 Phase-2 Extn.
NOIDA 201305

M/21021
Mr Nitin Chandrakant Hatode, MCOM,FCMA
Dgm- A/c & Commercial EMCO LIMITED 501, E Wing,
Acme Amay Vishweshwar Road Near Udapi Hotel Goregaon
(E)
MUMBAI 400063

M/21526
Mr Santosh Durganand Marballi, BE,FCMA
Quality Sr Manager- Product Development Oracle Financial
Services Software Ltd Global Axis, Unit-1 #152, E P I P
Zone White Field
BANGALORE 560066

M/21631
Mr Ananga Charan Nayak, BCOM HONS,MBA,FCMA
Dy. Manager (Finance) M/s THDC India Limited Bhagirathi
Bhawan Bye-pass Road Pragatipuram
RISHIKESH 249201

M/22562
Mr Sanjeev Ranjan Ambasta, BSC,FCMA
Proprietor S R Ambasta & Associates M K Residency Flat
No. D101 Plot no-8B Sector-11 Dwarka
DELHI 110075

M/22812
Mr Antony Lourdus Raja, BCOM,FCMA
Associate Delivery Manager U S T Global 721, Nila South
Technopark Campus Kazhakootam
TRIVANDRUM 695581

M/23037
Mr Nitin Bansal, MCOM, FCMA
Sr. Manager PBS Fluor Daniel India Private Limited
10th Floor, Building No. 10C DLF Cyber City,
DLF City Phase II
GURGAON 122002

M/23410
Mr Renuka Garg, BCOM HONS,FCS,FCMA
Manager U F L E X Ltd A-1 Sector-60
NOIDA 201301

M/23515
Mr Arun Gupta, BCOM HONS,FCMA
A-105/1, Paryavaram Complex, Ignou Road
NEW DELHI 110030

M/23628
Mr Swaroop Madhav Athavale, MCOM,LLB,FCMA
Senior Manager Mis And Costing SOKTAS INDIA PVT. LTD. Plot No. T-8, Five Star Midc, Kagal - Hatkanangale Kasaba Sangaon
KOLHAPUR 416217

M/23860
Mr Dhirender Prakash Jalandhari, BCOM,FCMA
Dy Manager - Finance Mangalore Refinery & Petrochemicals Ltd. Lgf, Mercantile House 15 K.G. Marg
NEW DELHI 110001

M/23870
Mr S S Seshagiri Chodisetti, MCOM,CPA,FCMA
Manager - Accounts And Admin Aroma Coffee Roastery Pty Ltd 43-45 Carrington Road Marrickville
SYDNEY 2204

M/24339
Mr Sanjay Ghosh, BCOM HONS,FCMA
Finance & Accounts Officer Indian Jute Industries Research Association 17, Taratala Road
KOLKATA 700088

M/24671
Mr Ramdas Subramonian, MCOM,FCMA
Deputy Manager (Finance) Cochin Shipyard Ltd Administrative Building, P O Bag No. 1653 Perumanoor,
ERNAKULAM 682015

M/24753
Mr Surendra Kumar Amara, BCOM,FCMA
Manager, External QA Division Capital Iq Information Systems India Pvt. Ltd Survey No 12 P, Kondapur Village Serilingampally Mandal
HYDERABAD 500081

M/25011
Mr Sanjay Jain, BSC,FCMA
Sr Accounts Officer POWERGRID CORPORATION OF INDIA LTD 1/4 Vipul Khand Gomti Nagar
LUCKNOW 226010

M/25062
Mr S Kalpakam, BCOM,PHD,FCMA
Asst. Professor K J Somaiya Instt. of Management Studies & Research Vidyanagari Vidyavihar
MUMBAI 400077

M/25127
Mr Praveen Kumar Gupta, BCOM,FCMA
T C S Ltd 32/53-b, Street No. 11, Vishwas Nagar,
DELHI 110032

M/25150
Mr Dhanasekaran K, BSC,FCMA
No. 204, Bldg. No. F 9 New Brahmand, Phase -VII Dharmacha Pada,
THANE 400607

M/25216
Mr Manish Kakkar, BCOM,MBA,CPA, CISA,FCMA
Director of Internal Audit & Advisory Services Fawaz Abdulaziz Alhokair & Company Shemaicy Street,
PO Box 359
RIYAD 11411

M/25484
Mr K Naga Subrahmanya Gupta, BCOM,FCMA
General Manager Gvr Infra Projects Limited Sri Sai Nilayam Old No 1a, New No 70 Alagiri Nagar Main Road Next To Gangaiamman Koil
4th Streett Vadapalani
CHENNAI 600026

M/25548
Mr Shaman Dass Bhagtani, BCOM,FCMA
Chief Finance & Accounts Officer ICFAI University ICFAI University 505/1 Agra road Jamdoli
JAIPUR 302031

M/25720
Mr Sudipta Majumdar, BCOM, FCMA
Proprietor Sudipta Majumdar & Associates Vivekananda Road P.O. +P.S.-Rampurhat Dist: Birbhum
RAMPURHAT 731224

M/25903
Mr Manoj Kumar Rath, BCOM HONS,FCMA
Proprietor MANOJ KUMAR RATH & CO 49-44-17/1/3, 2nd Floor Sankuvani Palem Akkayapalem
VISAKHAPATNAM 530016

M/26176
Mr Sanjaykumar Kanchan Lal Prajapati, MCOM,FCMA
Manager (F & A) Gujarat State Petrolcum Co. Ltd Sector I I G S P L Bhavan
GANDHINAGAR 382010

M/26515
Mr A J Vaidyanathan, BSC,LLB,FCMA
Chief Manager U C O Bank New 455, Velachery Main Road East Tambaram
CHENNAI 600059

M/26619
Mr Niranjan Singh, BCOM,FCMA
Vice President-finance
Nilkanth Ferro Limited Bhiringhi Opp.bsnl Office
DURGAPUR 713213

M/26946
Mr Sushanta Kumar Mishra, MCOM,MBA,ACA,FCMA
Accounts Officer NHPC Ltd. At- Kutasira,
P.O. Khari,
Via- Tarbha Dist- Sonepur,
KHARI 767016

The Institute of Cost Accountants of India
Admission to Associateship on the basis of MOU with IMA, USA

Date of Admission: 17th June 2013

C/34648
Mr Sirajuddeen Koyakutty, MCOM, CMA(USA), ACMA,
Valiiyapee Diyakkal (House) Pulikkanny, Palappilly (Post)
THRISSUR 680304

C/34649
Ms Susan Ninan, MCOM, CMA(USA), ACMA,
Head of Finance The British School Al Khubairat,
Behind Immigration P.O. Box 4001
ABU DHABI

C/34650
Ms Shanthi Parthasarathy, BCOM, CMA(USA), ACMA,
New No. 11, Old No. 4, Kripasankari Street,
West Mambalam,
CHENNAI 600033

C/34651
Ms Betcy Vino, BCOM, MMS(FIN), CMA(USA), ACMA,
Senior Co-ordinator (Processes) Mannai Trading Company (WLL) P.O. Box 76,
DOHA

The Institute of Cost Accountants of India
Admission to Associateship on the basis of MOU with IPA, Australia

Date of Admission: 17th June 2013

I/34652
Mr Anish Mathew Koshy, BCOM, MIPA, ACMA,
Accountant
Petrofac International Ltd. Petrofac House,
Al Khan Road, P.O. Box 23467,
SHARJAH

The Institute of Cost Accountants of India
Admission to Associateship on the basis of MOU with IPA, Australia

Date of Admission: 17th June 2013

I/34653
Mr Yue Yuen Chan, FIPA, FCMA,
Flat B 32/F Tower I, Kornville
No. 38, Yan Man Street,
HONG KONG

The Institute of Cost Accountants of India
Admission to Associateship on the basis of MOU with IMA, USA

Date of Admission: 16th July 2013

C/34654
Mr Ramesh Raman, CMA (USA),ACMA
Finance Manager Teyseer Group- Qatar Plant Hire Co. WLL P. O. Box 6074
DOHA

C/34655
Mr Shaji Ellath Poil, BCOM, CMA(USA), ACMA
Chief Consultant Accentric Management Consultancy Post Box No. 233494 Al Quisase,
DUBAI 233494

C/34656
Mr Shaik Moin Ahmed, BCOM,CMA (USA),ACMA
Senior Accountant Arj Holding LlC Arj Holding Llc, Arj Building, 2nd Floor, Al Qouz, Sheikh Zayed, Road
DUBAI 2574

The Institute of Cost Accountants of India
Admission to Associateship on the basis of MOU with IPA, Australia

Date of Admission: 16th July 2013

I/34657
Mr Jalal Alalawi, BA HONS,MIPA,ACMA
Corporate Elevation Almoayyed Tower, 31st Floor, Seef District
MANAMA 20005

The Institute of Cost Accountants of India
Admission to Associateship on the basis of MOU with IPA, Australia

Date of Admission: 16th July 2013

I/34658
Dr Elamaran M Sabapathy, BSC,MBA,FIPA,PHD,FCMA
Group Executive Chairman Huat Hing Group & P G Capital Corp Group No. 55 A & 55 B, Wisma Huat Hing, Jalan Pasar Baru, Semenyih,
SELANGOR 43500

The Institute of Cost Accountants of India
Admission to Associateship

Date of Admission: 20th July 2013

M/34659
Mr Santosh Kumbhakar, BCOM,ACMA
Assistant Manager Tayo Rolls Ltd Tayo Works Gamharia Dist. Seraikela
JAMSHEDPUR 832108

M/34660
Ms Jananiselvi Sunder, ACMA
Senior Accounts Officer Enmas GB Power Projects Limited
VI Floor, Guna Complex , Annexe 443, Anna Salai Teynampet
CHENNAI 600018

M/34661
Mr Birendra Singh Jani, ACMA
Executive Polyplex Corporation Ltd 4th Floor, B-37 Sector - 1 Dist. Gautam Budh Nagar
NOIDA 201301

