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the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

AUGUST 2014 VOL 49 NO. 8 ₹100

COST ACCOUNTING STANDARDS AND ITS ECONOMIC IMPLICATIONS

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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.

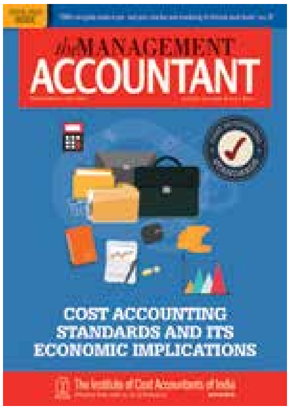
VISION STATEMENT

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

Behind every successful business decision, there is always a CMA



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The Management Accountant, official organ of The Institute of Cost Accountants of India, established in 1944 (founder member of IFAC, SAFA and CAPA)

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Inside

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FROM THE EDITOR'S DESK

Greetings!

Cost Accounting Standards (CAS) are a set of standards that provide a structured approach to achieve uniformity and consistency in cost accounting principles and practices. These provide guidance on the preparation of General Purpose Cost Statements. To promote uniformity, there was an urgent need to integrate, harmonize, and standardize the cost accounting principles and practices. Therefore, the Generally Accepted Cost Accounting Principles have been clearly defined and well documented in the form of the Cost Accounting Standards.

The Cost Accounting Standards Board (CASB) also keep in focus the Generally Accepted Cost Accounting Principles and formalize them so that with the passage of time, an accepted framework can be evolved and remain capable of adoption by all users of the standards, including industries, professionals, and other stakeholders. While formulating the Cost Accounting Standards, the CASB takes into consideration the applicable laws, usage and business environment prevailing in India. CASB also gives due consideration to the Cost Accounting Standards, principles and practices being followed by the other countries.

The CASB has identified 39 areas for developing the CASs, which include the 22 standards released so far. Of these, 21 areas relate to components of cost and the remaining 18 areas are on cost accounting methodologies.

Objectives

- To equip the profession with better on standard cost accounting practice
- To assist the Cost Accountants in preparation of uniform cost statements
- To assist the management to follow the standard cost accounting practices in the matter of compliance of statutory obligations
- To help Indian industry and the Government towards better cost management

An effective Cost audit provides assurance to the management and the government that a company is maintaining appropriate cost records as prescribed by law and to identify waste of resources, if any. Cost audit report provides useful insights into the weaknesses in processes and activities and also provides inputs in formulating plans for continuous improvement in utilization of resources and to enhance productivity and cost competitiveness.

In the manufacturing, mining and service sectors, CAS plays an important role for classification of cost, reduction of cost and to minimize wastage. In the one hand the Cost Accounting Standards help to determine cost of production and capacity, while on the other hand, CAS defines the rules for levy of excise duty on goods used for captive consumption.

This issue presents a good number of articles on the cover story theme 'Cost Accounting Standards and its economic implications' by distinguished authors and an interview of an industry stalwart. We look forward to constructive feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

LETTER TO THE EDITOR

I recently had a chance to go through the June 2014 issue of your Journal on Ethics of Accountants at the Institute of Chartered Accountants of Pakistan, Member's Library, Karachi, and found it to be a good read.

I wish to congratulate you and your team on reflecting on a burning topic.

You rightly mention that "a high standard of ethical behavior is expected from those who are engaged in a profession". In fact, in my opinion the only true measure of a true professional is adherence to an ethical conduct in conflicting situations.

Your theme also reminded me of my accounting teacher who use to say that a person who is incompetent but ethical is far better than the one who's competent and unethical; because the condition of incompetency is reversible with training, not the ethical disposition of a person.

I find ethical and principled behavior to be quite closely aligned. The best way to learn ethical behavior is to study the right kind of role models.

Altaf Noor Ali, Chartered Accountant, Pakistan

Obituary

The Institute and its members deeply mourn the demise of CMA B.L. Sethi, Fellow member and Past Chairman of Jaipur chapter, who left for his heavenly abode on June 20, 2014. He worked as Accounts Officer in the A.G. Office till 03.05.1984. During the period of his employment in A.G. Office he was on deputation of various Government Companies such as Food Corporation of India, Rajasthan State Industrial and Mineral Corporation (RIMDC), Rajasthan State Bridge and Construction Corporation Ltd. He retired from Hindustan Salts Limited as a Company Secretary on 31.08.1995. He was also a teaching faculty at the Institute.

May his family have the courage and strength to overcome the loss.

OUR NEW 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.

OUR NEW VICE PRESIDENT

CMA Pramodkumar Vithaldasji Bhattad

CMA PRAMODKUMAR VITHALDASJI BHATTAD, born in 1957, a fellow member of the Institute of Cost Accountants of India has been elected as the Vice President of the Institute for the year 2014-15.

He had a very bright academic career. A science graduate with post graduation in Economics, Diploma in Management, and first rank holder in Bachelor in General Law and fourth rank holder in LLB.

At professional front, he started his career from private sector in 1977 and joined Western Coalfields Ltd., a subsidiary of Coal India Limited in 1980. Presently he is General Manager (Finance) of Western Coalfields Limited, Nagpur.

CMA Bhattad was associated with Nagpur Chapter of Cost Accountants since student's day and he was representing as student member on the managing committee of the Nagpur Chapter, actively participated for the development of Nagpur Chapter and rose to the level of the Chairman in 2001.

CMA Bhattad was elected to the Western India Regional Council in 2001 and was Chairman of WIRC in 2005-06. He is elected to Central Council for the term 2011-15 from Western Region and chaired various committees viz. Region & Chapter Co-ordination Committee, Member in Industries & Placement Committee etc.

CMA PV Bhattad has been representing the Institute on the Committee on Governmental and Public Sector Enterprises Accounting of South Asian Federation of Accountants (SAFA) and also on the Public Sector Financial Management Committee of Confederation of Asian and Pacific Accountants (CAPA). He has also represented the Institute in the meetings of International Valuation Standards Council (IVSC).

MUST MAKE COST & MANAGEMENT ACCOUNTING KEY TO BUILDING NATIONAL COMPETITIVENESS

CMA Dr A S Durga Prasad
President, The Institute of Cost Accountants of India

My Dear Professional Colleagues,

I am honored to be elected as the President of the Institute for the year 2014-15 to serve this great profession with the support of all of you. I am grateful to my council colleagues for showing confidence and faith in me. I thank all of you for your trust, and shall strive to live up to your expectations. I deem it a privilege to have been a member of the Council since 2003, which has enabled me to directly witness the major metamorphic changes that have impacted our Institute, profession and its growth.

The current challenge for the Indian economy is to migrate to the top of the global competitiveness index in a short/ medium time span. Considering the maturity levels of cost and management accounting in Indian economy, caused by the legacy of protected environment, we have a long way to traverse without any cushion of time. We do not have the luxury of a long experience curve for this to happen and need to work out the strategies, including policy interventions, which will position cost and management accounting as a key platform towards building national competitiveness. The financial information provided by financial reporting should be supplemented with cost competitive information from a Cost Accounting system drawn from the same data base to help the management to make right and timely decisions.

Cost Records and Audit Rules 2014

We saw the release of Companies (Cost Records and Audit) Rules 2014 by the Ministry of Corporate Affairs, which caused deep concern amongst all of us. However our efforts in addressing these concerns could result in some positive steps in the right direction by the Ministry. I am thankful to Shri Arun Jaitley, Hon'ble Union Minister for Finance, Defence and Corporate Affairs, for constituting an Expert Committee to examine issues relating to maintenance of Cost Records and Cost Audit. In order to have a wider participation and eliciting of opinion from members at large from different regions and chapters, a 'National Advisory Committee' has been constituted to provide requisite inputs and suggestions to the Council for onward enabling the Council to submit its views to the to the said Expert Committee. I take this opportunity to request all of you to come forward and actively send your suggestions on the Companies (Cost Records and Audit) Rules 2014 to the Institute for consolidation and placing before the Expert Committee.

Cost Management Week

I am very pleased to inform you that Institute is planning to organize 'Corporate Cost Management Week' across the country for our Members and the industry. The objective is to spread the message that Cost Management is essential in order to maintain cost competitiveness in this fiercely competitive global market.

We are also planning to conduct a series of programmes across the country to train CMA Members in various areas of professional relevance. We would like to begin with Internal Audit of the Pharmaceutical Industry, Telecom Industry, Mining and Metallurgy Industry, Power Sector, Service Sector, Stock Brokers and Depository Participants, Risk-Based Internal Audit and Stock Audit of Commercial Banks, Filing of e-forms by CMAs, Business Valuation, Direct Taxes, Indirect Taxes, Cost Management, Cost Accounting Standards, Cost Audit Assurance Standards and Generally Accepted Cost Accounting Principles.

Technical Capability

The Institute has been providing inputs on cost and management accounting to the Government in various sectors in the past few years. Some of the key emerging sectors taken up by the Institute have been Health Care, Airports, Infrastructure and Education. Since more such activities are proposed to be taken up this year, we have given top priority for strengthening of the technical wings of the institute, namely, the Technical Directorate and Board of Studies. The strength of a professional institute lies in its ability to respond quickly to emerging technical challenges. It is also important to focus on the capacity building of the members to perform the prescribed assignments to a defined quality standard, consistently over a period of time. It will be our prime focus to update the knowledge of our members and assist them in remaining proactive by providing continuous support in knowledge-driven areas at various levels. We intend to release various Approach Papers, Technical Papers, Research Documents and Guidance Notes to improve the technical competence of the members and also to enhance the quality of assignments handled by them. I request the members who have the relevant expertise in various fields to help the Institute in this exercise.

Positive Visibility

I am happy to inform you that this year the Council has constituted a CMA Connect Committee under my chairmanship to take initiatives on visibility and branding of the Institute and the profession.

This would require creating more visibility and outreach not only to Gen Y and Gen Z students but also to members, related stakeholders and most importantly the Government through the media. The Institute, which is a leading professional body to which people look up for guidance, needs to have increased influence and brand recognition nationally and internationally.

The fundamentals of the media strategy for Institute of Cost Accountants of India are to address the following three:

a. Build the brand image of the Institute as a world-class professional body with its members trusted for vision, leadership and integrity

b. Build the image of the Institute that leads the agenda for change by positively influencing intellectually with governments, regulators, standard-setters and other stakeholders.

c. Build the image of the Institute that ensures messaging that also leads to a roadmap for the Institute's development in the future. This primarily drives towards the fact that while the media strategy may help protect the current turf and jurisdictions and add a few new ones, it also needs to be future gazing to ensure that the Institute and its members are seen as people talking and leading on concepts that would help prepare for the business of tomorrow through thought leadership on emerging trends.

This reminds of Martin Luther King Jr. quote: 'If you can't fly then run, if you can't run then walk, if you can't walk then crawl, but whatever you do you have to keep moving forward.'

Membership Services

I would like to initiate a vigorous membership drive to increase the in number of members. The membership service needs to be very time responsive and qualitative as the members are the pillars of the Institute and we need to look very carefully into their issues.

The other important issues which I will be taking up are:

- Establishing Centers of Excellence in Management Accounting in major cities with large industrial bases.
- Establishing a state-of-the-art IT framework for high-speed connectivity within all the organs of the Institute and also with members, students and other stakeholders.
- Establishing tie-ups with more international professional accounting bodies.
- Improving relations with all the regulatory bodies and authorities to understand cost considerations for end users in preparation and implementation of regulations, especially those intimately related to the rapidly growing services sector in the country.
- Undertaking research studies to propagate Cost Consciousness in Government departments.

I wish prosperity and happiness to members, students and their family on the occasion of Raksha-bandhan, Independence Day, Janmashtami and Ganesh Chaturthi.

With warm regards,

(CMA Dr A S Durga Prasad)
1st August 2014

ICAI-CMA SNAPSHOTS

1. The newly elected President and Vice President with the members of the Central Council on July 22, 2014 at the Institute Headquarters in Kolkata

2. CMA Dr. A. S. Durga Prasad, the President being felicitated by the Immediate Past President in presence of the Council Members and Government Nominee on July 22, 2014 at the Institute Headquarters, Kolkata

3. Release of the Research Bulletin, Volume 39, by the Central Council Members on July 22, 2014, at the Institute Headquarters, Kolkata

4. CMA P V Bhattad, Vice President being felicitated by the Central and Regional Council Members of the Institute on July 22, 2014 at his office in Kolkata

5. National Seminar 2014 on 'E-banking and Financial Inclusion: Trends, Challenges and Policies' jointly organized by the Institute and Rabin Mukherjee college on July 19, 2014. On the dais from the right are: CMA Swagata Sen, Professor & Dean of Commerce & Management, Calcutta University, Mr. S K Basu, former CMD, Bank of Maharashtra, CMA Manas Kumar Thakur, Council Member, Dr. Ramapada Bera, Registrar of WBSU, Prof. Amal Kumar Ray, Teacher-in charge, Rabin Mukherjee College.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Council Committees for the year 2014-15)

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

Standing Committees

1. Executive Committee

Quorum: 3

Chairman: 1. CMA Dr. AS Durga Prasad, President

Members

2. CMA PV Bhattad, Vice President
3. CMA Dr. SC Mohanty
4. CMA Amit Apte
5. CMA HK Goel
6. CMA Dr. PVS Jagan Mohan Rao
7. CMA TCA Srinivasa Prasad

Secretary

CMA Kaushik Banerjee, Secretary (Acting)

2. Examination Committee

Quorum: 4

Chairman: 1. CMA Dr. AS Durga Prasad, President

Members

2. CMA PV Bhattad, Vice President
3. CMA Dr. SC Mohanty
4. CMA Mrs. Aruna V Soman
5. CMA Sanjay Gupta
6. CMA DLS Sreshti
7. CMA Manas Kumar Thakur

Secretary

CMA Amitava Das, Director (Examination)

3. Finance Committee

Quorum: 4

Chairman: 1. CMA Dr. AS Durga Prasad, President

Members

2. CMA PV Bhattad, Vice President
3. CMA Dr. SC Mohanty
4. CMA Rakesh Singh
5. CMA M Gopalakrishnan
6. CMA Sanjay R Bhargave
7. CMA Dr. Sanjiban Bandhyopadhyaya

Secretary

CMA SR Saha, Director (Finance)

Other Committees

4. Disciplinary Committee

Quorum: 3

Chairman: 1. CMA Dr. AS Durga Prasad, President

Members

2. CMA Dr. SC Mohanty
3. CMA Rakesh Singh
4. Mr. Debhasish Bandyopadhyay (Govt. Nominee)
5. Mr. Alok Kumar (Govt. Nominee)

Secretary

CMA Rajendra Bose, Director (Discipline)

5. Training & Education Facilities Committee

Quorum: 4

Chairman: 1. CMA DLS Sreshti

Members

2. CMA M Gopalakrishnan
3. CMA Mrs. Aruna V Soman
4. CMA Amit Apte
5. CMA Sanjay Gupta
6. CMA TCA Srinivasa Prasad
7. CMA Manas Kumar Thakur

Secretary

CMA Chiranjib Das, Joint Director (Studies)

6. Research, Innovation & Journal Committee

Quorum: 4

Chairman: 1. CMA Manas Kumar Thakur

Members

2. CMA Rakesh Singh
3. CMA Sanjay Gupta
4. CMA Dr. PVS Jagan Mohan Rao
5. CMA DLS Sreshti
6. CMA Dr. SanjibanBandhyopadhyaya
7. Mr. Suresh Pal (Govt. Nominee)

Secretary

CMA Dr. DP Nandy, Director (Research & Journal)

7. Professional Development Committee

Quorum: 4

Chairman: 1. CMA Dr. Sanjiban Bandhyopadhyaya

Members

2. CMA Dr. SC Mohanty
3. CMA Rakesh Singh
4. CMA M Gopalakrishnan
5. CMA Sanjay R Bhargave
6. CMA Manas Kumar Thakur
7. Mr. G Sreekumar (Govt. Nominee)
8. Dr. Asish K Bhattacharya (Co-opted)

Secretary

CMA JK Budhiraja, Director (Professional Development)

Other Committees	
8. Continuing Professional Development Committee	**9. Members' Facilities & Services Committee**
Quorum: 4 **Chairman:** 1. CMA HK Goel **Members** 2. CMA Dr. SC Mohanty 3. CMA Sanjay Gupta 4. CMA Dr. PVS Jagan Mohan Rao 5. CMA DLS Sreshti 6. CMA Sanjay R Bhargave 7. Mr. K Govindaraj (Govt. Nominee) **Secretary** CMA Mrs Nisha Dewan, Joint Secretary	**Quorum: 3** **Chairman:** 1. CMA Mrs. Aruna V Soman **Members** 2. CMA Rakesh Singh 3. CMA Dr. P.V.S. Jagan Mohan Rao 4. CMA HK Goel 5. CMA DLS Sreshti 6. Mrs. Nandana Munshi, (Govt. Nominee) **Secretary** CMA Rajendra Bose, Joint Director (Membership)
10. Regional Council & Chapters Coordination Committee	**11. International Affairs Committee**
Quorum: 3 **Chairman:** 1. CMA Amit Apte **Members** 2. CMA Mrs. Aruna V Soman 3. CMA Sanjay Gupta 4. CMA Dr. PVS Jagan Mohan Rao 5. CMA TCA Srinivasa Prasad 6. CMA Manas Kumar Thakur **Secretary** CMA Arnab Chakraborty, Director (Administration)	**Quorum: 3** **Chairman:** 1. CMA Sanjay Gupta **Members** 2. CMA Mrs. Aruna V Soman 3. CMA Dr. PVS Jagan Mohan Rao 4. CMA Dr. Sanjiban Bandhyopadhyaya 5. CMA Manas Kumar Thakur 6. Shri. Suresh Pal (Govt.Nominee) **Secretary** CMA Tarun Kumar, Joint Director (President Office)
12.Cost Audit & Assurance Standards Board	**13.Taxation Committee**
Quorum: 5 **Chairman:** 1. CMA Sanjay R Bhargave **Members** 2. CMA Dr. SC Mohanty 3. CMA M Gopalakrishnan 4. CMA Amit Apte 5. CMA HK Goel 6. CMA Dr. Sanjiban Bandhyopadhyaya 7. CMA TCA Srinivasa Prasad 8. Dr. Asish K Bhattacharya 9. Mr. SA Murali Prasad 10. Mr. K Narasimha Murthy **Secretary** CMA Dr. SK Gupta, Director (Technical)	**Quorum: 5** **Chairman:** 1. CMA Dr. SC Mohanty **Members** 2. CMA Rakesh Singh 3. CMA Sanjay R Bhargave 4. CMA HK Goel 5. CMA Dr. PVS Jagan Mohan Rao 6. CMA Dr. Sanjiban Bandhyopadhyaya 7. CMA Manas Kumar Thakur 8. Mr. Ashish Kumar, (Govt. Nominee) 9. Mr. S Rajaratnam, (Co-opted) 10. Mr. P Raveendran, (Co-opted) **Secretary** CMA Chiranjib Das, Joint Director (Tax Research)
14.CAT Committee	**15.Cost & Management Accounting Committee**
Quorum: 3 **Chairman:** 1. CMA TCA Srinivasa Prasad **Members** 2. CMA M Gopalakrishnan 3. CMA Mrs. Aruna V Soman 4. CMA Amit Apte 5. CMA Sanjay Gupta 6. CMA Manas Kumar Thakur **Secretary** CMA L Gurumurthy, Director (CAT)	**Quorum: 4** **Chairman:** 1. CMA M Gopalakrishnan **Members** 2. CMA Sanjay R Bhargave 3. CMA Mrs. Aruna V Soman 4. CMA Amit Apte 5. CMA Dr.Sanjiban Bandhyopadhyaya 6. CMA DLS Sreshti 7. Dr. Asish K Bhattacharya (Co-opted) 8. Mr. SA Murali Prasad (Co-opted) **Secretary** CMA Mrs. Nisha Dewan, Joint Secretary

16. ICAI (CMA) – ICAI (CA) – ICSI Coordination Committee	17. Members in Service and Training & Placement Committee
Quorum: 3 **Chairman:** 1. CMA Dr. AS Durga Prasad, President **Members** 2. CMA Dr. SC Mohanty 3. CMA Rakesh Singh 4. Mr. Suresh Pal, (Govt. Nominee) **Secretary** CMA SC Gupta, Director (Admin & PR)	**Quorum: 3** **Chairman:** 1. CMA Dr. PVS Jagan Mohan Rao **Members** 2. CMA Mrs. Aruna Soman 3. CMA Amit Apte 4. CMA HK Goel 5. CMA TCA Srinivasa Prasad 6. CMA G Sreekumar (Govt. Nominee) **Secretary** CMA L Gurumurthy, Director (Training & Placement)
18. CMA Connect Committee	**19. Infrastructure Committee**
Quorum: 3 **Chairman:** 1. CMA Dr. AS Durga Prasad, President **Members** 2. CMA Mrs. Aruna V Soman 3. CMA Sanjay Gupta 4. CMA DLS Sreshti 5. CMA TCA Srinivasa Prasad 6. Mr. Ramesh Kailasam (Co-opted) **Secretary** CMA Tarun Kumar, Joint Director (President Office)	**Quorum: 3** **Chairman:** 1. CMA PV Bhattad, Vice President **Members** 2. CMA DLS Sreshti 3. CMA HK Goel 4. Mr. K Govindaraj (Govt. Nominee) 5. Mr. G Sreekumar (Govt. Nominee) **Secretary** CMA Kushal Sengupta, Joint Director (Finance)
20. Cost Accounting Standards Board	
Quorum: 8 **Chairman** 1. CMA Rakesh Singh **Members** 2. CMA Dr. SC Mohanty 3. CMA M Gopalakrishnan 4. CMA Amit Apte 5. CMA TCA Srinivasa Prasad 6. Dr. Asish K Bhattacharya 7. Mr. SA Murali Prasad 8. CA SC Vasudeva 9. Dr. Sailesh Gandhi 10. CMA Brij Mohan Sharma 11. CMA AN Raman 12. Mr. Asim K Mukhopadyaya	13. Mr. Murali Ganesan 14. Nominee of MCA 15. Nominee of CBEC 16. Nominee of CBDT 17. Nominee of ICAI 18. Nominee of ICSI 19. Nominee of SEBI 20. Nominee of CCI 21. Nominee of TRAI 22. Nominee of PNGRB 23. Nominee of CII 24. Nominee of FICCI 25. Nominee of ASSOCHAM/PHDCCI **Secretary** CMA Dr. SK Gupta, Director (Technical)
21. Board of Discipline	
1. CMA Jugal Kishore Puri - Presiding Officer 2. CMA PV Bhattad - Member 3. One person designated under clause (c) of sub-section (1) of Section 16 - Member. **Secretary** CMA Rajendra Bose, Director (Discipline)	

Office bearers of Regional Councils for the year 2014-2015

Eastern India Regional Council	
Chairman	CMA Srikanta Kumar Sahoo
Vice Chairman	CMA Shiba Prasad Padhi
Secretary	CMA Bibekananda Mukhopadhyay
Treasurer	CMA Shyamal Kumar Bhattacharjee
Northern India Regional Council	
Chairman	CMA Vijender Sharma
Vice Chairman	CMA Arvind Kumar
Secretary	CMA S K Bhatt
Treasurer	CMA Ravi Kumar Sahni

Southern India Regional Council	
Chairman	CMA H. Padmanabhan
Vice Chairman	CMA Ch. Venkateswarlu
Secretary	CMA S. Ramachandran
Treasurer	CMA K. Sanyasi Rao
Western India Regional Council	
Chairman	CMA Ashok B. Nawal
Vice Chairman	CMA G. R. Paliwal
Secretary	CMA Dinesh K Birla
Treasurer	CMA Debasish Mitra

ECONOMY UPDATES

Customs

- Amendment of notification No. 24/2005-Customs dated 1st March 2005 so as to levy BCD @ 10% on specified telecommunication products not covered under the ITA vide Notification No. 11/2014-Cus,dt. 11-07-2014.
- Amendment of notification No. 81/2005-Customs, dated the 08th September, 2005 so as to reduce BCD to 5% on machinery required for settings up of compressed bio-gas (Bio-CNG) projects vide Notification No. 13/2014-Cus, dt. 11-07-2014.
- Amendment of notification No. 01/2011-Customs, dated the 06th January, 2011 so as to reduce BCD to 5% and CVD to Nil on machinery for initial setting up of solar energy production projects vide Notification No. 14/2014-Cus, dt. 11-07-2014
- Amendment of notification No. 27/2011 Customs, dated the 01st March, 2011 so as to increase the export duty on Bauxite from 10% to 20% vide Notification No. 15/2014-Cus,dt. 11-07-2014.
- Amendment of notification No. 09/2012 Customs, dated the 09th March, 2012 so as to increase the variation levels in respect of re-import of cut and polished diamonds vide Notification No. 16/2014-Cus,dt. 11-07-2014.
- Amendment of notification No. 13/2012 Customs, dated the 17th March, 2012 so as to provide for levy of education cess on CVD portion of customs duty leviable on imported IT products vide Notification No. 18/2014-Cus,dt. 11-07-2014.
- Amendment of notification No. 14/2012 Customs, dated the 17th March, 2012 so as to provide for levy of secondary and higher education cess on CVD portion of customs duty leviable on imported IT products vide Notification No. 19/2014-Cus, dt. 11-07-2014.
- Amendment of notification No. 39/96-Customs dated the 23rd July, 1996 so as to omit the words 'Portable X-ray machine/ system' and to provide exemption for goods imported by NTRO vide Notification No. 20/2014-Cus, dt. 11-07-2014.
- Amendment of notification No. 230/86-Customs, dated the 3rd April, 1986 so as to notify concerned State Governments as sponsoring authority for Metro Rail Projects covered under the Project Import Regulations, 1986 vide Notification No. 25/2014-Cus,dt. 11-07-2014.
- In exercise of the powers conferred by sub-clause (iii) of clause (c) of section 28E of the Customs Act, 1962 (52 of 1962), Central Government hereby specifies "the resident private limited company" as class of persons for the purposes of the said clause vide notification no. 51 /2014-Customs (N.T.) dated: 11th July, 2014.