M/34662
Mr Ajai Kumar Tiwari, MCOM,ACMA
Sr. Officer J. K. Cement Ltd Kamla Tower Dwarkadhish Road
KANPUR 208001

M/34663
Ms Rangita Arvind Kiyawat, MCOM,ACMA
Cost Accountant Remi Edelstahl Tubulars Ltd Remi House 11, Cama Industrial Estate Goregaon (E)
MUMBAI 400063

M/34664
Ms Swati Jain, BCOM,ACMA
N - 36A Laxmi Nagar
DELHI 110092

M/34665
Mr Venkata Mareswarao Kondeti, ACMA
Sr. Functional Consultant Baehal Software Ltd Airport Lane HAL Estate
BANGALORE 560017

M/34666
Mr Jagat Jyoti Sinha, BSC,ACMA
Manager - Finance South Eastern Coal Fields Ltd Qr No C-2, Officers Colony P O - South Jhagrakhand Bilaspur, Dt - Korea
MANENDRAGARH 497448

M/34667
Mr K Sreekanth Reddy, ACMA
Executive Finance Grindwell Norton Limited Devinahalli Road Off Old Madras Road
BANGALORE 560049

M/34668
Ms Nancy Gupta, MCOM,ACMA
Cost Accountant Pawan Tiwary & Company L-4/166 Vinay Khand Gomtinagar
LUCKNOW 226010

M/34669
Mr Arokia Prem Victor Pitchaimuthu, BCOM,ACMA
Senior Asst Manager(Accounts) The India Cements Limited B-24, ICL Colony Yerraguntla
KADAPA 516309

M/34670
Mr Yogesh Arora, ACMA
Asst. Finance Controller Jaiprakash Associates Ltd
DANKAUR 203201

M/34671
Mr Amit Kumar Tiwari, ACMA
Accounts Officer Telecommunications Consultants India Ltd TCIL Bhawan Greater Kailash - 1
NEW DELHI 110048

M/34672
Mr Sunil Kumar Patro D, BCOM,ACMA
28, Tellus Avenue 2nd Main Road, Rajakilpakkam
CHENNAI 600073

M/34673
Mr Sandeep Kumar Dhawan, BCOM,ACMA
Costing Officer Sigma Vibracoustic (India) Pvt Ltd A-30, Industrial Area Phase III, Sector - 73
MOHALI 160055

M/34674
Mr Bharat Patel, ACMA
905/4A, Engineering Estate Opp DSP Office Sector - 28
GANDHINAGAR 382028

M/34675
Mr Vipin Kumar, MBA,ACMA
Manager-Fianance & Accounts Moser Baer India Ltd 66, Udyog Vihar
GREATER NOIDA 201306

M/34676
Mr Lakshmi Koteeswaran Pennathur, BCOM,ACMA
Team Lead Thomson Reuters Divyasree Solitaire Madhapur
HYDERABAD 500084

M/34677
Mr Vikram Mittal, MCOM,ACMA
Executive Jindal Stainless Limited 12, Jindal Centre Bhikaji Kama Place
NEW DELHI 110085

M/34678
Mr Sudhir Kumar Jha, BCOM,ACMA
Ravi Sahni & Co. (Cost Accountant) Vill. - Piproliya P. O - Malhi Patti Bahadurpur P. S. - Asohk Paper Mill
DARBHANGA 846001

M/34679
Ms Priya Jain, ACMA
Senior Executive KPMG 4th Floor Reliance Humsafar Building Banjara Hills, Road No.11
HYDERABAD 500034

M/34680
Mr Amit Kumar Aggarwal, BCOM HONS,ACA,ACMA
Indian Oil Corporation Limited House No.154, First Floor Sector -13 Vasundhra
GHAZIABAD 201012

M/34681
Mr Bhargav C, BCOM, ACA,ACMA
SAP FI/CO Consultant Robert Bosch Engineering and Business Solutions Ltd Cyber Park, Plot No. 76/77 Electronic City Phase 1
BANGALORE 560100

M/34682
Ms Priyanka Gautam, BCOM,ACMA
Costing - Executive KP & Associates 2, DDA, Commercial Complex C2C, Pocket - 2 Janak Puri
NEW DELHI 110005

M/34683
Ms Hetal Pallav Bhatt, MCOM,ACMA
Sr. Assistant - Cost Audit & Cost System Kirit Mehta & Co. 3/423 - 424 Ramjharukha 71, S V Road Andheri (W)
MUMBAI 400058

M/34684
Mr Santosh Kashiram More, ACMA
Account and Audit Executive N N Shah & Co 41 Pancharatna C H S Ltd Above National Dairy
BHAYANDAR (EAST) 401105

M/34685
Mr Sandeep Khanderao Ilag, BCOM,ACMA
N-34/S-2/7/0/4 Rane Nagar CIDCO
NASHIK 422009

M/34686
Mr Vinod Thomas Kunnil, ACMA
Kunnil House P.O. Pullikanaku South Mankuzhy, Kayankulam
ALLEPPEY 690537

M/34687
Ms Preeti Shukla, BSC(HONS),ACMA
Assistant Manager-Finance IRCON INTERNATIONAL LIMITED Plot No: C-4, District Centre Saket
NEW DELHI 110017

M/34688
Mr Arun R S, MCOM,ACMA
Accounts Officer Bharat Electronics Ltd Bangalore Complex Jalahalli Post
BANGALORE 560013

M/34689
Mr Dileep Durgaprasad Gutti, BCOM,ACMA
Door No. 6-1-10 Nalamvari Street
MANDAPETA 533308

M/34690
Mr Ramanand Jangir, ACMA
Senior Executive Toyota Material Handling India P. Ltd. 43 Milestone, NH - 8 Delhi-Jaipur Highway
GURGAON 122004

M/34691
Ms Sathya S, MCOM,ACMA
Assistant Manager Bharat Electronics Ltd Bharat Electronics Ltd Bangalore Complex Jalahalli Post
BANGALORE 560013

M/34692
Mr Kundan Kumar Mishra, BSC,ACMA
Senior Manager (Finance) A-62, Jagat Amravati Apartment Belly Road
PATNA 800001

M/34693
Ms Deepika C, MCOM,ACMA
Assistant System Analyst Tata Consultancy Services TCS - Abhilash EPIP - 96 Industrial area Whitefield
BANGALORE 560066

M/34694
Mr Viren Dilip Thakker, ACMA
Sr. Executive Parksons Packaging Ltd 2/B/104, Vijay Apartment Opp : Punit Nagar S V Road, Borivali (W)
MUMBAI 400092

M/34695
Mr Dipesh Madan More, BCOM,ACMA
Junior Manager Costing Parksons Packaging Ltd 502, Chembur Shri Sai Shradha CHS Vatsalatai Naik Nagar, Opp Nehru Nagar ST Depot Pipe Line, Chembur
MUMBAI 400071

M/34696
Mr Aby Thomas, ACMA
Audit Manager Ajeesh&Associates Kizhakkekara Bldg,32/1093 Ganganagar Road South Kalamassery,Cochin
KALAMASSERY 682033

M/34697
Ms Suhasini Gurumurthi, ACMA
Module Lead Wipro Limited 105 Anna Salai Guindy
CHENNAI 600032

M/34698
Mr Arun Kumar Goyal, ACMA
Executive Honda Motorcycle & Scooter India Pvt. Ltd. Plot No.-1 Sector - 3 IMT
MANESAR 122050

M/34699
Mr Rajnish Mishra, BCOM,ACMA
Accounts Officer M P Power Generating Co. Ltd O/o. Sr. Accounts Officer ATPS, MPPGCL Chachai
ANUPPUR 484220

M/34700
Mr Gomathi Nayagam, BCOM,ACMA
Accounts Officer Power Grid Corporation of India Limited SRTS-II, Pragati Mahalakshmi South Block 2nd, 3rd Floor, No.62, 3rd Cross MEI Road, Industrial Suburb, Yeshwanthpur
BANGALORE 560022

M/34701
Ms Indrani Banerjee, ACMA
Finance Manager Act Television No. 1, 2nd Floor Indian Express Building Queen's Road
BANGALORE 560001

M/34702
Ms Kothai Kesavan, BCOM,ACA,ACMA
Asststant Manager Madhucon Granites Limited Beside D. No.135, (V) Addakurukki P.O. Kamandoddi Dist. Krishnagiri
HOSUR 635109

M/34703
Mr Ramanujam Sriram, BSC,ACMA
Chief Manager (Finance) Hindustan Aeronautics Limited Aircraft Research & Design Centre Design Complex Marathalli Post
BANGALORE 560037

M/34704
Mr Bhupal Singh, MCOM,ACMA
Manager - Finance Manpower Group Services India Pvt Ltd Global Business Park Tower - A, 6th Floor M.G. Road
GURGAON 122002

M/34705
Mr Karupakalu Thimmaraj Venkatesh, BCOM,MBA,ACMA
Chief Manager Hindustan Aeronautics Ltd Aircraft Research & Design Centre Design Complex, H.A.L. Marathahalli Post
BANGALORE 560037

M/34706
Mr Ajil Vincent, MCOM,ACMA
Accountant Kerala SIDCO SIDCO Sales Emporium M. G. Road
ERNAKULAM 682011

M/34707
Mr Prashant Nair, BCOM(HONS),ACS,LLB,ACMA
Officer (A/cs) Kribhco Shyam Fertilizers Ltd A-10 Sector - 1 Dist. Gautam Budh Nagar
NOIDA 201301

M/34708
Ms S S Suganthi, ACMA
Manager - Costing Sree Karthik Papers Ltd No.25, 50 Feet Road Krishnaswamy Nagar
COIMBATORE 641045

M/34709
Ms Shanthi Nalina Ranjan, BCOM,ACMA
AGM - Finance Muthoot Finance Limited 2nd Floor, Muthoot Chambers Opp. Saritha Theatre Complex Banerji Road
KOCHI 682018