Central Excise

- Amendment of Notification No. 67/1995-CE, dated the 16th March, 1995 so as to exempt intermediate goods manufactured and consumed captively for further manufacture of matches vide Notification No. 19/2014-CE, dt. 11-07-2014.
- Amendment of Notification No. 23/2003-CE, dated the 31st March, 2003 so as to avoid double levy of cess on DTA clearances 100% EOUs.
- Exemption of excise duty on machineries required for initial setting up of solar energy production projects vide Notification No. 15/2014-CE, dt. 11-07-2014.
- Full exemption from excise duty on machinery required for setting up of compressed biogas plant (Bio-CNG) vide Notification No. 14/2014-CE, dt. 11-07-2014.
- Amendment of Cenvat Credit Rules, 2004 - Notification No. 21/2014-CENT dt. 11-07-2014
- Amendment of Central Excise Valuation Rules, 2008 - Notification No. 20/2014-CENT dt. 11-07-2014
- Amendment of Central Excise Rules, 2002 - Notification No. 19/2014-CENT dt. 11-07-2014
- Central Government hereby specifies "the resident private limited company" as class of persons for the purposes of section 23A of the Central Excise Act, 1944 - 18/2014-CENT dt. 11-07-2014

Service Tax

- As per Notification No. 15/2014-ST dt. 11-07-2014 CBEC specifies "the resident private limited company" as class of persons for the purposes of section 96A of the Finance Act,1994
- Amendment of the Service Tax (Determination of Value) Rules, 2006 so as to prescribe the percentage of service portion in respect of works contracts, other than original works contract vide Notification No. 11/2014-ST dt. 11-07-2014.
- As per Notification No. 09/2014-ST dt. 11-07-2014 Service Tax Rules,1994 has been amended so as to prescribe,-(i) the person liable to pay service tax for certain specified services and
(ii) mandatory e-payment of service tax for all the assessees, with effect from 1st October,2014.
- Amendment in Notification No.12/2013-ST dated 1st July, 2013, relating to exemption from service tax to SEZ Units or the Developer vide Notification No. 07/2014-ST dt. 11-07-2014.

SEBI

- **Dispatch of physical Statements to BOs having Zero Balance and Nil Transactions**

Accounts with zero balance and nil transactions during the year: DP shall send atleast one annual physical statement of holding to the stated address of the BO in respect of accounts with no transaction and nil balance even after the account has remained in such state for one year. The DP shall inform the BO that if no Annual Maintenance Charge (AMC) is received by the DP, the dispatch of the physical statement may be discontinued for the account which continues to remain zero balance even after one year. DPs shall send electronic statement of holding to all the BOs whose email ids are registered with them. Also, if a BO requests for a physical statement, the DPs shall provide the same.

For the purpose of valuation of holdings in an account as provided in clause 4(b) of the aforesaid circular, it is clarified that the value of suspended securities may not be considered for the purpose of determining eligibility of demat account as BSDA.

Circular - CIR/MRD/DP/ 21 /2014 dated: July 01, 2014

• Delivery Instruction Slip (DIS) Issuance and Processing

As per Circular - CIR/MRD/DP/ 22 /2014, dated: July 04, 2014, depository participants (DPs) shall not accept old Delivery Instruction Slip (DIS) for execution from a Beneficial Owner (BO) who has been issued new DIS. It is clarified that a period of one month may be given for receipt of DIS by the BOs. The DPs may accept old DIS during this transit period. Further, while issuing new DIS the DPs shall intimate the BO that old DIS cannot be used after the new DIS is received.

• Clarification and extension of deadline with respect to circular on 'Guidelines on disclosures, reporting and clarifications under AIF Regulations

The deadline for sending of annexure to the placement memorandum to the investors under clause 2(a) (iii) is extended till August 31, 2014.

With respect to disclosure of disciplinary history under clause 2(a) (ii), the same shall be applicable for the last 5 years and where monetary penalty is involved, in cases where such penalty is greater than Rs. 5 lakhs. With respect to disputed tax liabilities, the same shall not apply to liabilities in personal capacity of an individual. Contingent liabilities shall be as disclosed in books of accounts of the entity.

With respect to clause 2(b) (iii), the changes shall include modifications in terms or documents of the fund/scheme and the same may be intimated to investors and SEBI once every six months on a consolidated basis. With respect to clause 2(b) (iv), 'material' changes may be construed as changes in the fundamental attributes of the fund/scheme and the process for exit under the clause shall not apply in cases where the AIF has approval of not less than 75% of unit holders by value of their investment in the AIF with respect to sub-clauses (a) and (b).

Circular - CIR/IMD/DF/16/2014 dated: July 18, 2014

• Change in Government Debt Investment Limits

Government debt investment limit - The incremental investment limit of USD 5 billion (Rs. 24,886cr) will be required to be invested in government bonds with a minimum residual maturity of three years. Also, all future investment against the limit vacated when the current investment by an FII/QFI/FPI runs off either through sale or redemption will also be required to be made in government bonds with a minimum residual maturity of three years – Circular CIR/IMD/FIIC/ 17/2014 dated: July 23, 2014.

Banking

• Review of norms for opening of onsite/off-site ATMs by Urban Co-operative Banks (UCBs)

CBS-enabled UCBs may install onsite/ off-site / mobile ATMs as per their need and potential in their area of operation without prior approval of RBI, subject to the conditions given below :

i. The bank shall have an assessed networth of Rs. 50 crore and conform to the FSWM criteria based on the Reserve's Bank inspection Report relating to the financial year immediately preceding the financial year in which the ATM (s) is / are proposed to be installed and in the absence thereto, to the financial year just before the immediate preceding year.

ii.The bank should have an impeccable record of regulatory compliance and no warning letter / cautionary advice should have been issued to or monetary penalty imposed on the bank on account of violations of RBI directives / guidelines during the financial year in which the ATM(s) is/are proposed to be installed and during the two immediately preceding financial years.

iii.Mobile ATMs shall be operated strictly within the bank's approved area of operation and any violation thereof may lead to ban on further branch expansion and / or grant of other regulatory approvals apart from action under section 47 A of the B. R. Act, 1949 (AACS). Mobile ATMs will have to be linked to a branch as per extant instructions.

Source: Circular - RBI/2014-15/114 (UBD. CO.LS (PCB) Cir.No.1/07.01.000/2014-15) dated: July 2, 2014

• RRBs/StCBs/CCBs - Unique Customer Identification Code (UCIC) for banks' customers in India

In reference to circular RPCD.CO.RRB.RCB. AML.BC.No.82/03.05.33(E)/2011-12 dated June 11, 2012, RBI has advised RRBs and StCBs/CCBs to initiate steps for allotting UCIC to all their customers while entering into any new relationships for individual customers to begin with, and to existing individual customers by end-May 2013. The period for completion of allotment of UCIC was previously extended upto March 31, 2014. Now RBI has again extended the time for completing the process of allotting UCIC to existing customers up to December 31, 2014 vide Notification No. RBI/2014-15/115 (RPCD. RRB.RCB.AML.BC.No.12/07.51.018/2014-15) dated: July 03, 2014.

• Foreign Exchange Management Act, 1999 – Import of Rough, Cut and Polished Diamonds

The Clean Credit i.e. credit given by a foreign supplier to its Indian customer/ buyer, without any Letter of Credit (Suppliers' Credit) / Letter of Undertaking (Buyers' Credit) / Fixed Deposits from any Indian financial institution for import of Rough, Cut and Polished Diamonds, may be permitted for a period not exceeding 180 days from the date of shipment vide Circular No.2 (RBI/2014-15/119) dated: July 7, 2014.

ECONOMY UPDATES

• Levy of foreclosure charges/pre-payment penalty on Floating Rate Loans

To protect customers and to bring in uniformity with regard to prepayment of various loans by borrowers of banks and NBFCs, RBI has advised NBFCs not to charge foreclosure charges/ pre-payment penalties on all floating rate term loans sanctioned to individual borrowers vide Notification No. RBI/2014-15/121 [DNB(PD). CC.No.399/03.10.42/2014-15] dated: Jul 14, 2014.

• Issue of Partly Paid Shares and Warrants by Indian Company to Foreign Investors

A review of the policy as regards partly paid shares and warrants has been undertaken and it has been decided as under:

(i) Eligible instruments and investors: Partly paid equity shares and warrants issued by an Indian company in accordance with the provision of the Companies Act, 2013and the SEBI guidelines, as applicable, shall be eligible instruments for the purpose of FDI and foreign portfolio investment (FPI) by Foreign Institutional Investors (FIIs)/Registered Foreign Portfolio Investors(RFPIs) subject to compliance with FDI and FPI schemes.

(ii) Pricing and receipt of balance consideration:

(a) Partly paid equity shares - The pricing of the partly paid equity shares shall be determined upfront and 25% of the total consideration amount (including share premium, if any), shall also be received upfront; The balance consideration towards fully paid equity shares shall be received within a period of 12 months.

(b) Warrants - The pricing of warrants and the price/conversion formula will be determined upfront and 25% of the consideration amount will be received upfront. The balance consideration towards fully paid-up equity shares will be received within 18 months.

Source: Circular No.3 (RBI/2014-15/123) dated: Jul 14, 2014

• Data Format for Furnishing of Credit Information to Credit Information Companies and other Regulatory Measures

New recommendations and modifications has been received regarding Creating Awareness about Credit Information Report (CIR), Credit Information Reports (CIRs) / Credit Bureau Usage in all Lending Decisions and Account Opening, Populating Commercial Data Records in Databases of all CICs, Standardization of Data Format, Technical Working Group, Rectification of Rejected Data, Data Quality Index, Credit Score and Standardizing Format of Credit Information Report (CIR) vide Notification No. RBI/2014-15/128 (RPCD.RRB.RCB.BC.No. 13/03.05.33/2014-15) dated: July 15, 2014.

• Public Provident Fund Scheme, 1968 and Senior Citizen Savings Scheme, 2004

Amendments in Rules		
Sr. No.	**Notification No. & date**	**Title**
1	G.S.R.392(E) dated June 9, 2014	Senior Citizen Savings Scheme (Amendment) Rules, 2014
2	G.S.R.224(E) dated March 13, 2014	Senior Citizen Savings Scheme (Amendment) Rules, 2014
3	G.S.R.225(E) dated March 13, 2014	Public Provident Fund Scheme (Amendment) Rules, 2014

The contents of these circulars may be brought to the notice of the branches of bank operating the Public Provident Fund Scheme (PPF), 1968 and Senior Citizen Savings Scheme (SCSS), 2004. These should also be displayed on the notice boards of your branches for information of the PPF, 1968 and the SCSS, 2004 subscribers.

Source: RBI/2014-15/130 (DGBA.CDD. No. 293/15.02.001/2014-15) dated: July 17, 2014.

INDIAN ECONOMY - NEWS

• RBI eases reserve norms for banks' infra bond sales

The Reserve Bank of India said that it will allow long-term bonds raised by banks for infrastructure lending to be exempted from mandatory reserve requirements, in line with the government's announcement in the budget last week.

Source: Reuters, dated: 15 Jul 2014

• June inflation eases to record low, drought remains a risk

India's inflation eased in June after the new government curbed farm exports, but a growing risk that drought will damage summer crops could encourage the central bank to keep interest rates on hold at a policy review meeting early next month.

Source: Reuters, dated: 14 Jul 2014

• Finance secretary Mayaram defends 4.1 percent fiscal deficit target

Finance Secretary Arvind Mayaram said that plans announced in this week's budget to stick to a fiscal deficit target of 4.1 percent of GDP are "very credible", despite criticism from ratings agencies that the number is optimistic.

Source: Reuters, dated: 12 Jul 2014

• Industrial output grows 4.7 pct in May y/y

India's industrial production grew an annual 4.7 percent in May, the highest since October 2012, providing welcome positive news for Prime Minister Narendra Modi's new government as manufacturing activity and electricity generation increased.

Source: Reuters, dated: 11 Jul 2014

• Jaitley talks tough on Indian budget, shares hit record highs

Finance Minister Arun Jaitley's warning against "mindless populism" propelled Indian stocks to record highs on 2nd July 2014, as investors bet that his maiden budget next week will stabilize the wobbly public finances.

Source: Reuters, dated: 2 Jul 2014

(For further details on these issues, please visit the Institute's website: www.icmai.in for the complete CMA E-Bulletin, August 2014, Vol 2, No. 8, in the 'Research and Publications' section.)

the MANAGEMENT ACCOUNTANT

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PAPERS INVITED

Cover stories on the topics given below are invited for *The Management Accountant* for the four forthcoming months.