M/34710
Mr Lakshminaarayanan Subramanian, BCOM,ACMA
S/o. N. Subramanian 112 C1, Christian Colony Arumugam Road Tirumangalam
MADURAI 625706

M/34711
Mr Bh Santosh Kumar, BCOM,ACMA
Audit Manager Krishna & Co Krishna Nagar BCCL Township
DHANBAD 826005

M/34712
Mr Anuj Saini, BCOM,ACMA
Assistant Finance Controller Jaiprakash Associates Limited D -12 Siddharth Nagar Ashram
NEW DELHI 110014

M/34713
Mr Tanoj Ishwardas Advani, ACMA
E-41 Kirti Sagar Tower Jodhur Gam Road Satellite
AHMEDABAD 380015

M/34714
Mr Binaya Ranjan Dash, ACMA
Sr Manager Nelson Global Products India Pvt Ltd Survey NO 74/3&4 Kadiya Village
NAVI DAMAN 396210

M/34715
Ms Krithika N, ACMA
Manager (Management Consultancy Division) P. N. Narayanaswamy & Co. No.2, Ambadi Apartments 3rd Floor, 1st Cross Street East Shenoy Nagar
CHENNAI 600030

M/34716
Mr Ashish Tiwari, ACMA
Jr. Accountant Jd.V.V.N.L P-2, Joshi Colony Barkat Nagar Tonk Phatak
JAIPUR 302015

M/34717
Mr Swameshwar Nagarajan, B.COM,ACMA
Flat 3A, Sakethapuri Apartments New No.89, Old No.84, Manoharan Street T. Nagar
CHENNAI 600017

M/34718
Ms Kavita Kumari, BCOM(HONS),ACMA
Qr. No. D/II, CCSO CCWO Coloney, Steel Gate Saraidhela
DHANBAD 828127

M/34719
Mr Sumod S, MCOM,ACMA
Chirathalakkal Veedu Bhajanamadom Road Peyad - P.O.
TRIVANDRUM 695573

M/34720
Mr Syed Shabbeer Ahmed, BA,MCOM,MPHIL,ACMA
Controller of Accounts V.A.S. Noorullah & Co. H.O. Tannery #30, Udayendiram Dist. Vellore
VANIYAMBADI 635754

M/34721
Ms Arokiamary Ananthi I, BCOM,ACMA
Deputy Manager - Finance Sundram Fasteners Padi
CHENNAI 600050

M/34722
Mr Arun Kumar Singh, ACMA
101/A, Abadh Apartment Chanod Colony GIDC
VAPI 396195

M/34723
Mr Kamlesh Sharma, BCOM,ACMA
701, May Flower, Queens Park Behind Deepak Hospital Mira-Bhayander Road, Mira Road (E)
MUMBAI 401107

M/34724
Mr Piyush Mishra, BSC,ACMA
Brewery Finance Controller SAB Miller India Ltd 111/313, Harsh Nagar
KANPUR 208012

M/34725
Mr Aneesh Chandrasekher Ram Karuvathil, BCOM,ACMA
Senior Manager Manappuram Finance Limited Manappuram House A.O.Valapad
THRISSUR 680567

M/34726
Mr Rakesh Goyal, ACMA
A.G.M. - Finance & Accounts BUDDY RETAIL PRIVATE LIMITED Office No.9, Airlines Offices, Ground Floor Terminal Base -1D, IGI Airport Palam Airport
DELHI 110037

M/34727
Mr Moiyed Munif Mohammedi, ACMA
B/2/403, Ziapark Opp. Sharafi Hall B/h. Apsara Cinema, Pratapnagar
VADODARA 390004

M/34728
Ms Shruti Duggal, BCOM,ACMA
F-57 Lajpat Nagar
NEW DELHI 110024

M/34729
Mr M Senthilnayagam, ACMA
Deputy Manager - Accounts and Cost Bridgestone India Automotive Products Pvt Ltd 136, Vaipur 'B' Block Eraiyur Village, Mathur Post Sri Perumbudur Taluk
ORAGADAM 602105

M/34730
Mr Gnana Prasanna Kumar Uddandam, ACMA
Accounts Officer Hindustan Shipyard Limited Gandhigram
VISAKHAPATNAM 530005

M/34731
Ms Navya Kallam, BCOM,MBA,ACMA
Accounts Officer Progressive Constructions Limited 7th Floor, Raghava North Block Raghava Ratna Towers Chirag Ali Lane
HYDERABAD 500001

M/34732
Mr Rajnish Kumar Jha, ACMA
Sr. Accounts Officer Bharat Heavy Electricals Limited Debtors Management Group, Corporate Finance Room No.208, D wing 2nd Floor BHEL House Siri Fort
NEW DELHI 110049

M/34733
Mr Vikas Negi, ACMA
Sr. Accounts Executive S. Chand Hotels 1-C Sub District Centre Harinagar
DELHI 110064

M/34734
Mr Ramesh Sayinathan, MBA,ACMA
Senior Research Analyst Crisil Global Research and Analytics The Oval Building, No.10 & 12 Venkatnarayana Road T Nagar
CHENNAI 600017

M/34735
Mr Avinash Kumar Premkumar, ACMA
Financial Associate III Hewlett Packard No.400 Nandhavanam Muninanjappa Layout R M Nagar Main Road
BANGALORE 560016

M/34736
Mr Srinath Pazhayadath, BCOM,ACMA
Senior Associate SAIF Chartered Accountants 1106, The Prism, Business Bay Shaikh Zayed Road P.O. Box 34927
DUBAI 34927

M/34737
Mr Priyank Rajendrakumar Vyas, BCOM,ACMA
Executive Costing & Accounts Dharma Extrusions Pvt Ltd 103, Ghanshyam Chambers Lakkad Pitha Road
VADODARA 390001

M/34738
Mr Alpesh Navindra Dholu, BCOM,ACMA
Suraj Lahoti & Associates 3, Govind Niwas, Tulja Park Colony Behind Sahara Hospital Datta Mandir Road, Nashik Road
NASHIK 422101

M/34739
Mr Rajat Chakraborty, MCOM,MPHIL,LLB,ACMA
Associate Professor Commerce Dhruba Chand Halder College P.O. Dakshin Barasat Dist. South 24 Pgs
DAKSHIN BARASAT 743372

M/34740
Mr Jyoti Ranjan Nayak, BCOM,ACMA
Financial Analyst R. R. Donnelley 43A, 1st Main Road R. A. Puram
CHENNAI 600028

M/34741
Ms Neha Gupta, ACMA
Siemens Ltd Flat No. F3 Plot No. 717 Sector - 5, Vaishali
GHAZIABAD 201010

M/34742
Mr Banji R, ACMA
Accountant Avians Consulting # A-103, Aisshwarya Opulence Outer Ring Road Marthahalli Bridge
BANGALORE 560037

M/34743
Mr Srinivas Katta, BBM,ACMA
Manager S & P Capital IQ Information Systems India Pvt Ltd F203 Synergy Enclave Near Vignan School Nizampet Village
HYDERABAD 500090

M/34744
Ms Urvi Keyush Gosrani, MCOM,ACMA
CA Archana Rikesh Parikh E-22, Pranam Chs. Ltd., Chiku wadi, Shimpoli Road, Borivali(w).400092.
MUMBAI 400092

M/34745
Mr Uday Swaroop Yelupula, BCOM,ACMA
Chief Financial Officer PT Anugrah Prima Coalindo PT Anugrah Prima Coalindo 39th Floor, Suite 3902B Menera B C A, Jl. Thamrin Boulevard,
JAKARTA 10310

M/34746
Mr Ganesh Kumar, ACMA
Cost Accountant Ajay Kumar Singh & Associates F-13, Second Floor Street No -1 East Vinod Nagar
DELHI 110091

M/34747
Mr Sanjay Agarwal, BCOM(HONS),ACS,ACMA
G.M.(Commercial) & Company Secretary Nissin ABC Logistics Pvt Ltd 46C, Rafi Ahmed Kidwai Road
KOLKATA 700016

M/34748
Ms Sasikala Gouravaram, BSC,ACMA
Consultant 648, Orange Walk Crescent L5R 0A4
MISSISSAUGA 0

M/34749
Mr Gurvinder Singh Juneja, ACMA
Assistant Manager Reliance General InsuranceCo. Ltd Plot No.60 Okhla Industrial Estate Phase - III
NEW DELHI 110020

M/34750
Mr Balaji S, BCOM,ACA,ACMA
Senior Analyst Ford Business Services Centre Private Limited RMZ Millenia -1B 143, Dr. M.G.R. Road Perungudi
CHENNAI 600096

M/34751
Mr Jayendra Prabhulal Thakker, ACMA
MIS & Accounts Officer Noble Natural Resources India Private Limited Survey No.302/2, 303 Opp. Rama Cylinder Bhimasar
ANJAR 370240

M/34752
Mr Lingegowda Lingaraju, BBA,ACMA
Assistant General Manager Bangalore Electricity Supply Company Limited Administration Section Corporate Office K. R. Circle
BANGALORE 560001

M/34753
Mr Lijish Mathew, ACMA
Accounts Manager M/s. Wilhelmsen Ships Service 24th Floor, Executive Heights Tecom C Post Box No.8612
DUBAI 0

M/34754
Mr Saurabh Kumar, BCOM(HONS),ACMA
Asst Finance Controller Jaiprakash Associates Ltd "JA Annexe" Sec -134 Wazidpur
NOIDA 201304

M/34755
Mr T Shiva Teja, BCOM,ACMA
Partner Rao & Shyam Chartered Accountants 5/9/2013 313, Taramandal Complex Saifabad
HYDERABAD 500004

M/34756
Mr Pramod Bhandari, ACS,MBA,ACMA
AGM - Finance Reliance Fresh Ltd. W101, Building 3A, 2nd Floor Reliance Corporate Park (RCP) Thane Belapur Road, Ghansoli
NAVI MUMBAI 400701

M/34757
Mr Ankit Agarwal, ACMA
Finance Superintendent ITC Limited Plot No.1, Sec - 11 Integrated Industrial Estate Sidcul
HARIDWAR 249403

M/34758
Mr Sumit Mohan, ACMA
Finance Executive ITC Limited Plot No.1, Sector - 11 Integrated Industrial Estate Sidcul
HARIDWAR 249403

M/34759
Ms Sunita Maurya, ACMA
India Yamaha Motor Pvt Ltd 148 FF, DDA Flats Lado Sarai
NEW DELHI 110030

M/34760
Ms Priyanka Pandey, ACMA
Luminous Power Technologies Pvt Ltd B -288, Street No.-28 Mahavir Enclave Part -2
DELHI 110059

M/34761
Mr Ramesh Chandra Thakur, BSC(HONS),ACMA
Resident Manager - Accounts Jaiprakash Associates Limited J A Annexe Sector - 134 Near Wazidpur Village
NOIDA 201304

M/34762
Ms Padmashree Thiruppukuzhi, B.Sc.,ACMA
34746 Siward Drive
FREMONT 94555

M/34763
Ms Vani Ahuja, ACMA
Analyst Intercontinental Hotels Group 11th Floor, Cyber City, Tower C,
GURGAON 122002

M/34764
Mr Venkata Satya Lakshmi Narsa Varmaraju Penmetsa, ACMA
Manager- Finance & Accounts Bhatia Brothers FZE P.O. Box - 1275 Jabel Ali
DUBAI 1275

M/34765
Ms Rashmi S Aithal, BCOM,MBA,ACMA
Senior Financial Analyst Oracle India Pvt Ltd commerce @ mantri Level 6, # 12/1 & 2, N S Palya Bannerghatta Road
BANGALORE 560076

M/34766
Mr Pankaj Chandrakant Chavan, MCOM,ACMA
At & PO - Dharmpuri Tal - Malshiras
SOLAPUR 413109

M/34767
Mr Rishikesh Kumar Sinha, ACMA
Finance Superintendent ITC Limited ITC Limited Sardar Patel Marg
SAHARANPUR 247001

M/34768
Ms Esha Mayank Kharwar, BCOM, LLB,ACMA
Krishna Kunj Bunglow B/s Ichchhanath Temple Opp. SVNIT College, Dumas Road
SURAT 395007

M/34769
Mr Mohammad Quadeer Raza, BCOM,ACMA
Auditor Krishna & Co Krishna Nagar BCCL Township
DHANBAD 826005

M/34770
Mr Suraj Sridhar, MCOM,ACMA
Asststant Manager IBM Daksh Business Process Services Pvt Ltd WS # 113, 7th Floor, D 4 Block Manyata Embassy Business Park Rachenhalli Village, Nagawara
BANGALORE 560045

M/34771
Ms Priyam Varshney, MCOM,ACMA
Cost Accountant Mayank Auto Engineers Pvt. Ltd 2D/1, Udyog Kendra Ecotech - III Greater Noida
GAUTAM BUDDHA NAGAR 201306

M/34772
Mr Venkatesh Kumar Subbiah, ACMA
Chief Financial Officer M/s.Aparajitha Corporate Services Ltd No.10,Venkatraman Road Kamala II Street
MADURAI 625002

M/34773
Mr Sanjay Pratap Kushwaha, ACMA
Accounts Officer Panki Thermal Power Station, Uttar Pradesh Rajya Utpadan Nigam Ltd. Type IV, Q. No. 77, Officers Colony Panki Thermal Power Station Panki
KANPUR 208020

M/34774
Mr Ciji V Abraham, BCOM,ACMA
Finance Manager Vandalay Business Solutions (P) Ltd 2nd Floor, Kasim Towers Sebastian Road Kaloor
COCHIN 682017

M/34775
Mr Vinayak Shankar Paralkar, ACMA
Accounts Executive Global Power Source India Pvt Ltd C-10, Satyam Shopping Centre Ghatkopar (East)
MUMBAI 400077

M/34776
Mr Prasad H, BCOM,ACMA
Business Analyst Nokia Siemens Networks Private Limited Plot No:OZ-8, SIPCOT Industrial Growth Centre Panrutti Village Oragadam
KANCHEEPURAM 602105

M/34777
Mr Deepak Kumar, ACMA
Sr. Associate Tata Steel Limited Bistupur Jamshedpur Works
JAMSHEDPUR 831001

M/34778
Ms Indermeet Kaur, ACMA
Scooters India Limited 372, Aradhana Ekta Vihar, Udhyan I Eldeco Colony, Bangla Bazar
LUCKNOW 226002

M/34779
Ms Amrita Khator, ACMA
M/s. Indication Instruments Ltd H. No.320/5 Bhudutt Colony Dist. Faridabad
BALLABGARH 121004

M/34780
Mr Kaushal Jayprakash Hardasani, BCOM,ACMA
Accounts Officer Baubhai Naginchand Kapadia Road No.5 Udhna Uhdyognagar
SURAT 394210

M/34781
Mr Kalipada Mandal, BCOM(HONS),ACMA
Assistant Manager (Finance) Damodar Valley Corporation DVC Towers V.I.P. Road
KOLKATA 700054

M/34782
Mr Tanuj Sharma, ACMA
Finance Superintendent ITC Limited No.18, Banaswadi Main Road Maruthiseva Nagar
BANGALORE 560005

M/34783
Mr Yoonus Ambalavan Vettikkatt, ACMA
Executive (Finance) Kerala Electrical & Allied Engineering Co. Ltd 7th Floor, KSHB Office Complex Panampilly Nagar Kochi
ERNAKULAM 682036

M/34784
Ms Praveen Kumari, BCOM,ACMA
B-417, Ashok Nagar, St - 2 Near Hanuman Mandir Road Shahdara
DELHI 110093

M/34785
Mr Phiroze Jal Kotwal, BCOM,ACMA
Director Dubash Holdings Private Limited Ador House, 3rd Floor 6, K. Dubash Marg
MUMBAI 400001

M/34786
Mr Komallapalli Vinod Kumar, BCOM,ACMA
ICWA Trainee Yazaki India Limited Plot Nos.314(P) - 319(P) Bommasandra - Jigani Link Road Industrial Area, Jigani - Post
BANGALORE SOUTH 560105

M/34787
Mr Mallikarjuna Kopalli, ACMA
Executive (Accounts) Ramsoft Services Chalamaiah Gari Palli Kalakada Post & Md
CHITTOOR 517236

M/34788
Mr Mohammad Sarfraz, BCOM,ACMA
Kabba Trading Pvt Ltd Corporation Road Near Giri Market Opp. Biju Pattnaik Park
BERHAMPUR 760001

M/34789
Mr Ramesh Ponraj, MCOM, MBA, ACMA
Deputy Manager (Accounts) MRF Limited Naranamangalam Village & Post Kunnam Taluka
PERAMBALUR 621109

M/34790
Ms Smitha S Nair, ACMA
Manager (Finance & Accounts) BSES Kerala Power Limited P.O. Udyogamandal
KOCHI 683501

M/34791
Mr Jeyamon M R, MCOM,ACMA
Marian College Mookkanattu (H) Puliyannoor P.O.
PALA 686573

M/34792
Mr Rajesh Ramaiah Raju, BBM,ACMA
Senior Executive Saud Bhawan Group P. O. 3168 RuwI
MUSCAT 112

M/34793
Ms Amurthavalli Ravikumar, BCOM, FCA, ACMA
Head - Finance Spinco Tech Private Limited Plot No.35, Door Ni.27, Padmavathy Avenue Thirumalai Nagar Annexe Perungudi
CHENNAI 600096

M/34794
Mr Jagdish Panchal, BCOM,ACMA
Chief Manager Central Bank of India 14th Floor, Credit Department West - I, Chandermukhi Nariman Point
MUMBAI 400021

M/34795
Ms Ramya R, BCOM,ACMA
1/133, Vallaithottam Mathampalayam Billichi Post
COIMBATORE 641019

M/34796
Mr Satyanarayana Nandam, ACMA
Team Lead Accenture Services Pvt Ltd. Waverock building, APIIC (IT/ITES SEZ) Nanankramguda Village Survey No.115(Part 1)
HYDERABAD 500081

M/34797
Ms Bhuvaneshwari Satish, BCOM,ACA,ACMA
Emirates Airlines Sri Sai Nivas, Plot No 16 Sivasakthi Nagar Madhavaram
CHENNAI 600060

M/34798
Mr Amar Kumar Rana, ACMA
Accounts & Costing Manager Lions Detective & Security Pvt.Ltd. 33 B, M. B.Road, Saidulajab (Near Saket Metro Station) Saket
NEW DELHI 110030

M/34799
Mr Mohammed Imran Ag Basha, MCOM,LLB,ACMA
Branch Manager State Bank of India Hathkalangda Branch Hatkanangle
KOLHAPUR 416109

M/34800
Mr Vinod Rai, MCOM,ACMA
Sr. Manager Finance JSW Ispat Steel Limited "Geetapuram" Taluka - Pen
RAIGAD 402107

M/34801
Mr Amith Kumar B Jain, MBA,ACMA
Senior Manager BA Continuum India Pvt Ltd Flat 405, Sukh Sagar Apartments Near Petrol Pump, Hyderguda Basheerbagh
HYDERABAD 500029

M/34802
Mr Vishal T George, MBA,BTECH,ACMA
Assistant Manager The South Indian Bank Limited Integrated Risk Management Department Regd. Office, Sib House Mission Quarters
TRICHUR 680001

M/34803
Mr Geet Gaurav, BCOM(HONS), ACMA
S/o. Mr. Satish Kumar Sinha Qtr. No.B-5/1 Singhbhum (West)
MEGHAHATUBURU 833223

M/34804
Mr Deena Dayalan, BCOM,ACMA
Senior Accountant Santana Beach Resort Quinta Costa Frias Complex Dando Beach
CANDOLIM 403515

M/34805
Mr Naveen Aggarwal, BCOM,ACMA
Manager (Costing) Jaiprakash Associates Ltd Block - G Sector 128
NOIDA 201304