Issue months	Themes	Sub-topics
September 2014	Forensic Accounting (FA) & Audit	• Definition, objectives and techniques • FA in comparison to other accounting parameters • FA – applicability and consequence in today's economy • FA and Performance Evaluation • Fraud Risk Management Strategy • FA - an application of Techno-Management Accounting • Fraud Triangle and examination
October 2014	Urban Development and Economic growth	• Uniqueness of Municipal Accounting • Urbanism & Consumption Amenities • Rural-Urban continuum & environmental issues • Financing urban infrastructure & town planning • Performance Evaluation parameters of Urban Projects • Project monitoring for sustainable growth • Comparative Analysis of Urban Projects – India & Abroad
November 2014	Agriculture and the Indian Economy	• Pricing of agricultural products and its marketing • Cost of input, storage, distribution, R&D and its analysis • Drop out problem of agricultural land and labour • Food security • Application of cost management in agriculture • Accounting of agricultural activities • Agriculture and sustainable economic growth
December 2014	Strengthening Human Resource – Building the Nation	• Human Resource Accounting • HRIS for strategic decision making • Ethical HR and Governance for sustainable growth • Cross-cultural issues in HRM • Industrial relations and challenges in the new era • Compensation and benefits for effective talent management • Performance management for strategic goal setting • Case Studies

The above subtopics are only suggestive and hence the articles may not be limited to them only. Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in latest by the 1st of the previous month.

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THE SOCIETAL IMPORTANCE OF COST ACCOUNTING STANDARDS

The Cost Accounting Standards are principles that deal with the principles of costing, and provide guidance on the preparation of General Purpose Cost Statements, which require attestation by the cost accounting profession, wherever applicable

CMA Rakesh Singh
Chairman
Cost Accounting
Standards Board, and
Former President,
The Institute of Cost
Accountants of India

IFAC'S mission statement gives due emphasis to the public interest and recognizes that a fundamental way to protect this public interest is to develop, promote, and enforce internationally recognized standards as a means of ensuring the credibility of information upon which investors and other stakeholders depend. IFAC, therefore, strives to serve the public interest through the facilitation of the development of standards in auditing, education, ethics, and public sector financial reporting by:

- advocating for transparency and convergence in financial reporting; and
- implementing a mem bership compliance program.

IFAC also provides International Good Practice Guidance for professional accountants in business.

In line with this framework, and even prior to the foundation of IFAC, professional and regulatory bodies all over the world develop accounting standards based on generally accepted principles and practices followed in their countries. These have been enforced through law, promoted by a regulatory mechanism, or voluntarily followed by all business entities. Standards help to ensure uniformity and consistency in the preparation and reporting of various financial statements.

Post-World War II, all economies, irrespective of their economic structure, started to lay much greater emphasis on cost accounting principles and ensured that all business organizations follow them, at the very least when dealing with the state. Cost accounting was developed as a separate discipline in accountancy, and promoted efficiency in resource utilization. Gradually, new skills developed in this field and it slowly attained a prime position in any organization's functioning.

IFAC's International Good Practice Guidance, Evaluating and Improving Costing in Organizations, highlights the importance of cost accounting to organizations:

The creation, operation, alteration, and cessation of every action and function in an organization, whether within the private, public, or voluntary sector—all incur costs. Costing—the accumulating and assigning of costs to the organization's various activities—enables the organization's cost structure to be understood, explained, and improved.

The guidance recognizes the importance of costing in assessing organizational performance in terms of shareholder and stakeholder value. It informs how profits and value are created, and how efficiently and effectively operational processes transform input into output. It includes product, process, and resource-related information covering the organization and its value chain. Costing information provides feedback on past performance but should also be used effectively to motivate future performance.

In India, the Cost Accounting Records Rules set by the government for 44 industries deal with the various items of cost and the way in which they have to be reported in the Cost Statement in accordance with the cost accounting principles. Since there were no generally accepted cost accounting principles, these were left to be understood by each company or by each cost accountant, as they understand or with reference to the explanations given in various textbooks on the subject.

This led to adoption of practices with a lack of uniformity in preparation and presentation of cost statements. To promote uniformity, there was an urgent need to integrate, harmonize, and standardize the cost accounting principles and practices. Therefore, the Generally Accepted Cost Accounting Principles have been clearly defined and well documented in the form of the Cost Accounting Standards.

The Cost Accounting Standards:

- provide a structured approach to measurement of costs in manufacturing process or service industry;
- integrate, harmonize, and standardize cost accounting principles and practices;
- provide guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products and services;
- arrive at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;
- enable practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost statements; and
- assist in clear and uniform understanding of all the related issues by various user organizations, government bodies, regulators, research agencies, and academic institutions.

Facilitating and promoting uniformity and consistency not only helps in better understanding (e.g., clear and in a uniform manner) of all the related issues by companies and/ or by the professional fraternity, but it also helps various user organizations, government bodies, regulators, research agencies, and academic institutions. Clearly defined and well-documented Generally Accepted Cost Accounting Principles govern a highly professional job that can only be done by the concerned professional bodies and individuals in India.

Precisely for these reasons, various national level institutes have issued or are in the process of issuing standards in areas under their domain. For example, the Institute of Chartered Accountants of India issues financial accounting and auditing standards; Institute of Company Secretaries of India issues secretarial standards; and the Institute of Cost Accountants of India issues cost accounting and audit standards. The Institute of Cost Accountants of India has assigned topmost priority for issuing all required cost accounting standards. These are prepared in consultation with all stakeholders.

The Cost Accounting Standards are principles based, deal with the principles of costing, and provide guidance on the preparation of General Purpose Cost Statements, which require attestation by the cost accounting profession, wherever applicable. The Cost Accounting Standards Board (CASB) should also keep in focus the Generally Accepted Cost Accounting Principles and codify them so that with the passage of time, an accepted framework of can evolve and remain capable of adoption by all users of the standards, including industries, professionals, and other stakeholders.

The Cost Accounting Standards framework has been adopted by the CASB with the following structure:

1. **Introduction:** brief details about the topic and its role in the cost statements
2. **Objectives:** basic objective that necessitated the standard
3. **Scope:** scope of applicability
4. **Definitions:** terminology used in the standard
5. **Principles of Measurement:** principles behind the ascertainment, measurement, determination, and categorization of elements of cost
6. **Assignment of Costs:** basis of assignment of costs to the product or service and the generally accepted cost accounting principles behind such assignment
7. **Presentation:** essence of the standard and the prescriptive nature to be followed for any certification requirement
8. **Disclosure:** specific disclosures required in the presentation to provide clarity

The CASB has identified 39 areas for developing the CASs, which include the 22 standards so far. Of these, 21 areas relate to components of cost and the remaining 18 areas are on cost accounting methodologies. These areas are broadly in line with the Cost Accounting Records Rules already framed by the government and in vogue for different industries. – *Source: IFAC website* MA

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CAS No.	Title of Cost Accounting Standard
CAS 1	Classification of Cost
CAS 2	Capacity Determination
CAS 3	Overheads
CAS 4	Cost of Production for Captive Consumption
CAS 5	Average (equalized) Cost of Transportation
CAS 6	Material Cost
CAS 7	Employee Cost
CAS 8	Cost of Utilities
CAS 9	Packing Material Cost
CAS 10	Direct Expenses
CAS 11	Administrative Overheads
CAS 12	Repairs And Maintenance Cost
CAS 13	Cost of Service Cost Centre
CAS 14	Pollution Control Cost*
CAS 15	Selling and Distribution Overheads
CAS 16	Depreciation and Amortisation
CAS 17	Interest and Financing Charges
CAS 18	Research and Development Costs
CAS 19	Joint Costs
CAS 20	Royalty and Technical Know-How Fee
CAS 21	Quality Control
CAS 22	Manufacturing Cost

COMPETITIVE STRATEGY AND COST ACCOUNTING STANDARDS

In a competitive business environment, CMAs have to play a challenging role and they have to give detailed notes and explanations if there is any anomaly or abnormal change in comparative cost per unit of any cost compared to last year

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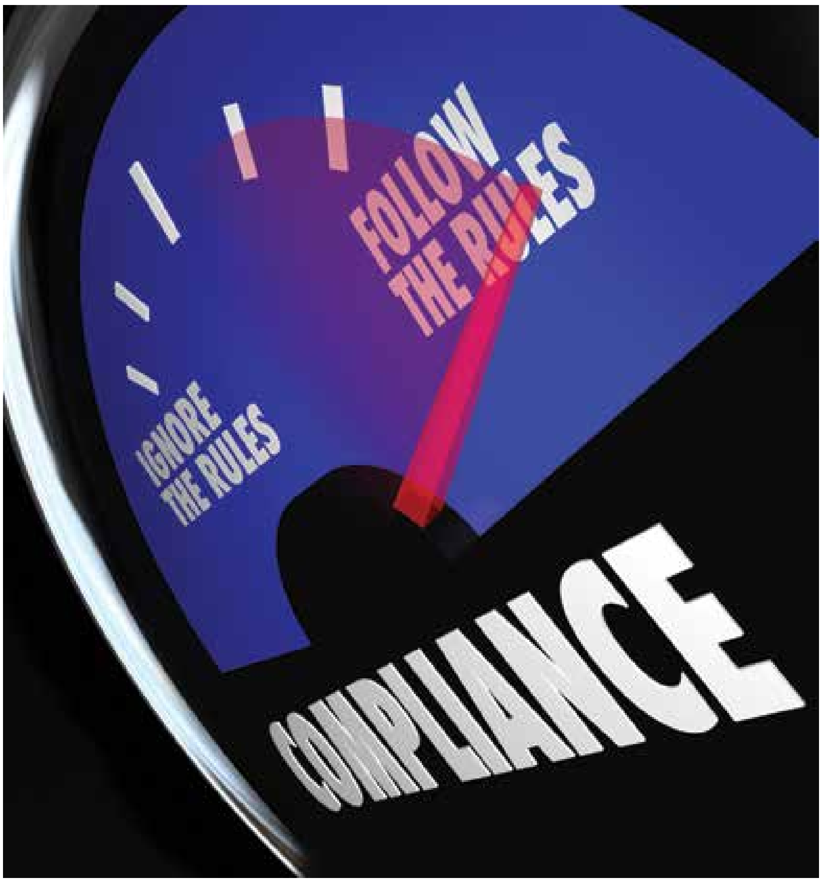

COST and Management Accounting was evolved in early 20th Century. Cost and Management Accounting is the modern concept of financial accounting. Limitation of financial accounting has been addressed in Cost and Management Accounting. For Example, financial accounting fails to provide product wise profit/ (loss) report where as Cost and Management Accounting provide product wise profit/ (loss) report which is more detail and transparent compare to financial accounting.

At present, Cost and Management Accounting information has been accepted and mostly used by CBDT, CBEC and State Government for ascertaining appropriate tax. As a result, Government can get its share transparently.

In a competitive environment, the management of a firm has to take decisions about profit, dividend and share valuation. There is an inverse relationship between profit and competitiveness. In a more competitive industry, firms are price taker. They cannot fix their price above the competitor. As the price is fixed, in order to increase the profit of the firm, they need to emphasis on the cost reduction at better quality, increase in volume and optimum utilisation of firm's resources.

Minimisation of cost in better quality of product and increase in volume is the ultimate objective and challenge of management of a firm. SWOT analysis of a firm in competitive environment is as follows:

- Strength: Quality of Product
- Weakness: Cost Minimisation
- Opportunities: Market share of the product
- Threat: Competitiveness

The management of the firm has a target to increase the value of share and wealth of the firm. In order to maintain the market value of share, attractive EPS and DPS is required. Thus to increase the performance of the firm different types of tools and techniques are being applied like target costing, Activity Based Costing, ABC Analysis and cost volume and profit analysis etc.

In this competitive environment, the challenging role of CMA is not only to comply with Act and Rule but also it is a commitment towards

Table 1

CAS No	Title	Objective
CAS1	Classification of Cost	For preparation of Cost Statements
CAS2	Capacity Determination	For determination of capacity
CAS2 (Revised 2012)	Capacity Determination	To bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.
CAS3	Overheads	For Collection, Allocation, Apportionment and Absorption of overheads
CAS3 (Revised 2011)	Overheads	To bring uniformity and consistency in the principles and methods of determining the Overheads with reasonable accuracy.
CAS4	Cost of Production for Captive Consumption	To determine the assessable value of excisable goods used for captive consumption.
Annexure to Appendix 1 (CAS-4)		
CAS5	Average (equalized) Cost of Transportation	To determine averaged/equalized transportation cost
CAS6	Material Cost	To bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy in an economically feasible manner.
CAS7	Employee Cost	To bring uniformity and consistency in the principles and methods of determining the Employee cost with reasonable accuracy.
CAS8	Cost of Utilities	To bring uniformity and consistency in the principles and methods of determining the Cost of Utilities with reasonable accuracy.
CAS9	Packing Material Cost	To bring uniformity and consistency in the principles and methods of determining the Packing Material Cost with reasonable accuracy.
CAS10	Direct Expenses	To bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy.
CAS11	Administrative Overheads	To bring uniformity and consistency in the principles and methods of determining the Administrative Overheads with reasonable accuracy.
CAS12	Repairs And Maintenance Cost	To bring uniformity and consistency in the principles and methods of determining the Repairs and Maintenance Cost with reasonable accuracy.
CAS13	Cost of Service Cost Centre	To bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy.
CAS14	Pollution Control Cost*	To bring uniformity and consistency in the principles and methods of determining the Pollution Control Costs with reasonable accuracy.

society and common people. CMAs' have to prepare the report not only based on financial report and other report but also they have to examine the entire business process, market situation, internal checking, internal control, vouching of various documents, physical verification of Stock etc. and have to analysis the entire mission, vision, objective, tactics, and strategy of the firm. CMAs' have to give their opinion based on application of Cost Accounting Standard (CAS) and overall situation of the firm.

According to the dynamic competitive environment, there has been significant change in the application of costing principle and practice. In order to apply uniform and consistent cost principle and practice, The ICAI has issued twenty two Cost Accounting Standards over the period of time as mentioned in **Table 1**.

CAS No	Title	Objective
CAS15	Selling and Distribution Overheads	To bring uniformity and consistency in the principles and methods of determining the Selling and Distribution Overheads with reasonable accuracy.
CAS16	Depreciation and Amortisation	To bring uniformity and consistency in the principles and methods of determining the Depreciation and Amortisation with reasonable accuracy.
CAS17	Interest and Financing Charges.	To bring uniformity and consistency in the principles ,methods of determining and assigning the Interest and Financing Charges with reasonable accuracy.
CAS18	Research and Development Costs	To bring uniformity and consistency in the principles and methods of determining the Research, and Development Costs with reasonable accuracy and presentation of the same.
CAS19	Joint Costs	To bring uniformity and consistency in the principles and methods of determining the Joint Costs.
CAS20	Cost Accounting Standard on Royalty and Technical Know-How Fee	To bring uniformity and consistency in the principles and methods of determining the amount of Royalty and Technical Know-how Fee with reasonable accuracy.
CAS21	Cost Accounting Standard on Quality Control	To bring uniformity, consistency in the principles, methods of determining and assigning Quality Control cost with reasonable accuracy.
CAS22	Cost Accounting Standard on Manufacturing Cost	To bring uniformity and consistency in the principles and methods of determining the Manufacturing Cost of excisable goods

Source: http://casbicwai.org/CASB/casb-resources.asp

The professional business has been also more competitive. In order to survive in this competition, dynamic changes in knowledge, professionalism, innovation, development are required. In order to apply the innovative idea, principle, transparency in cost accounting, CMAs' are required to work together. As a result, the utility of cost accounting will be acceptable to all industries. In addition to above, following areas need to be developed in Cost Accounting Standard.

1. Contingent Expenses
2. Prior period Expenses
3. Provision for Expenses
4. Deferred Expenses
5. Penalty Expenses
6. Non-recurring Items
7. Unproductive Expenses
8. Avoidable Expenses
9. Legal Expenses
10. Retirement Benefit
11. Valuation of Stock

1. Contingent Expenses: Contingent Expenses is expenses which is likely to be incurred in future but related to current year. For example, suppose labour contractor demand for extra amount of say Rs. 2 crore which is beyond the contract for extra work. The labour contractor took legal action in the year 2000-01before the honourable court. The honourable court gave direction in the year 2013-14 that the demand of contractor is legitimate and the contractor will be paid Rs. 2 Crore. In this situation, whether the labour cost of Rs. 2 Crore will be recognised in 2000-01 or in 2013-14. Proper guideline is required for recognition and presentation of above situation.

There are three types of possibilities.
a) If the cost is recognised in 2000-01 and the verdict of honourable court is against of labour contractor.
b) If the cost is not recognised in 2000-01 and the verdict of honourable court is in favour of labour contractor.
c) If the cost is recognised in 2013-14 based on the verdict of honourable court.

In the above situation, as we follow the conservatism principle in accounting, cost will be recognised in 2000-01 and maintain a separate account of Rs. 2 Crores (if there is other contingent expenses) or give credit labour account in 2013-14 (if there is no other contingent expenses) in case of the verdict of honourable court is against of labour contractor.

2. Prior period Expenses: Prior period expenses is expenses which was not recognised in related previous any year as it was unknown, is to be recognised in current period as it has come to know. For example, salary and wages has been revised in 2013-14 w.e.f. 2010-11. Arrear salary wages of 3years is say 10 crores. If the 10 crores is recognised in 2013-14, the profit for the year 2013-14 will not be true. Proper guideline is required for recognition and presentation of Prior period Expenses. It has to be disclosed separately and what is the impact in profit if such items are considered in the current year. Detail auditor note is required for the impact in current year and concerned year e.g. the auditor has to give comment on the impact of Rs. 10 crores in 2010-11 and 2013-14.

3. Provision for Expenses: When goods/services are consumed but no accounting entry has been passed in books of accounts. In such cases, estimated cost is recognised in order to ascertain true and fare profit. It is also a tool to increase or decrease of profit as per requirement. There is no clear guideline for provision for expenses. Provision for expenses may be including of financial expenses e.g. bad debt which is not to be considered in cost accounting. In case of vouching of provision for expenses, following areas are to be examined –

a. Verification of purchase order/ work order.
b. Physical verification of goods/services which have been delivered.
c. Confirmation from the parties, who has supplied goods/services, has recognised as revenue in books of account.
d. Method of calculation.
e. Certificate from concern expert.

4. Deferred Expenses: Like provision for expenses there is no such guideline for deferred expenses. Deferred expenses is opposite of provision for expenses. When any cost has been incurred and entry has been passed in books of accounts but the cost is related to future period to come. It is also a tool to increase or decrease of profit as per requirement. In case of vouching of deferred expenses, following areas are to be examined –

a. Verification of purchase order/ work order.
b. Physical verification of goods/services which have been delivered.
c. Confirmation from the parties, who has supplied goods/services, has recognised as revenue in books of account.
d. Method of calculation.
e. Certificate from concern expert.

5. Penalty Expenses: Any expense is incurred by the management for their own default or wrong decision. It is a financial expense which can not be considered in cost accounting as expenses. It will appear in reconciliation of profit between finance and cost.

6. Non-recurring Items: Non-recurring expenses or income is expense or income which does not take place in every year. Auditor has to give detail report on nature of expenses, reason of expenses and impact of such expenses.

7. Unproductive Expenses: Unproductive expense is expenditure which is not relating to production or value addition process. Unproductive expenditure may be avoidable and unavoidable. For example, loss of manpower, loss of machine hour due to loss of power, breaks down of machine, strike etc. Auditor has to give detail report on nature of expenses, reason of expenses and impact of such expenses.

8. Avoidable Expenses: Avoidable expenses are such unproductive expenses which can be voided through right decision at right time. For example, distribution of job throughout the month can reduce the over time labour cost. Auditor has to give detail report on nature of expenses, reason of expenses, and impact of such expenses and how the expenses could be avoided.

9. Legal Expenses: Legal expenses is expense which is required in every aspect of business activity such as R&D, trade mark, income tax, corporate affair, contract, sales tax, service tax etc. Generally, Legal expense is considered under office and administrative overhead but legal expense should be classified and allocated into following categories –

a) Research & Development: Legal expense to be allocated to R&D Expense
b) Trade Mark: Legal expense to be allocated to Selling & Marketing Overhead
c) Royalty: Legal expense to be allocated to respective product.
d) Income Tax: Legal expense not to be allocated in cost accounting
e) Corporate Affairs: Legal expense to be allocated to Office and Administrative overhead.
f) Sales tax: Legal expense to be allocated to Material Cost.
g) Service Tax: Legal expense to be allocated to Material Cost
h) Others: Legal expense to be allo-

cated based on appropriate cost driver.

10. Retirement Benefit: Retirement benefit is the expense which is to be incurred in future but partial benefit of such expense has been utilised current year. In case of retirement benefit, method of calculation as per accounting standard -15 issued by Institute of Chartered Accountants of India is followed but new and better method can be developed by the Institute of Cost Accountants of India. Retirement benefit is generally considered in office and administrative overhead but retirement benefit is given to all employees who work in plant and office. So the retirement benefit has to be classified into two broad categories (1) Direct Expenses [for worker who directly involve in production process] (2) Indirect Expenses. Further, the indirect expenses has to be classified into (a) factory expense [for employee who work in factory but not directly involve in production] (b) office & administrative overhead [for employee who work in office].

11. Valuation of Stock: Valuation of Stock plays a significant role for determining the true profit of the firm. Valuation of material cost in CAS – 6 gives the guideline for valuation for stock but more clear guideline is required for;

a. Valuation of raw material
b. Valuation of work-in-progress
c. Valuation of finished goods

Valuation of raw material: There are two types of raw materials such as

i) Imported
ii) Indigenous

There should be clear guideline for valuation of imported & indigenous raw materials. Following costs may be considered for valuation for imported raw material.

a) Raw material cost
b) Freight cost (towards port)
c) Insurance Cost
d) Custom Duty
e) Other non recoverable taxes
f) Carrying cost (at port site)
g) Freight cost (towards plant i.e. inbound logistic)
h) Carrying cost (at plant site)

Following costs may be considered for valuation for imported raw material.

a) Raw material cost
b) Freight cost (towards plant i.e. inbound logistic)
c) Insurance Cost
d) Carrying cost (at plant site)
e) Non recoverable taxes

Valuation of work-in-progress: There should be clear guideline for valuation of work-in-progress. Following costs may be considered for valuation of work-in-progress.

a) Raw material cost
b) Allocation of direct wages
c) Allocation of direct expenses
d) Application of equivalent production
e) Identify the component of factory cost/overhead
f) Apportionment of factory cost/overhead
g) Apportionment of other indirect expenses

Valuation of finished goods: There should be clear guideline for valuation of work-in-progress. Following costs may be considered for valuation of finished goods.

a) Raw material cost
b) Allocation of direct wages
c) Allocation of direct expenses
d) Application of equivalent production
e) Identify the component of factory cost/overhead
f) Apportionment of factory cost/overhead
g) Apportionment of other indirect expenses
h) Apportionment of office and administrative overhead
i) Apportionment of carrying cost
j) Apportionment of freight cost (outbound logistic).

Finally, in a competitive business environment, the CMAs have to play a challenging role and CMAs have to give detailed notes and explanations if there is any anomaly or abnormal change in comparative cost per unit of any cost compared to last year. In order to create more value added reports in comparison to other reports, CMAs have to give more transparent and detailed reports which is more useful to user. MA

IN A COMPETITIVE ENVIRONMENT, THE CHALLENGING ROLE OF A CMA IS NOT ONLY TO COMPLY WITH THE ACT AND THE RULE BUT IT IS ALSO A COMMITMENT TOWARDS SOCIETY AND THE COMMON PEOPLE

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CAS A MUST FOR COST COMPETITIVENESS: EVIDENCE FROM SOME COMPANIES

High net worth companies follow the cost accounting standard and that is why they are able to manage costs better than other companies

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TO be cost competitive in the market, company should provide delicious quality of products at comparatively lesser cost as compared to other competitors. It will help to amplify the competitive capability of individual firms by taking advantage of obtainable resources efficiently and successfully. Cost competitiveness has been at the heart of the Japanese success in 1980s. Target Costing and 'Kaizen' Costing are two mantras contributed by the Japanese to the dictionary of management accounting. An economy like Japan has experienced the evolution of cost accounting standards as a part of the pre and post world war build up of economic revival. Sec. 209(1) (d) of the Companies Act, 1956 provides for maintenance of cost accounting records for certain classes of companies and section 233B provides for audit of cost accounts of such companies as ordered by the Central Government. The Institute of Cost Accountants of India (ICAI) recommends the Cost Accounting Standards (CAS) to be followed by companies in India to which statutory maintenance of cost records is applicable. A Group of Experts appointed by the Ministry of Corporate Affairs, advised the Government to enable development of relevant cost accounting methodologies and standards to increase the competitiveness of the Indian manufacturing sector. In September 2000, IFAC published a Study Paper where they concluded that a useful governmental perspective on cost accounting is aimed at improving public sector financial management and accountability. IFAC has started recognizing the need for adequate cost information and reporting framework to the governing body of enterprises for risk-management and decision making needed to enhance the stakeholders' value.

Literature review: Relevant Study & literatures were reviewed to identify the research gap if any in the context of accounting standard specially CAS and its impact in cost competitiveness of the firms. The history of cost accounting dates back to the 1800s with the emergence of large enterprises like textile mills, railroads, steel companies,

TO FACE THE GLOBAL COMPETITION AND CHALLENGES TO MINIMIZE COST OF PRODUCTION WITH HIGH QUALITY PRODUCTS ARE THE MAJOR CONSCIOUS CONCERNS OF THE INDUSTRIES

and retail companies. The need for measuring efficiency and determining the cost of converting raw materials and transporting goods or passengers gave rise to management accounting systems to support the profit-seeking activities of entrepreneurs. By the late nineteenth century, cost standards for improved efficiency and pricing were developed. In 1925, according to Johnson and Kaplan, virtually all of the traditional cost accounting practices prevalent today had been developed, including "cost accounts for labor, material, and overhead; budgets for cash, income, and capital; flexible budgets, sales forecasts, standard costs, variance analysis, transfer prices, and divisional performance measures" (Johnson, 1987). In the Business Council Bulletin concern (Australia, 1990) was expressed that standards, despite being theoretically desirable, might have undesirable economic consequences. A dependable cost management system helps in "reducing costs, improving productivity, and assessing product-line profitability" (Hansen , 2009).