M/34806
Mr Ashok Kumar Mallick, BCOM(HONS),ACMA
Manager (Finance & Accounts) Dharampal Satyapal Limited Shed No. 14, Khatian No.4325 Industrial Estate Arundhuti Nagar
AGARTALA 799003

M/34807
Mr Nikhil Vidyadhar Shrotri, MCOM,MA(ECO),ACMA
Cost Analyst Emerson Export Engineering Centre Emerson Tower, Matrix Complex Near College of Engineering Pune Shivaji Nagar, Old Mumbai-Pune Highway
PUNE 411005

M/34808
Mr Kumaresan Karuppasamy, BCOM,ACMA
Accounts Officer Bharat Electronics Limited Jalahalli
BANGALORE 560013

M/34809
Mr Harshad Shrikant Manjrekar, MCOM,ACMA
T C S Limited B -701, Acme Amrut Chs Opp. Narendra Complex, Near Dharkhadi Vaishali Nager Dahisar (East)
MUMBAI 400068

M/34810
Ms Prachi Khare, BCOM,ACMA
Assistant Manager Western Coalfield Limited W C L (Hq) Finance Department, 2nd Floor Coal Estate Civil Lines
NAGPUR 440001

M/34811
Mr Biswanath Sahu, ACMA
Accounts Manager M/s Moharana Trader & Suppliers Danagadi Jajpur Road
JAJPUR 755026

M/34812
Mr Jitendra Gaur, ACMA
Deputy Manager Lanco Infratech Limited E P C Division, Plot No. 404 - 405 Udyog Vihar, Phase III
GURGAON 122016

M/34813
Mr Ankit Murlidhar Bajoria, ACMA
Rangoli Industries Pvt Ltd 27, Shakti Nagar Society Puna Kumbharia Road Near Model Town Parvat Patiya
SURAT 395010

M/34814
Mr Godfrey Edwin Dsouza, LLB,ACMA
Manager - Audit RSM Albazie & Co. Kuwait Airways Building 6th Floor, Shuhada Street P. O. Box 2115 Safat
KUWAIT 13022

M/34815
Mr Karun Kumar Vemuluri, BCOM,ACMA
Deputy Manager - Accounts L.& T. Urban Infrastructure Ltd No.38, Anusha Gardens Phase 12, Madanandapuram Near Swamy School Porur
CHENNAI 600116

M/34816
Mr Sudhakar Reddy Tappeta, BSC,ACMA
Assistant Manager Capital IQ Information Sysytems (India) Pvt. Ltd. Flat No.104 Gayatri Hills Madhavaram Nagar Colony Vivekananda Nagar Kukatpally
HYDERABAD 500072

M/34817
Mr Arvinder Singh, BCOM,ACMA
Plot No 2, Mahakaal Appartment Saraswati Vihar Trimurti Nagar
NAGPUR 440022

M/34818
Ms Maria Faraz, ACMA
Pawan Tiwari and Co. 230/14 Begum Ganj Raja Bazar
LUCKNOW 226003

M/34819
Mr Rakesh Singh Mehta, BCOM,ACMA
Tax Compliance Specialist Agilent Technologies (International) Private Limited Plot No. C P -11, Sector -8 I M T Manesar
GURGAON 122051

M/34820
Mr Harshil Hemantkumar Shah, MCOM,ACMA
74/877, Mangalmurti Apartment Near Telephone Exchange Naranpura
AHMEDABAD 380013

M/34821
Ms Natarajan Ambikadevi, BCOM,ACMA
Cost Accountant V K S M Cotton Mills Ltd 2/2, Pappampatti Main Road Nadupalayam Peedampalli (Post)
COIMBATORE 641016

M/34822
Ms Kavita Bisht, BCOM,ACMA
Administrator K P M G Building No.10 8th Floor Tower - B D L F Cyber City, Phase - I I
GURGAON 122002

M/34823
Mr Rajendra Kumar Chhinkwani, BCOM,ACMA
Proprietor 208, S. P. Mukherjee Road Flat 3 B, 3rd Floor
KOLKATA 700026

M/34824
Ms Dhivya Chandrasekaran, BCOM,ACMA
G1, Sri Sastha Plot No. 20, 1st Main Road Sabari Nagar Porur
CHENNAI 600116

M/34825
Mr Nandan Chandru, MCOM,ACMA
Executive Finance Cognizant Technology Solutions New No.165, Old No.110 "Menon Eternity" 6th Floor, St. Mary's Road Alwarpet, Near Rain Tree Hotel
CHENNAI 600018

M/34826
Mr Surendra Prakash Gupta, BCOM,ACMA
Proprietor 79, Shopping Centre
KOTA 324007

M/34827
Mr D Hemanth Kumar, BA,ACMA
Officer - Credit Administration Al Sanad International Trad & Cont. Co. Post Box No.1180 Postal Code 130 Al Azaiba
MUSCAT 130

M/34828
Mr Prashant Panchal Natverlal Panchal, BSC,ACMA
Cost Accountant Vedant Dyestuff Intermediates Pvt. Ltd.V 28/29, Taloja Ind Area, Midc Chemical Zone, Panvel, Dist: Raigad
PANVEL 410208

M/34829
Mr Sanjeev Kumar, BCOM,ACMA
Officer (F & A)) India Government Mint (Kolkata) India Government Mint Alipore
KOLKATA 700053

M/34830
Mr Malla Reddy B, BCOM,ACMA
House No 1-8-506/40 Sai Ashray Prakasham Nagar Begumpet
HYDERABAD 500016

M/34831
Mr Chain Prakash Kabra, BCOM,ACMA
Sr. Officer - Finance Western Coalfields Ltd Office Of The Sub Area Manager Padmapur Open Cast Sub Area Post Office - Urja Nagar
CHANDRAPUR 442404

M/34832
Mr Himanshu Sekhar Nayak, MA,LLB,ACMA
Central Electricity Supply Utility Of Odisha 2nd Floor I D C O Towers Janpath Bhubaneswar
BHUBANESWAR 751022

M/34833
Mr Surendran V, BCOM,ACMA
New No.125/127 Rangarajapuram Main Road K P M's Classic Apartment Flat No.5, Kodambakkam
CHENNAI 600024

M/34834
Mr Achuta G V Koteswara Rao, BCOM,ACMA
6 A/2, Supriya Flats Antony Street Madipakkam Near Ponniamman Koil Bus Stop
CHENNAI 600091

M/34835
Ms Hemalatha Jayagopalan, MCOM,ACMA
Assistant Professor M O P Vaishnav College For Women (Autonomous) 20, IV Lane Nungambakkam High Road
CHENNAI 600034

M/34836
Mr Deepak Kumar, BCOM,ACMA
Manga Kuan (Pain Par) Bari Pahari Biharsharif P. O. Sohsarai
NALANDA 803118

M/34837
Ms Kalpna , BCOM,ACMA
Accountant Raymus Worldwide Plot No.456 Udyog Vihar Phase - I I I
GURGAON 122016

M/34838
Mr Souvik Poddar, BCOM HONS,FCA,ACMA
Partner Poddar & Poddar 99/4 D Karaya Road
KOLKATA 700019

M/34839
Ms Neha Jain, BCOM HONS,ACMA
Project Assocaite Icwai - Marf 3, Institutional Area Lodhi Road
NEW DELHI 110003

M/34840
Mr Vidyasagar Erugu, BCOM,ACMA
Door. No.7-40/1, 1st Floor Beside Apspdcl Counter V T P S Road
IBRAHIMPATNAM 521456

M/34841
Mr Sanjeev Makker, BCOM HONS,MBA,ACMA
500 Frank W Burr Blvd. Cognizant Technology Solutions Suite 50
TEANECK 7666

M/34842
Mr Rajesh Kumar Ghorai, MCOM,CMA USA,ACMA
Finance & Cost Controller Primus Tech Systems Pvt Ltds 4, Jijai Plaza S. No.54/4 New Mahatma Society
PUNE 411038

M/34843
Ms Smita Anand Chapekar, MCOM,ACMA
7, Jayanand Yogakshema Society 584, Salisbury Park
PUNE 411037

M/34844
Ms Pooja Karwal, BCOM,ACMA
Senior Officer - Finance South Eastern Coalfields Ltd Finance Department 2nd Floor Office Of The Cheif General Manager
KORBA 495452

M/34845
Mr Patanjali Chattopadhayaya, BCOM,ACMA
Sr. Manager (E) South Eastern Coal Fields C/105, Jawahar Nagar Kusmunda
KORBA 495454

M/34846
Ms Swathi S, BCOM,ACMA
Executive Motherson Sumi Systems Limited No. 31- B Industrial Area, Phase 1 Kumbalgodu Bangalore - Mysore Road
BANGALORE 560074

M/34847
Mr Md Majid Kamal, BCOM HONS,ACMA
Accountant A. J. S. & Associates (Cost Accountants) 55 B, S. P. Mukherjee Road
KOLKATA 700026

M/34848
Ms Sangeeta Poddar, BCOM HONS,ACMA
C E - 189 Salt Lake City Sector - I Near Telephone Exchange
KOLKATA 700064

M/34849
Mr Sivananda Gayatri, BCOM,LLB,ACMA
Assistant Manager Costing 323, 1st D Cross, 3rd Block Hrbr Layout, Kalyan Nagar Bangalore
BANGALORE 560084

M/34850
Mr Sandhya Chaurasia, MCOM,ACMA
768, Awas Vikas Model Colony Opp. Prem Nagar Aashram Ranipur
HARIDWAR 249408

M/34851
Ms Shruti Malhotra, BCOM,ACMA
Accounts Executive Wipro Enterprises Limited Plot No.99 -104 Sector - 6 A I I E, Sidcul
HARIDWAR 249403

M/34852
Mr Ketan Arun Gadgil, MCOM,ACMA
Executive Epcos India Private Limited E-22/25, Midc Satpur Nasik
NASHIK 422007

M/34853
Mr Ramesh Chandra, BCOM HONS,ACMA
Manager (F& A) SAIL, Bokaro Steel Plant Ispat Bhawan Main Administrative Building Finance & Accounts Department, Sales & Excise Section Bokaro Steel Plant
BOKARO STEEL CITY 827001

M/34854
Mr Jitin Khanna, BCOM HONS,ACMA
Assistant Manager Jubliant Foodworks Ltd. B -214, Phase 2
NOIDA 201305

M/34855
Mr Jitender Singh Negi, BCOM,ACMA
Block 7/111 Lodi Colony
DELHI 110003

M/34856
Mr Simmiben Ashishkumar Patel, MCOM,ACMA
Senior Officer Finance Gujarat Power Corporation Ltd. Block No 8, Sixth Floor Sector - 11, Udhyog Bhavan
GANDHINAGAR 382011

M/34857
Ms Nilam Mohan Tanawade, MCOM,ACMA
Senior Analyst Accenture 506, Navrtna Ap. Build No 1 Prabhat Colony, Opp. Bhoomi Tower Near Santacruz Station East
MUMBAI 400055

M/34858
Mr Abhay Gupta, BCOM HONS,PHD,ACMA
Deputy Manager Axis Bank 5th Floor Ashoka Estate 24 Barakhamba Road Connaught Place
DELHI 110001

M/34859
Mr Randeep Sharma, MCOM,MBA,ACMA
Vpo HaluwaS Dist BhiwanI
BHIWANI 127021

M/34860
Mr Eti Chaudhary, MCOM,ACMA
Cost Auditor Sanjay & Co. 248 Ganga Plaza Begum Bridge Road Meerut
MEERUT 250001

M/34861
Ms Vaishali Sharma, BCOM,ACMA
221 Sector - 4 R. K. Puram
NEW DELHI 110022

M/34862
Mr Duraisamy Prabakaran, MCOM,ACMA
Proprietor D.prabakaran 247 Brough Road
ERODE 638001

M/34863
Ms Komal Mehra, BCOM,ACMA
State Accounts Manager Delhi State Health Mission "A" & "B" Wing, 6th Floor Vikas Bhawan -I I Civil Lines
NEW DELHI 110054

M/34864
Mr Alagesan Chithravel, BSC,ACMA
Manager - Costing Shasun Pharmaceuticals Limited Unit I I, R S No.32, 33 & 34 P I M S Road Periyakalapet
PUDUCHERRY 605014

M/34865
Mr Jyotirindra Das, MCOM,ACMA
Cost Trainee S. P. Bhattacharyya & Co. A - 202, K.V. Vasundhara V I P Road
KOLKATA 700052

M/34866
Ms Soofia Ismael, BCOM,ACMA
Accountant Gr. II K S D C For S C/S T Ltd Head Office
Town Hall Road
THRISSUR 680020

M/34867
Mr Kumar J C, BCOM,ACMA
Sr. Accounts Executive T E S Electronic Solutions (India) Pvt Ltd # 65, 35th Main 100 Feet Ring Road B T M Layout 2nd Stage
BANGALORE 560068

M/34868
Mr Mayank Jain, BCOM,ACMA
Senior Executive Mercurius Advisory Services Pvt Ltd
C-7/227 Sectot - 7 Rohini
NEW DELHI 110085

M/34869
Mr Ram Gopal Agarwala, MCOM,LLB,ACMA
Director Pioneer Packaging Industries Pvt Ltd 55, Kali Temple Road
KOLKATA 700026

M/34870
Ms Kyravadi Naga Keerthi, BCOM,ACMA
#18/26, Gandhi Nagar Kappagal Road Chakrapani Compound
BELLARY 583101

M/34871
Mr Madhav Krishna K, BCOM,MBA,ACMA
Sr. Executive (Internal Audit) Life Style International Pvt. Ltd 3rd Floor, Delta Tower Sigma Tech Park No.7, White Field Main Road
BANGALORE 560066

M/34872
Mr Rahul Sharma, MCOM,ACMA
Sr. Executive Experion Developers Pvt Ltd First India Place 1st Floor, Block - B Sushant Lok - 1 M. G. Road
GURGAON 122002

M/34873
Mr Prachi Dhananjay Kavishwar, MCOM,ACMA
Head Accountant I S T E C Consultants Pvt Ltd 103, Esha Chambers Near Kamath Hospital A D Camp Chowk
PUNE 411042

M/34874
Ms Priyanka Garg, BCOM HONS,ACMA
1/2425 Ram Nagar Shahadara
DELHI 110032

M/34875
Mr Behara Sai Chaitanya, BCOM,ACMA
Manager - Internal Audit Dr.Reddys Ltd 8-2-337 Near To Tv9 Office Banjara Hills Hyderabad
HYDERABAD 500034

M/34876
Mr Mangesh Narayan Anbhavane, MCOM,ACMA
1/1, M.N. Patel Chawl, Ganesh Chowk, Kajupada, Borivali (East),
MUMBAI 400066

M/34877
Mr Sanjay Kumar Sinha, BCOM HONS,ACMA
Sr. Manager Costing Zamil Airconditioners India Pvt. Ltd. First Floor, H-9/B-1, Mohan Cooperative Ind. Estate Mathura Road,
NEW DELHI 110044

M/34878
Mr Sanjeev Kumar Mangal, BCOM,ACA,ACMA
Accounts Officer M/s. B H E L Poplani
BHOPAL 462021

M/34879
Mr Dinesh Hariharan, BCOM,ACA,ACMA
Manager - Finance Polaris Finance Technology Ltd 244, Polaris House Anna Salai
CHENNAI 600006

M/34880
Mr Nirupam Naudiyal, BCOM HONS,ACMA
House No.1045 Laxmibai Nagar
NEW DELHI 110023

M/34881
Mr Dipa Pradeep Savant, MCOM,ACMA
Senior Executive Biocon Ltd 20th K M Hosur Main Road Electronic City Post
BANGALORE 560100

M/34882
Mr M Sethu Ramalingam, BCOM,ACMA
Executive - Finance Madura Coats Private Limited 7th Floor Jupiter Block Prestige Technology Park Kadbeesanahalli
BANGALORE 560103

M/34883
Mr Sankut Deep Kumar, BCOM HONS,ACMA
H. No.- 205 A Ambedkar Colony Bijwasan
NEW DELHI 110061

M/34884
Ms Sweta , BCOM HONS,ACMA
K - 1 /114 Chittaranjan Park
NEW DELHI 110019

M/34885
Ms Shubhashree Srinivasan, BCOM HONS,ACA,ACMA
Accounts Manager Flat 32 Burj Omran Building 478 Road 3616 Block 336 Adliya
MANAMA 0

M/34886
Mr Janmejaya Kar, BCOM HONS,ACMA
C/o. Rama Chandra Kar At - Kunjabiharipur P. O. Kumbharia
JAJPUR 756122

M/34887
Mr Rajesh Kumar Gupta, BCOM HONS,ACMA
Wz-51 Street No. 3 Ram Chowk, Sadh Nagar Palam Colony
NEW DELHI 110045

M/34888
Mr Parth Hareshkumar Yagnik, BCOM,ACMA
Executive Cadila Phgarmaceuticals Ltd Cadila Corporate Campus Sarkhej - Dholka Road Bhat
AHMEDABAD 382210

M/34889
Mr Rajaram Ramanan, BCOM,ACS,ACMA
Manager S R B C & Associates, L L P 6th & 7th Floor, A - Block Tidel Park Module 601, 701 & 702 No. 4, Rajiv Gandhi Salai, Taramani
CHENNAI 600113

M/34890
Mr Ram Kumar P, BCOM,ACA,Cost Accountant cum,ACMA
Executive - Finance Cognizant Technology Solutions India Pvt Ltd New No.165, Old No.110 Menon Eternity Building St. Mary's Road Alwarpet
CHENNAI 600018

M/34891
Mr Palash Gangopadhyay, MCOM,ACMA
D1/20, Bankim Chandra Avenue B - Zone
DURGAPUR 713205

M/34892
Mr Ritu Gupta, BCOM,ACMA
Booth No. 87, Sector 16-A Huda Market Near Post Office
FARIDABAD 121002

M/34893
Mr Vidya Rajesh Shetkar, MCOM,ACMA
Finance Consultant Avanti Infra Advisory LlP Room No.101, Kurumedeo Bld Maitry Park,Yashodhan Nagar Thane - w
THANE (WEST) 400606

M/34894
Mr Vivek R, MCOM,ACMA
Upasana Kumarapuram Village Ambikapuram Post
PALAKKAD 678011

M/34895
Mr Umesh Ganapati Daddimani, BCOM,ACMA
"Laxmi Nivas , H.no - 6513 Sector-8 , Double Road Anjaneya NagaR
BELGAUM 590016

M/34896
Mr Sarweshwar Biyani, MCOM,ACA,ACMA
Finance Manager Jawad Sultan Technologies L L C Po Box 510 Jibroo
MUSCAT 114

M/34897
Mr Lokesh Kumar Ahuja, BCOM,ACMA
Accountant Mynd Solution Pvt LtD 280, Phase - IV Udyog Vihar
GURGAON 122001

M/34898
Mr Narasimhan Raghunathan, BCOM,ACA,ACS,ACMA
Senior Manager - Finance Zf Wind Power Coimbatore Limited Plot No3 Suzlon-sez Karumathampatty Annur Road
COIMBATORE 641659

M/34899
Mr Sridhar Sundararaman, BCOM,ACA,ACMA
Manager - Costing Madura Coats Private Limited S-3, Canopy Castle -2 28th Main Road, 4th Cross, Btm Layout 2nd Stage,
BANGALORE SOUTH 560076

M/34900
Mr Laxman Singh Kaira, MCOM,ACS,ACMA
Assistant Manager - Company Affairs Siti Cable Network Limited B - 10, Lawrence Road, Industrial Area,
NEW DELHI 110059