By using the concepts within cost accounting, businesses are better equipped to enter the global market and compete in today's modern world. The use of "standard costing variance analysis has been viewed as the most effective tool for cost control" (Kaplan, 1990). Michael E. Porter's notes that a business can develop a sustainable competitive advantage by following two strategies: Cost leadership strategy or differentiation strategy (Porter, 1985). Under a cost leadership, Kleiman argues that firms must provide the same services or products as their competitors, but at a lower cost (Kleiman, 2000). True competitive advantages achieved through higher entrant product quality and product advantage facilitate entry and lead to higher market shares (Gatignon H, 1990). Fischer and Schornberg (Fischer, 2007) have argued that market share is a useful competitiveness indicator at the company level even when analyzing aggregates, market shares may be problematic.

From the aforesaid literature review we have observed that no study has so far been commenced considering the variables from CAS impacting firm's cost competitiveness position as well as profitability and market share covering global financial meltdown period.

Statement of the problem: To sustain in the global and domestic market a firm must be aware for proper utilization of resources used by them for production, finally to offer reasonable price to the end user. To face the global competition and challenges to minimize cost of production with high quality products are the major conscious concern of the industries. The industries can optimize their cost of production by adopting cost control techniques. Porter (1998) argues that competitiveness meant the ability to compete in world markets with a global strategy. Cost audit system by their CAS helps to establish proper strategies by grows the consciousness about cost advantage to face the global challenges. Cost audit focuses on performance evaluation and production efficiencies by detecting the efficient use of labour and optimum use of material and its wastage. It is necessary to provide adequate information support concerning the process of business strategy formulation and implementation, i.e. finding adequate directions leading to the strengthening of the competitive position on the increasingly turbulent market. In a global environment, companies have even more competitors to contend against in the industry. With reliable cost accounting by help of CAS, the business can achieve a competitive edge against its competitors.

Objective of the study: The main objective is framed for the study to measure CAS's impact among the companies to achieve cost competitiveness.

Research methodology: Analytical research was conducted to attain the aforesaid objective. We consider six companies from the list of cost audit mandatory companies as per ICAI /MCA rules on the basis of highest net worth(more than Rs.33000 cr) and on the other hand lowest net worth (Rs.1 cr to 2 cr) companies as on 31'st March 2013. The relevant secondary data have been collected from the Capitaline NEO software for a period of six years from 2007-08 to 2012-13. To analyze the cost efficiency and cost competitiveness position of the cost audit report publishing company we have considered variables like Sales Turnover (ST), Raw Materials(RM), Power & Fuel Cost(P&F), Employee Cost(EC), Other Manufacturing Expenses(OMF), Selling and Administration Expenses(S&Adm.), Miscellaneous Expenses(Misc.Exp.), Total Expenditure(TE), Reported Net Profit(RNP), Market Share(MS) during the period covering six years ending on March 31, 2013.

For measuring cost efficiency, the following model has been used:

$$EI_{CM} = PI_{CM} \times UI_{CM} \qquad \text{i}^1$$

Where, EI_{CM}= Efficiency Index of cost management, PI_{CM}= Performance Index for cost management, and UI_{CM} = Expense Utilization Index

Performance index of cost management can be, thus, define as:

$$\text{Performance Index (PI CM)} = \frac{I_B \sum_{i=1}^{N} \frac{C_{i(t-1)}}{C_{it}}}{N} \qquad \text{(i)}$$

Where C_i = individual cost items I_B = business index defined as: $\frac{B_t}{B_{t-1}}$

and N= number of cost items,

PI_{CM}>1 indicates efficiency in managing cost items of a firm.

Performance index represents the average overall performance in managing the components of cost items; expense utilization index indicates the ability of the firm in utilizing its expenses as a whole for the purpose of generating total business. Expense utilization index can, so be defined as:

$$\text{Expense Utilization Index } (UI_{CM}) = \frac{E_{t-1}}{E_t} \qquad \text{(ii)}$$

$$\text{Where } E = \frac{\textit{Total Expenses}}{\textit{Total Business}}$$

Efficiency index of cost management is the product of performance index and expense utilization index and it is the final indicator of efficiency in cost management. Thus,

$$\text{Efficiency Index } (EI_{CM}) = \left[\frac{I_B \sum_{i=1}^{N} \frac{C_{i(t-1)}}{C_{it}}}{N}\right] \times \frac{E_{t-1}}{E_t} \qquad \text{(iii)}$$

In order to examine cost efficiency of the selected firm, all the three indices have been calculated and analyzed in this study.

5. Results and discussion:

Performance index of cost management

Performance index of cost management represents average performance index of the various cost components. A firm is said to have managed its cost items efficiently if the proportionate rise in volume of business is more than proportionate increase in different cost items. Numerically, performance index more than 1 indicates efficient management of cost items. Annexure table 1 show that Average performance index among the selected high net worth companies is 2.0117 that shows us a healthy managed cost item for following cost audit and for their efficient key people. Reliance Industry index is 6.24 due to control of Misc. expenses during the year end 2009-10. Bharti Airtel (index 1.53) manages cost items very well and it help to run the turf of Telecom service provider industry i.e. Industry CAGR 7.72 % where as Airtel's growth is 12.03% during the periods of 2007-08 to 2012-13. Finally it increases market share 4% CAGR over the said periods. In Aluminum sector Hindalco Inds' avg. performance index is 1.02 and co's business growth was more than the industry average growth during the periods. During the economic slowdown period all the companies under high net worth are able to recover from the financial turmoil situation and it assuring by high and positive business growth (11.2267) & operating profit (0.275) during these periods along with positive CAGR of market share.

On the other hand average performance index among the selected low net worth companies is 1.2033 that shows us that these companies are inefficient to manage cost items during the recession periods. In case of Gagan Gases performance index 1.6 but their business was down day by day (sales CAGR -21.91), the

[1]Bhattacharya (Total Management by ratios, Sage Publication, 2007, p. 212) developed this model for a manufacturing firm.

same thing is happen in case of Cosboard Inds its performance index is 1.21 and sales down by -2.74 during the periods of 2007-13. Everlon Synth outperformer among the low net worth companies its average performance index is 1.20 and Co's sales CAGR (24.77) bet the industry performance (19.37).

Utilization Index of cost management

Expense utilization index indicates the ability of the firm in utilizing its expenses as a whole for the purpose of generating total business. If an increase in total expenses is coupled with more than proportionate increase in business, the degree of utilization of expenses with respect to business is said to have improved and vice versa. Thus, a value of utilization index greater than one is desired. IOCL performed well among the high net worth company i.e. 1.00 and other companies are near to one. It was assured by positive Operating Profit CAGR during the periods 2008-14, i.e. Bharti Airtel 6.8 %, RIL by 6.03 %, Tata Steel 5.16% and negative by SAIL(-16.08) & Hindalco Inds(-4.03). On the other side low net worth companies are unable to participate the growth phase of particular industry that's why there are no effect of better Expenses Utilization Index.

Efficiency Index of Cost Management

Efficiency index of cost management is the product of performance index and the utilization index and measures the ultimate efficiency in cost management of company. Table 1 shows that average performance efficiency index for the selected high net worth companies is 1.96. Efficiency index of cost management for Reliance Industries is as high as 6.24 along with all indicators in the table 1. Low net worth companies are unable to perform the standard level and co's turnover going down rapidly.

Conclusion

From the aforementioned analysis it may be guessed that financial recession made significant cavity in the PAT of the selected companies. An attempt has been made in the present study to measure CAS's impact among the companies to achieve cost competitiveness. High net worth companies follow the cost accounting standard that's why they have more ability to manage cost control mechanism. For that most of them are able to increase their market share during these periods (Tata Steel=4.76 %, Reliance Industries = 4.34 %) and co's sales CAGR more than industry performance. In refineries sector sales CAGR is 16.60 during the periods 2008-13 where Reliance Industries 21.66 % & IOCL 11.96%. Telecommunication sectors sales CAGR 7.72 % where Bharti Airtel sales CAGR 12.03%. On the other hand low net worth companies, most of them plucked to manage cost (OP CAGR % of Sword & Shield= -237.97, Gagan Gases= -197.24) as consequence they are under performer in the industry (Sales CAGR of Industrial Gas= 10.51& Pharmaceuticals-Formulations=4.29) and market share was down heavily (Sword & Shield= -4.52, Gagan Gases= -29.33). Finally they lose the cost competitiveness position over the industry due to unaware & unscientific way of cost management. However, analysis concerning to taking more components in a large canvas would give significant result for evolving comprehensive strategy to implement CAS rule. Annexure on next page.

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Table 1: Different Indexes (2009-14) & CAGR %(2008-14)

Components / Name of company	Net Worth 2012-13	Performance Index(avg)	Expense Utilization Index(avg)	Efficiency Index(avg)	Industry Total Sales CAGR %	Co's Sales CAGR%	PAT's CAGR%	MS CAGR%	OP CAGR%
Reliance Inds.	178966	6.4	0.98	6.24	16.6	21.66	1.54	4.34	6.03
IOCL	61124.31	1.15	1	1.15	16.6	11.96	-6.39	-3.98	3.77
Tata Steel	55209.84	0.98	0.96	0.94	8.61	13.78	1.56	4.76	5.16
Bharti Airtel	54144.1	1.53	0.97	1.48	7.72	12.03	-3.98	4	6.8
S A I L	41024.64	0.99	0.96	0.95	8.61	1.68	-22.04	-6.38	-16.08
Hindalco Inds.	33972.39	1.02	0.99	1	4.8	6.25	-9.9	1.39	-4.03
Average of selected cost		*2.0117*	*0.9767*	*1.9600*	*10.4900*	*11.2267*	*-6.5350*	*0.6883*	*0.275*
Gagan Gases	1.16	1.6	0.95	1.66	10.51	-21.91	**-126**	-29.33	-197.24
Sword & Shield	1.2	1.12	1	1.13	4.29	-0.42	-14.9	-4.52	-237.97
Sr. Jayala. Auto	1.47	1.11	1	1.1	14.94	7.12	-244.04	-6.8	-8.46
Cosboard Inds.	1.66	1.21	0.99	1.2	11.91	-2.74	-58.7	-13.09	-207.96
Kusam Electr.	1.66	0.98	0.97	0.95	13.83	13.56	-15.24	-0.24	-7.49
Everlon Synth	1.71	1.2	1.01	1.21	19.37	24.77	-1.98	4.53	14.68
Average of selected cost		*1.2033*	*0.9867*	*1.2083*	*12.4750*	*3.3967*	*-76.8150*	*-8.2417*	*-107.4067*

Source: Self Calculations

COST & MANAGEMENT ACCOUNTING PRACTICES AND STANDARDS: A REVIEW WITH RESPECT TO STATUTORY CHALLENGES

In order to regain its past glory, the CMA profession needs to embark upon two major strategies viz. skill upgrading and industry appreciations

CMA Debtosh Dey

In this article, we will review some of the major challenges before Cost & Management Accountants (CMAs) unfolding in key statutory provisions that otherwise enlarges scopes to the profession, directly or indirectly. Such provisions include fraud reporting by (cost) auditors, pricing of related party transactions, business valuation, services of internal auditor, CFO & independent director. This article also focuses on the strengths that need to be built up in Cost & Management Accounting practices and standards for meeting such challenges.

Major stautory challenges before CMAs

1. Fraud reporting by (cost) auditors - Section 143(12) of the Companies Act, 2013 include auditor's duties & liabilities for reporting fraud to Central Govt, if the auditor has reasons to believe that such fraud is committed by officers or employees against the company. Rule 13 of Companies (Audit & Auditors) Rules, 2014 prescribes Form ADT-4 for such reporting as also the procedure to be followed. By virtue of Section143(14)(a), provisions of section143 apply mutatis mutandis to cost audit u/s 148.

In this context, it is important to note that even omission of material fact in statements, report, return, prospectus, etc may become 'false statement' (S. 448) attracting penal liabilities for 'fraud', a new provision u/s 447.

It is noteworthy that offences constituting 'fraud' are non-bailable under Companies Act, 2013. The cognizance of such offences can be taken by Special Court (u/s 435) against complaint by Director of SFIO or any other officer authorized by Central Govt. Sec 212(6) details such offences. One of these is falsification in company's documents u/s 448 aforesaid.

Therefore, it is utmost necessary that the cost auditor exercises reasonable care and skill. The following provisions are also relevant in this regard :

a. Compliance of Cost Auditing Standards issued or to be issued by the Institute of Cost Accountants of India with Central Govt's approval as mandated u/s 148. (Four such standards have been prescribed so far).

Note: S. 143 mandating compliance of auditing standards by the auditor, also applies mutatis mutandis to cost audit u/s 148.

b. The cost auditor should take into account the conformance to Cost Accounting Standards (CAS) by the company being audited (Presently, there are twenty two standards).

Note: Unlike Accounting Standards referred to in S. 133 and 143, no mention of CAS is found in the Act or rules made under S. 148. ***However, there may be a question of law since provisions of S. 143 which, inter alia, require an auditor to consider accounting & auditing standards in relation to audit report to members, is made applicable mutatis mutandis to cost audit u/s 148 in sub-clause (14)(a) of S.143.*** **Therefore, though S. 143 is founded on a different context and as cost auditor never reports to members, application of S. 143 to S. 148 has to be understood with appropriate changes in context and meaning.**

[Rule 6(7) of Companies (Cost Records & Audit) Rules 2014 mentions only sub-clause (12) of S. 143 dealing with fraud reporting, as applicable mutatis mutandis to cost auditor functioning u/s 148. Also, sub-clause (15) of S. 143 providing for fines, refers to fraud reporting under sub-clause (12) aforesaid only for non-compliance].

c. The cost auditor should schedule his audit program with reasonable time allocated in each audit [As per Rule 6 of Companies (Cost Records & Audit) Rules 2014, a cost auditor has to be appointed within 180 days from the commencement of financial year and he is entitled to continue his assignment till expiry of 180 days or submission of cost report].

d. In reporting fraud, the (cost) auditor shall observe the time limit of 60 days prescribed in Rule 13 of Companies (Audit & Auditors) Rules, 2014 as follows : S/he shall first report suspected fraud to Board or Audit Committee as the case may be, seeking a reply within 45 days. S/he shall forward the report to Secretary, MCA within next 15 days (If reply is received within this time, the same should also be forwarded with his/ her comments). The rule also provides for immediate reporting to Board/ Audit Committee after the (cost) auditor becomes aware of fraud.

2. Internal Financial Controls (IFC)* – Companies Act, 2013 enlarges directors' duties & liabilities in more specific terms. One of these is collective duties of directors as a Board to make declaration on IFC and explain contrary views of the auditor (S. 134 read with S. 143).

*** Note: Explanation to S. 134(5)(e) defines IFC. In brief, it means company's policies & procedures for efficient conduct of business, safeguarding assets, prevention and detection of errors & frauds, adequacy & completeness of accounting records and timely preparation of reliable financial information. Adherence of such policies & procedures is also included in it.**

Above provisions are expected to reinforce effective systems in companies from true & fair financial statements to analysis of opportunities & risks and continuous improvements. These may cover organization & methods, integrated software, digital recording, networked information, standard costing, budgetary control, quality management, safety, security, internal audit, etc.

It goes without saying that a strong IFC reduces possibilities of external interventions (tax adjudications, Ministry's enquiry, Court proceedings, investigation, etc) and that, CMAs have definite roles to play in strengthening IFC.

3. Internal Auditor, Independent Directors and Valuers – Section 138 of the Companies Act with rules made under it require every listed company and other prescribed companies to appoint Chartered or Cost Accountant or other professional decided by the Board, as an internal auditor who should report to the Board. The manner of conducting internal audit shall be decided by the Audit Committee, if any, or by the Board. Internal auditor has to be consulted in either case.

It may be noted that 'other professional' may include engineer or technologist relevant to industry, software specialist, legal expert, etc as increasingly demanded by big and progressive companies for strengthening internal controls (including IFC). Such companies usually deploy pools of different professionals including professional accountants with appropriate persons as Chief Internal Auditors.

It is also important to note that Audit Committees are mandated in all listed and other prescribed classes of public companies u/s 177 and rules made under it. They have wide functions including review of internal controls & risk management systems, audit processes, valuation of assets, etc. They may refer internal & statutory auditors as well as management for any related issue. Such committees are also empowered to oversee vigilance mechanism. The Act requires at least three directors on the committee with independent directors forming the majority.

Auditors of the company (including cost auditor) are entitled to attend meetings of the committee when it considers auditor's report, without any voting rights.

Besides above, section 149 requires every listed company to have one-third of its total number of directors as independent directors. Other prescribed public companies must have at least two such directors (subject to higher number, if Audit Committee is mandated). Rule 5 of Companies (Appointment & Qualifications of Directors) requires that independent directors should possess relevant expertise and experience in one or more fields of finance, law, administration, governance, marketing, technical, etc. Rule 6 talks about data bank of persons interested for independent directorships and lays down procedure thereof.

Further, section 247 of the Companies Act, 2013 provides for registered valuers who can be appointed for valuation of assets-liabilities, securities, goodwill, etc (Such valuations presupposes knowledge of cost accounting besides financial accounting other techniques).

Thus, above areas offer ample scopes for CMAs.

4. Pricing of related party transactions – Section 2(76) of Companies Act, 2014 defines "related party" which is an important entity in section 134 (Particulars of contracts or arrangements in Board's Report), section 184 (Disclosure of director's interest), section 188 (Approval & Justification in Board's Report), section 189 (Register of contracts or arrangements), etc.

Almost all Central tax laws and some of the State VAT laws regulate related party transactions in different ways. For example, section 92C of Income Tax Act deals with "arm's length price" (ALP) for certain transactions with specified related parties. The section includes 'Cost plus' basis as one of the methods for ascertaining fair price. Similarly, section 4 of Central Excise Act invokes valuation rules if transacting parties are related or if price is not the sole consideration. If goods are sold to related party for "captive consumption", Cost of Production plus 10% is taken as the value. Similar valuation rules are found in Customs and Service Tax. if other methods are inapplicable. Derivation of "Fair Market Value" (FMV) for certain transactions u/s 56(2) of Income Tax Act may also call for specialized techniques (e.g. DCF method for valuation of unlisted shares). Similar procedure under FEMA can also be cited.

Companies subject to maintain cost records by virtue of rule 5(1) of Cost (Records & Audit) Rules 2014 read with rule 3 made under section 148(1), has to maintain particulars relating to "Related Party Transactions" as prescribed under such rules (vide item 27 of Particulars in form CRA-1).

Above points to the need for maintaining proper records and appropriate statistical information, depending on the circumstances, for justifying related party transactions, if any.

5. Special audits in Central Excise Act – Special audits under sections 14A and 14AA of Central Excise Act can be ordered for compliance of assessable tax and Cenvat utilization respectively with the approval of Chief Commissioner of Central Excise. Such audits can be done by practicing Chartered or Cost Accountants.

6. Mandatory annexing of Cost Audit Report, if any, with company's Income Tax Return along with Tax Audit Report – This requirement recently introduced in Income Tax Act, is a welcome provision. Even Indirect Tax authorities are increasingly asking for Cost Audit Reports, if any, in their audits and investigations.

7. Service of CFO – Every listed company and prescribed public companies are required to appoint Key Managerial Personnel (KMP) u/s 203 of the Companies Act, 2013. Section 2(51) includes CFO in KMP. Where CFO is appointed, s/he is one of the signatories to financial statement u/s 134 if Chairperson is not authorized to sign. S/he, amongst others, shall be liable for contravening provisions on financial statement u/s 129.

The Act does not prescribe any qualification for CFO. Therefore, all professional accountants and managers are expected to have fair opportunities for this coveted post.

Strengthening Cost and Management Accounting Practices and Standards for meeting statutory challenges

We have seen some of the major statutory provisions in Companies Act, 2013 and Tax Laws offering various opportunities to CMAs. Whether or not these are enough is a question indeed to be addressed. For example, significant withdrawal of cost audit coverage in recent rules of MCA, arbitrary categorization of companies involving 'public interest', blanket exemptions to Export-Oriented Units in the rules, non-inclusion CMA as 'accountant' for tax audit under Income-Tax Act (contrary to proposed DTC), etc are some of the burning issues.

Cost audit should be adopted for all enterprises (including private companies) barring very small units on similar lines of tax audit. It is not a correct argument to exempt competitive units from cost audits. Even banks should be covered for auditing bank loans and packing credits. A specific audit under Ministry of Finance may be explored for enterprises utilizing substantial tax benefits (Following various reports of misuse of tax benefits).

Since nothing moves in India without statutes and in view of discriminations among professions in areas of practices and in naming of institutes, there is a need for proper representations to Ministries of Finance and Corporate Affairs.

Simultaneously, practices and skills of CMA profession need strategic upgradation for keeping ahead of competition and for meeting and even exceeding the expectations of industries. Some of the major issues emerging from practical fields are outlined below in brief :

1. Industry-specific norms complementing Cost Accounting Standards – Besides Cost Accounting Standards (CAS), it is necessary that CMAs entering practice or service are equipped with industry norms with respect to input-output, work cycle time, etc regard being had to technology. CMAs need not be engineers but a basic understanding of these information is sure to improve insight, skills and quality of service in almost all the areas stated above.

A common example is adoption of various standards like CAS-4 (Captive Consumption) along with CAS-2 (Capacity Determination), CAS-19 (Joint Costs), CAS-22 (Manufacturing Costs) and others relevant in Excise valuations as in captive consumption, inventory of intermediate products, job work, etc. Similarly, the treatments of abnormal costs as spelt out in appropriate standards are important. At the same time, industry-specific norms as aforesaid are expected to complement CAS and enrich cost records substantially. Cost Audit Reports based on such cost records are expected to serve as meaningful references by tax and other statutory authorities.

Presently, the sources of industry-specific norms are as follows :

a. Excise declarations on input-output and capacity installed (for Excisable goods)

b. Published norms as in ISI specification, Standard Input-Output Norms (SION) in EXIM Policy, norms published by specific associations of industries, etc.

c. Equipment manufacturer's norms for input-output, maintenance, operation, etc

d. Project reports submitted to banks for loans and packing credits or those considered for issue of securities or deposit scripts (in prospectus or otherwise).

e. Reports submitted to Pollution Control Boards.

f. Drawings and other literature on technology adopted for manufacture (including technology-sharing agreements, patent document, etc).

2. Field based studies by CMAs in service and in practice – Functions of CMAs demand visualization of workshop practices and supply-chain of the enterprise being served. The curriculum may be enriched for enabling CMAs to study company's field operations independently. CMAs as vital information-link between accounting and management, have to draw upon information from other systems apart from accounts. Therefore, they would do well in keeping themselves abreast of activities across the enterprise. Similar knowledge building is necessary for service-oriented units.

3. Knowledge of integrated software and digital techniques for management analysis – Increasing use of integrated software & digital techniques with networks in information management, enable multiple entries covering all aspects of transactions as relevant including physical and non-accounting data besides monetary values. Today, usages of ERPs with integration of digital records of machine conditions, work flow, inventory, survey, weighment, other measurements, attendance, global positioning, etc have increased the horizon of management analysis. A reasonable proficiency in this area is expected to strengthen Cost & Management Accounting practices for meeting many of the above challenges.

The path forward

Besides statutory cost audits, CMA curriculum should be able to create a distinct domain, visible everywhere as an indispensible profession for maneuvering cost competitiveness. In order to regain its past glory, the CMA profession needs to embark upon two major strategies viz. skill upgrading and industry appreciations. It goes without saying that former is the cause while latter is the effect.

While the Expert Committee formed by the MCA on 19-Jul-14 is slated to address the current issues on cost records and cost audit, representations to MF should also follow for auditing bank loans, packing credits and tax benefits utlizations. The author also feels that the Institute of Cost Accountants of India should also review the curriculum for enriching CMAs to support changing needs for integrated information, techno-commercial analysis, forensic audit, etc. MA

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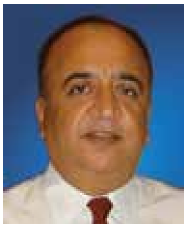
CAS – A USP FOR CMAs

CMAs must be proactive on CAS. They cannot afford to sit idle because a person who holds the ladder for a thief is also a partner in the crime



CMA Ajay Deep Wadhwa
Former Chairman, EIRC, The Institute of Cost Accountants of India

SUCCESS needs USP (Unique Success Preposition). A successful person or professional sells its USP.

USP creates brand image and help professionals in achieving professional success. A professional without USP is a mediocre and can never achieve success.

In my opinion, the USP of we Cost Accountants are CAS (Cost Accounting Standards).

Let us first try to understand the legality of CAS.

Two Government orders, The Companies Cost Accounting Record Rules'2011 and The Companies Cost Accounting Report Rules'2011, provided USP to our Institute first time in the form of "Cost Accounting Standards" (CAS). These orders made CAS mandatory for the maintenance of cost records. They also made it mandatory for Cost Auditors to ensure the application of CAS in cost records.

Now, section 148(3) of The Companies Act 2013 defines CAS as "Cost Accounting Standards means such standards as are issued by the Institute of Cost Accountants of India, constituted under the Cost and Works Accountants Act'1959, with the approval of the Central Government".

The Cost Accountants must comply with Cost accountants standards – proviso to section 148(5) of the Companies Act 2013.

These Cost Accounting Standards have been mandatory for being applied for preparation and certification of general purpose cost accounting statements w.e.f 1.4.2010. if the standards are not followed while preparing of cost accounting statements, it shall be duty of Cost Accountants to make a suitable disclosure / qualification in his audit report / certificate (Council decision dated 12 / 13-2-2009 – page 418 of the Management Accountants, May'2009).