M/34901
Mr Ruby Saini, BCOM HONS,ACMA
E-16 Laxmi ParK Nangloi
NEW DELHI 110041

M/34902
Mr Nisinkumar Warrier, MCOM,ACMA
Muriyamangalath Warriam Muriyamangalam Mamala P. O., Ernakulam District
THIRUVANKULAM 682305

M/34903
Mr Dilip Kumar Sarkar, BA HONS,ACMA
Asst. General Manager (Credit) State Bank Of India Corporate Accounts Group - Central Corporate Centre, Floor - 3 Madan Cama Road Nariman Point
MUMBAI 400021

M/34904
Mr Pankaj Venkatrao Deshpande, BCOM,ACMA
Proprietor Sai Consultancy Services G - 9 Gokhale Park Ashok Stambh
NASHIK 422001

M/34905
Mr Gagandeep Gupta, BCOM,ACMA
Cost Accountant Khurana & Co Kothi No.362 Phase - 7 Sas Nagar
MOHALI 160062

M/34906
Mr Sesikanth Naga Venkata Gudapati, BCOM,ACMA
Junior Manager (F & A) Rashtriya Ispat Nigam Ltd I I - Floor S. C. O. No.141-142 Madhya Marg Sector - 8/C
CHANDIGARH 160018

M/34907
Mr Om Prakash Singh, BCOM HONS,ACMA
Associate Manger - FinancE Kirloskar Brothers Ltd.Yamuna, Survey No. 98/3 To 7, Baner,
PUNE 411045

M/34908
Mr Sravanarajesh Kondaveeti, BCOM,ACMA
Exucutive (F & A) I R C T C, Railneer Plant 2675/2 Chengalpattu (Taluk) Kanchipuram (Dist)
PALUR 603101

M/34909
Mr Praveen Malik, MCOM,ACMA
Head Compliance C I M B Secutities (India) Private Ltd 1203, "The Capital" Bandra-krula Complex Bandra - East
MUMBAI 400051

M/34910
Mr Vaibhav Vasant Soman, MCOM,ACMA
Lead Consultant Finance Zensar Technologies Limited Kharadi Off Nagar Road
PUNE 411014

M/34911
Mr Ankit Agrawal, MCOM,ACA,ACMA
Sr. Officer LpgcL B 10 Sector 3 Rajniganda Chauk Bajaj Bhawan Noida
GAUTAM BUDDHA NAGAR 201301

M/34912
Mr Raman Batra, BCOM,ACMA
Zee Laboratory Ltd Uchani Gt Road Karnal Near Sagar Ratna
KARNAL 132001

M/34913
Mr Pradeep Kinattukara Parambil House Pushpangadan, BCOM,ACMA
Cost Accountant Profiles Rh Factory LlC Profile Rh Factory LlC Street No - 8 Industrial Area -15 P.O, Box - 656
SHARJAH 656

M/34914
Mr Arpit Mudgal, BCOM,ACA,ACMA
Partner Manoj Prakash Associates G - 404, Ganpati Dham Near Kamayani Hospital Sikandra
AGRA 282007

M/34915
Mr Amitkumar Ramjibhai Patel, BE,ACMA
Sanskar Nagar Society Old Laxmipura Nr. Govt. Primary School
PALANPUR 385001

M/34916
Mr Dharmappu Srinibas Rao Achary, BCOM,ACMA
Sr. Audit Assistant Prashanta & Co. H/o. Bisu Jena At - Sankarpur Nua Sahi Po - Arunodaya Market
CUTTACK 753012

M/34917
Mr Krishnaprasad Balasubramanian, BCOM,ACA,ACMA
Manager - Consulting Cognizant Technology Solutions Plot No. A15, 16,17 (Part) B-20, C-10, C-1 & D-2 National Highways - 45 Tambaram G S T Road
CHENNAI 600045

M/34918
Mr Debmalya Chakraborty, MCOM,ACMA
Cost Trainee Bhattacharyya & Co. A - 202, K V Vasundhara V I P Road
KOLKATA 700052

M/34919
Mr Soubhagya Ranjan Das, ACMA
Sr. Executive Accountant Avian Overseas Pvt. Ltd I R C House, 1, Sunyat Sen Street
KOLKATA 700012

M/34920
Mr Sayuri Ajeet Gandhi, BCOM,ACMA
Plot No. 336/337 N - 1, C I D C O Sector - E
AURANGABAD 431003

M/34921
Mr Barkha Anil Jadwani, BCOM,ACMA
V P - Credit Operation H S B C V N Road
MUMBAI 400023

M/34922
Mr Saquib Khan, BCOM,ACMA
Trainee (Cost & Management) M G & Associates Panjabi Para Chitra Po - R N Road Dist - Burdwan
ASANSOL 713325

M/34923
Mr Srinivas Nimmagadda, BCOM,ACA,ACMA
Dy. Manager (Finance) Coromandel International Ltd Post Box No. 1116 Sriharipuram Malkapuram Post Office
VISAKHAPATNAM 530011

M/34924
Mr Jyoti Prakash Parida, ACMA
At - Chhandamund Po - Jari, Via - Singhpur Dist - Jajpur
JAJPUR 755016

M/34925
Mr Rakesh Singh Rathore, MCOM,ACMA
19,new Colony , Satya Nagar Jhotwara
JAIPUR 302012

M/34926
Mr Jayasree Paul, BCOM HONS,ACMA
Accountant Sulab Security Services Chakraborty Lane (Near K P School) Budha
ASANSOL 713301

M/34927
Mr Nisha Vats, BCOM,ACMA
F-100, Laxmi Park, Nangloi
DELHI 110041

M/34928
Mr Suman Rej, BCOM HONS,ACMA
Sr. Accountant Parle Biscuits Pvt. Ltd C/o. H M Biscuits Industries 35/5, Canal West Road
KOLKATA 700004

M/34929
Mr Bijaya Kumar Rana, BCOM,ACMA
Accounts Officer Nava Infratech Pvt. Ltd Plot No. M/9 Samant Vihar
BHUBANESWAR 751017

M/34930
Mr P Sandeep, BCOM,ACA,ACMA
Jt.V P – Faiclity Management Quality Maintenance Venture Ltd Ecospace, Ambuja Neotia Campus Premises No. Ii F/11, Action Area Ii, Block – 3a, 2nd Floor, New Town
KOLKATA 700156

M/34931
Mr Rajesh Kumar, BCOM HONS,ACMA
Satsang Nagar Palakia Road Near Gaytri Mandir
SHERGHATI 824211

M/34932
Mr Dhara Bakul Shah, BBA,ACMA
Part – I, 603 Royal Twins Before Tata Motors Vapi – Daman Road Chala
VAPI 396191

M/34933
Mr Aman Goenka, BCOM HONS,ACMA
Manager (Cost & Accounts) General Traders 1 E/3 A – 4 A Near Geeta Mandir N. I. T.,
FARIDABAD 121001

M/34934
Mr Reetika Sharma, BCOM,ACMA
Accounts Manager Miracle Studios Pvt. Ltd Tower – D, 3rd Floor D L F Building, I T Park
CHANDIGARH 160101

M/34935
Mr Shilpy Gupta, ACMA
Sr. Audit Executive S K G & Co. 7 – C, Ayodhya Enclave Rohini
DELHI 110085

M/34936
Mr Vikash Sharma, BCOM HONS,ACA,ACMA
160 B, Chittaranjan Avenue Sanmarg Bhawan, 3rd Floor Near Mahajati Sadan
KOLKATA 700007

M/34937
Mr Vijay Koyalmantham Ramakrishnan, BCOM,FCA,ACMA
Associate Director Price Waterhouse Coopers Pvt. Ltd Bldg. No.10 Tower – C 17th Floor D L F Cyber City
GURGAON 122002

M/34938
Mr Arijit Chanda, BCOM,ACA,ACMA
Trainer & Consultant Samvitin Sights 803, A – Wing, Eldora Building Hiranandini Gardens Powai
MUMBAI 400076

M/34939
Mr Sairam Kumar Konduri, BCOM,ACMA
Accounts Officer Electronics Corporation Of India Ltd E C I L Post Moulali
HYDERABAD 500062

M/34940
Mr Anoop Khandelwal, BCOM,ACA,ACS,ACMA
Assistant Manager Mikuni India Private Ltd Plot No. S P – 2, 20 & 21 (A) New Industrial Complex (Majrakath) Neemrana, Tehshil Behror
ALWAR 301705

M/34941
Mr Saurabh Garg, BCOM,ACA,ACMA
Risk Manager I C I C I Bank Ltd S C O 129 – 130 First Floor, Sector – 9C Madhya Marg
CHANDIGARH 160017

M/34942
Mr Mosarrat Jahan, MCOM,ACMA
Sr. Accountant Marg Ltd 18/17, 3rd Floor Dhaka House
NEW DELHI 110005

M/34943
Ms Neetu Pahuja, BCOM,ACMA
Dy. Manager – Accounts & Costing Frick India Limited 21.5 K M Main Mathura Road
FARIDABAD 121003

M/34944
Mr Jethi Devi, BCOM,ACMA
Chief Accountant Emirates Industrial Lab LlC P. O. Box 6892 Sheikh Hamdan Complex Opp : Union House Bldg, Al Mira Road, Jumeirah
DUBAI 6892

M/34945
Mr Sunil Kumar, BCOM,ACMA
B-35, Sector-47
NOIDA 201305

M/34946
Mr Kaushik Mukhopadhyay, BCOM,ACMA
S. F. Road 6th Bye Lane P.o. Ushagram
ASANSOL 713303

M/34947
Mr Nishant Sharma, BCOM,ACMA
V P O Dhulsiras Dwarka Sector 24 Phase – 2
NEW DELHI 110077

M/34948
Mr Atul Hirjibhai Gajera, BCOM, ACMA
Nani Parbadi Ta : Dhoraji
RAJKOT 360360

M/34949
Mr Mohit Jain, BCOM HONS,ACA,ACMA
Associate Manager (F & A) Jaindal Stainless Limited Jindal Centre 12, Bhikaji Cama Place
NEW DELHI 110066

M/34950
Ms Sulagna Kundu, MCOM,ACMA
Semi Professional Accounts Personnel W B S E D C L Asansol Division Girja More, 2nd Floor Durga Market Complex
ASANSOL 713301

M/34951
Mr Surya Kant Singh, MCOM,ACMA
Assistant Manager (F & A) W. B. S. E. D. C. L. 1 & 2, B.T. Road Chiriamore Barrackpore
KOLKATA 700120

M/34952
Mr Nitesh Barmecha, BCOM,ACMA
113 - G Netaji Subhas Road 3rd Floor, Room No.43
KOLKATA 700001

M/34953
Mr Eepsita De, BCOM HONS,ACA,ACMA
Flat No. A8, Ankit Plaza Dakbungalow More 12/1, Jessore Road (S) North 24 Pgs
BARASAT 700124

M/34954
Mr Amit Verma, BCOM,ACMA
Manager (Accounts) Food Corporation Of India Food Corporation Of India Zonal Office (East), Fap Section 10a Middleton Row Kolkata
KOLKATA 700071

M/34955
Mr Achinta Bhadra, BCOM,ACMA
Assistant Manager - Accounts M/s. New Pack Plastic Pvt Ltd D - 25 Sector - XI
NOIDA 201301

M/34956
Mr Kapil Paliwal, BCOM,ACMA
Process Developer - Finance Genpact India Pvt Latd D L F City Phase -V Sector - 53
GURGAON 122002

M/34957
Mr Y Venkateshwara Rao, BCOM,ACMA
Associate Durgaprasad Associates (Chartered Accountants) 401, I V Floor Vijaya Raghava Chambers Chandanagar
HYDERABAD 500050

M/34958
Mr Kalyani Rao, BCOM,ACA,ACMA
Audit Manager Software Paradigms Financial Sservices Pvt Ltd 316 - 318 (P) Spicity Zone 1 Hebbal Industrial Area
MYSORE 570016

M/34959
Mr Sanu Varghese, MCOM,B. ED,ACMA
Assistant Professor Sacred Heart College Department Of Commerce
THEVARA 682013

M/34960
Mr Sumit Lath, BCOM HONS,ACMA
2a, Ganesh Chandra Avenue 5th Floor, Room No.05
KOLKATA 700013

M/34961
Mr Anish Agarwal, BCOM,ACMA
5/1 B, Garanhatta Lane 364, Rabindra Sarani Road P. O. Beadon Street
KOLKATA 700006

M/34962
Mr Bimal Bansal, BCOM,ACMA
114/2, D. P. J. M. Sarani Hindmotor Dist. Hooghly
BHADRAKALI 712232

M/34963
Ms Anjali Rawat, BCOM,ACMA
Finance Executive Randstad India Ltd Ranbaxy Laborateries Ltd Corporate Office Plot - 90, Sector - 32
GURGAON 122001

M/34964
Mr Deba Prasad Chakraborty, BCOM,ACMA
D.G.M. - Finance & Accounts EMT Megatherm Pvt. Ltd. 1, Taratala Road
KOLKATA 700080

M/34965
Mr Vishal Shakya, BCOM,ACMA
4/37, Memran Railway Road
FARUKHABAD 209625

M/34966
Mr Mukesh Kumar Sharma, MCOM,ACMA
House No - A 234 Near Bal Bharti School Laxman Vihar
GURGAON 122001

M/34967
Mr Saroj Kumar Samal, BCOM HONS,ACMA
Manager - Finance O P G C Ltd 7th Floor Fortune Tower Chandrasekharpur
BHUBANESWAR 751023

M/34968
Mr Saroj Kumar Sutar, BCOM,ACMA
At & P O - Kantia Via - Bonth
BHADRAK 756114

M/34969
Mr Bhagban Sahu, BCOM HONS,ACMA
Dy. Manager Accounts Tata Sponge Iron Ltd O -22 T S I L Township Bileipada Keonjhar
JODA 758034

M/34970
Ms Monica Minocha, BCOM HONS,ACMA
Q U -312 B Pitam Pura
DELHI 110088

M/34971
Mr Sanjay Kumar, BCOM HONS,ACMA
H. No. 172- B Bhikam Colony Extn. Main Tigaon Road Ballabhgarh
FARIDABAD 121004

M/34972
Mr Deepu G Pai, MCOM,ACMA
Manager The Catholic Syrian Bank Ltd " C S B Bhavan ", Head Office St. Mary`s College Road
THRISSUR 680020

M/34973
Mr Shraddha Deepak Jadhav, MCOM,ACMA
Jr. Executive J M Baxi & Co Sonawala Bldg., First Floor 26, Shahid Bhagat Singh Road Opp : Old Custom House Fort
MUMBAI 400001

M/34974
Mr Manjit Kumar, MCOM,ACMA
Clerk (Accounts) Indian Air Force C/o. Accounts Section 13, B R D Air Force Palam
NEW DELHI 110010

M/34975
Mr Rashmi Aggarwal, BCOM HONS,ACMA
Dy. Manager N T P C Ltd N T P C Bhawan Scope Complex 7, Institutional Area Lodhi Road
NEW DELHI 110003

M/34976
Mr Rakhi Dua, BCOM,ACMA
Manager (Finance) N T P C Ltd N T P C Bhawan, Core - 7 Scope Complex 7 Institutional Area Lodhi Road
NEW DELHI 110003

M/34977
Ms Nisha Dubey, MCOM,ACMA
Building No.150, Flat - G Railway Colony S.V. Road Bandra (West)
MUMBAI 400050

M/34978
Mr Vishal Harshad Upadhyay, ACMA
Business Process Lead Tata Consultancy Services Ltd Kensington B Wing Hiranandani Business Park S E Z/I Ts, Powai
MUMBAI 400076

M/34979
Ms Neetu Garg, MCOM,ACA,ACMA
Manager (Internal Audit) N T P C Ltd N T P C Bhawan, Scope Complex 4th Floor, Core - 7 7, Institutional Area Lodhi Road
NEW DELHI 110003

M/34980
Mr Srinivasa Rao Yallamandala, BCOM,ACMA
Finance Officer (Systems Audit) Hindustan Aeronautics Ltd Corporate Office 15/1, Cubbon Road
BANGALORE 560001

M/34981
Mr Sarangan Nedunthertu Rajagopalan, BCOM,ACMA
Divisional Manager - Finance I T C Limited Lifestyle Retailing Business Division Plot No. 3, Ssector - 5 Manesar
GURGAON 122052

M/34982
Mr Santhanakrishnan Prasannavenkatesan, BCOM,MBA,ACMA
New # 4, Old # 10 Vijayaganapathynagar I Street Ullagaram
CHENNAI 600091

M/34983
Ms Bornita Chowdhury, BCOM HONS,ACMA
P - 146 B, L I C Township Madhyamgram
KOLKATA 700129

M/34984
Mr Niladri Sengupta, BCOM,ACA,ACMA
Chief Financial Officer C S A V Group Agencies India Pvt Ltd 1121-22 Solitaire Corporate Park Andheri Kurla Road
MUMBAI 400093

M/34985
Mr Dharmendra Kumar Singh, MCOM,ACMA
85, Bipin Behari Ganguly Street
KOLKATA 700012

M/34986
Mr Aditya Rajan Karnik, BCOM,ACMA
Manager - Costing & MiS Midas Touch Exports Plot No. A - 755 T.T. C. Industrial Area Thane Belapur Road Khairne M I D C
NAVI MUMBAI 400710

M/34987
Ms Seetal Saha, MCOM,ACMA
Officer - M I S Shapoorji Pallonji & Co. Ltd S P Centre 41/44, Minoo Desai Marg Colaba
MUMBAI 400005

M/34988
Mr Srilekha Mathilagath Nair, BCOM,ACMA
Sr. Manager Accounts Anchor Electricals Pvt. Ltd Block No.547 Piru Falia, N. H. No.8 At - Dhamdachi Post - Gundlav
VALSAD 396035

M/34989
Mr Vivek Sinha, ACMA
Dy. Manager (Project Finance Controlling) Alcatel - Lucent 14th Floor, Tower - C Cyber Greens D L F Cyber City, Phase - IiI
GURGAON 122002

M/34990
Ms Shanthi , MCOM,ACMA
U. Karunakaran - Advocate No.15- B, Jakkammal Koil Street Chinmaya Nagar
CHENNAI 600092

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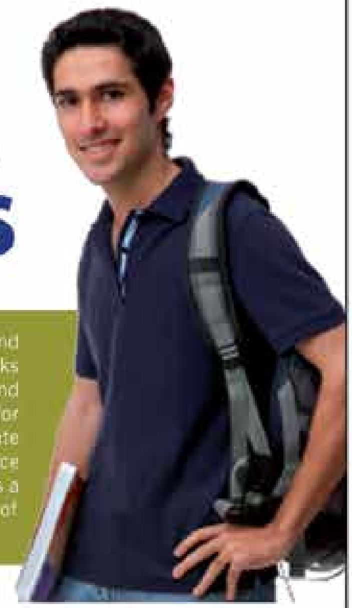

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For Prospectus Contact

Western India Regional Council:
Rohit Chambers, 4th floor, Janmabhoomi Marg, Fort, Mumbai 400001.
Ph.: (022) 22043416 / 22841138 / 22043406 Email: wirc@icmai.in

Southern India Regional Council:
CMA Bhawan, 4 Montieth Lane, Eggmore, Chennai 600008.
Ph.: (044) 28554443 / 28554326 Email: sirc@icmai.in

Eastern India Regional Council:
CMA Bhawan, 84 Harish Mukherjee Road, Kolkata 700025.
Ph.: (033) 24553418/5957 Email: eirc@icmai.in

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CMA Bhawan, 12 Sudder Street, Kolkata 700016. **Ph:** 033-2252 1031/34/35/1602/1492 **Fax:** 033-2252 7993 / 1026
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