It means, the concerned companies have to follow CAS it will be ensured by Cost Auditor who is a statutory auditor. If any company fails in complying with the norms of adopting CAS and Cost Auditor fails in highlighting the above facts in his report, the concerned persons / companies are liable to punishment as per the Companies Act.

CAS and GACAP are formulated by the Institute of Cost Accountants of India and it is a regulatory body to ensure the implementation of the same. And, therefore, in my opinion CASs are our USPs.

Now, another important question is – Are we using this USP to ensure the enhancement in the brand value and importance of Cost Accountants and the profession of Cost Accountancy?

Here I am not finding myself in a position to say clearcut YES.

I am closely associated with many companies in different capacities, where CASs are applicable, and surprised to note that many of these companies are not following CAS in true spirit and but these facts are not being highlighted in either their cost audit reports, submitted by cost auditors or compliance reports. In fact, in many companies, especially in big ones like coal, steel and electric producing companies, many officials engaged in preparing cost records have not even heard about CAS. Ignorance of law is not an excuse but still no one is being penalized.

Believe me, I am not exaggerating. I have personally visited the cost departments of many concerned companies, specially the cost departments of their units and found their officials quite ignorant about CAS. And, still companies have not started any sort of official training programme to update their officials about CAS.

On the other hand, same companies are spending or already have spent lakhs and lakhs of rupees in providing training to their executives on "Accounting Standards and their convergence to IFRS" which is still a distant reality!

Even during my lectures on cost records and cost audit, I hardly find a participant who is well conversed with any of CAS. Recently I took two sessions on cost records and cost audit in two companies, one a coal company and another one a steel manufacturing company. The participants were finance professional, having qualifications like CMA, CA and MBA(Fin) and believe me, half of them were hearing about CAS first time!

Recently many students of different management institutes of the country have done their summer internship on the topics like Cost Records, Cost Accounting and Cost Audit in those companies where maintenance of cost records & applicability of CASs were mandatory and many of them have uploaded their projects reports in website. If we go through these reports carefully, one conclusion is common – "The company is not following Cost Accounting Standards. Its Cost records are not being maintained as per the provisions of CAS and GACAP"!

The message is clear. We need to make the companies and its executives aware about CAS. This will not only a brand building effort of our profession but will save the companies and its executives from the possible penalty for not following mandatory CAS. Moreover, if company defaults in preparing cost records as per CAS, the concerned official of the company, especially if he is a Cost Accountant, is subject to penalty. The officials of the company as well the Cost Auditors are always may face penalty.

Not following the CAS by strategic companies, engaged in sectors like coal, steel, petroleum, electricity, heavy machinery etc is a direct loss the company and the economy of the country as well. In India, the cost records were introduced by section 209 (1)(d) of the Companies Act'1956 which is the soul behind cost records and genesis of CAS. The provisions of the section 209 (1)(d) has been continued in the Companies Act'2013 with a little bit different words.

Now, the section 209 (1) (d) would say that In the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars related to utilization of material or labor or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particulars in the books of accounts.

The idea of the Act was clear – to ensure proper utilization of scarce materials, labour and other overheads, basically in mining, manufacturing, producing and processing companies to avoid its wastage and keep the cost as well as prices of final products low. This idea, as mentioned above, has been kept intact in the new Companies Act also. Now, CASs are important tools to implement this idea. CASs bring harmony in cost records for the purpose of comparison of cost, harmonize the measurement & accounting of different items of cost and, most important, bringing transparency in cost records so that effective control measures can be taken up.

The fundamental theory behind CAS is that you can control anything only if you can measure is. CAS ensures that different elements of cost are properly measured and recorded only to ensure its proper control. If companies do not follow the CAS, it means the companies are not serious in controlling & managing the cost, which is against the interest of the economy of the country.

Companies should always keep in mind that most of the Indians are having poor purchasing capacity. Forget about useful products, almost one-third of Indians find it difficult to arrange their daily bread & butter. Quality of product is not a criteria for those Indians, cost and price is. CASs ensures proper utilization of elements of cost to make them affordable for the people living at the bottom of the pyramid. Not following CASs by companies is some sort of moral crime also and it must be controlled.

Cost and Management Accountants have to play a major role for proper implementation of CASs. We cannot afford to sit idle and see the ignorance of law. The person who holds ladder for a thief is also a partner in the crime. We must be proactive.

I think, as Cost and Management Accountant (CMA), serving in an applicable company as an employee or as a Cost Auditor, we must ensure that –

1. The company is preparing cost records as per CAS and GACAP,
2. Any default must be brought to the notice of the top management,
3. Defaults must be highlighted in the Cost Audit Reports by Cost Auditors,
4. Defaults must be explained in Form-III of the cost audit report, i.e. Performance Appraisal Report so that it could attract the attention of Audit Committee first and the Board of Directors next,
5. Matter may be reported to the Institute and Ministry of Corporate Affairs as well. MA

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'CMAs CAN GUIDE BANKS IN PRE-SANCTION, POST-SANCTION AND MONITORING OF STRESSED ASSET LEVELS'

K R KAMATH
CMD, Punjab National Bank

MA What should be the concerns of banks on NPA management during this economic downturn in India?

Banks have been increasingly facing the pressure of non-performing assets owing to the protracted economic slowdown in India. Stalled manufacturing and infrastructure projects have blocked cash flows of the big ticket bank borrowers leading to recovery woes for banks, particularly for Public Sector banks.

Now, when it seems that economic growth may take some more time to revive, the prime concern of the banks should be to prevent fresh slippages and step up recovery especially from big ticket accounts. Another concern for the banks should be making provisions for bad/restructured assets as per new prudential guidelines. High provisions adversely impact the profits and thereby constrain the profit plough-back which is an important source of capital to meet Basel III requirements.

MA Are big ticket advances responsible for the burgeoning of NPAs? What remedial measures would you suggest?

Yes. Big ticket advances are a major cause of burgeoning NPAs because:

- Apart from size, many of these accounts tend to be over leveraged with huge debt burdens, which they could service in good times, but in strained economic conditions, it is difficult to service when sales decline/receivables pile up.
- These accounts are more susceptible to adverse changes in the macro-economic situation. With the projections of business having been made in better times, the expected cash flows would be high and economic downturns would upset the repayment cycle.
- The level of collateralization is generally less in these accounts and the promoters can often hide behind the corporate veil.

Remedial measures:

- Strengthening of the debt recovery mechanism presently available.
- Making the promoters personally liable in case of wilful default.
- Penal provisions for defaulters – this can have a deterrent effect.

MA What is your view about credit to the SME sector? How much of it could become NPA? Are there any guidelines from the government on this?

The SME sector is a vast category covering both manufacturing and service enterprises and as such the risk in SME is not uniform. The risk perception with regard to a manufacturing enterprise will not be the same as the risk associated with a service enterprise, operating in a relatively more stable market. The investment levels are also very different and as such treating the entire SME sector as a single monolithic category is not advisable.

- It also needs to be stated that the collateral coverage in the case of SMEs is higher and action under SARFAESI can generally be initiated and brought to a satisfactory conclusion.
- Putting a definite figure on the amount that could become NPA is not possible. The experiences of different banks are also not uniform. For example, in PNB the delinquency ratio of SMEs has gone down in FY 14 as compared to FY 13.
- The guidelines from the Government with regard to SMEs relate to the dispensation of credit to the sector. Banks have annual targets for SMEs and the Govt. monitors the progress made. There are also guidelines for timely restructuring and nursing of sick, viable SME accounts.

MA How successful has the SARFAESI Act 2002 been in helping banks to manage NPA?

- The SARFAESI Act has been of great assistance to bankers. It marks the first piece of legislation that allows bankers to sell properties charged to them without the intervention of the courts.

- However, there are a number of cases where actions taken by the banks under SARFAESI have been stayed by the DRTs and the cases follow the set legal procedures and are subject to the delays thereof.
- SARFAESI can work better if actions under the Act are not stayed on flimsy grounds.
- There are other cases where problems are faced with regard to taking physical possession, where the borrowers use local influence and power.

MA How is NPA affecting the profitability and efficiency of banks in India?

- NPAs have resulted in bringing down the yield on advances.
- With increasing NPAs the cost of credit goes up, thus reducing the efficiency of banks.
- Recovery of NPAs is service intensive and has a high service cost. It also diverts resources from more productive work.
- Increased provisions have reduced the Net Profits of banks. This has an adverse impact on all the profitability ratios – ROE, ROA, etc.
- Where NPAs are common in a particular industry, further credit to the industry has been reduced.
- In an economic downturn even if possession of securities is taken, finding alternative buyers and realising optimum amounts still remains a challenge.

MA Do Basel II and Basel III provide sufficient provisions to manage NPA?

Basel II and Basel III guidelines enumerate capital adequacy norms and prudential treatment of all asset classes (including NPA and restructured asset) for capital requirement for banks. These guidelines do not focus on the best practice for NPA / Stressed Asset containment – instead it prescribes the capital quantum that should be kept aside for bad loans. A Basel guideline on capital requirement is a sort of an ex-post risk mitigation way and does not focus on NPA management including its curtailment.

MA Are prudential guidelines relevant when borrowers are facing a cash flow crunch and banks are finding it difficult to provision for NPA accounts?

The concerns and priorities of the regulator and the lenders are different and they should necessarily be. The regulator frames prudential guidelines to strengthen banks during the period of difficulty and thus ensuring their sustainability. At the same time, banks look for profitability and continuity. Prudential guidelines at this period of economic downturn help to ensure the continuity and stability of the banking system. The relevance of prudential guidelines for asset classification and provisioning requirements is intact since they are based on the tenet of managing risk in banking business in all the phases of business cycle.

MA In continuation to the above question, could a situation based guideline from RBI provide relief to genuine borrowers?

Borrowers are getting relief through the restructuring schemes of Banks such as CDR, Non-CDR schemes, Debt Recovery Mechanism (DRM) for SMEs etc. The genuine borrowers i.e. where the reasons for delinquency are beyond the control of borrowers, get relief as per the laid down system for each distress situation. However, there is a need to take into account the problems of borrowers who have taken loans for a project that is stalled for no fault of theirs – such as inability of the govt. to acquire land, or provide fuel linkages or environmental clearances. It is a matter of priority that such bottlenecks must be removed first instead of classification and treatment as non-performing assets etc.

MA Would two sets of prudential guidelines be suitable for two different economic scenarios, one at the time of an upbeat economy and one at the time of a downturn?

I think that one integrated set of prudential guidelines is required to deal with the requirements of different prevailing scenario. During the flourishing economy, prudential guidelines should be proactively framed to build cushion for the banks to meet future contingencies. In the event of deceleration and high risk in the economy the guidelines must enable the banks to draw upon the reserves created for stressful times i.e. counter cyclical buffers etc. One, modification is suggested that during the stressful times the financial system needs to be facilitated by the regulator to build in fresh provisions and reserves at bit lower rate, commensurate with the then profitability of banks. The shortfall against the prevalent rates can be covered by the banks in phased manner on the upturn in economic cycle.

MA Could professionals like CMAs help the banking sector to check this problem? In what way could CMAs help in other areas of banking.

Professionals like Cost and Management Accountants can play an important role in the current scenario to help the banking sector effectively manage NPAs. CMAs can guide banks in pre-sanction, post-sanction and monitoring of stressed asset levels.

At pre-sanction level, they can advise for better appraisal through expert TEV study and industry analysis. During the post sanction and monitoring level, they can help the banks through analysing end use of funds, verifying book debts and Training of operating level staff in detecting incipient sickness/ understanding alert signals etc.

Apart from the above, financial professionals inter alia Cost and Management Accountants can help the banks in cost-benefit analysis of products and services, the banks offer, advising strategies for reducing cost of products, portfolio analysis and stress testing etc.

MA Is there any proper guidance by RBI to evaluate the "cost of risk" in banking?

There are regulatory provisions defined by RBI for restructured accounts and for NPA accounts – Sub Standard, Doubtful and Loss. Banks going for riskier loans inevitably have to make higher provisions as these loans become non-performing, with provisions increasing in proportion to the age of the NPAs. This is the cost of risk for the bank – and the provisioning guidelines give adequate guidance.

MA Could CMAs act as specialist officers in Risk Management, Audit and Credit Analysis through the Institute of Banking Personnel Selection?

The banks are recruiting specialist officers like Cost Accountants, Chartered Accounts and personnel with ICWA background as specialist officers through Institute of Banking Personnel Selection (IBPS). They are placed in various strategic functional areas in the banks where their expertise is best utilised like product pricing, industry analysis, industry rating, credit appraisal and audit –to name a few.

With introduction of complex products and services like derivatives in Indian banks and expansion of business lines and products lines of the banks, the requirement of such specialists will increase further.

A CURATE'S EGG: INDIRECT TAXATION CHANGES IN THE UNION BUDGET

The Budget changes in Indirect taxation reveal an anxiety to bail out the manufacturing sector and in the bargain the services industry has been made to bear the cross. The tax changes are a veritable mixed bag

Dr. Ravindran Pranatharthy
Advocate – Indirect taxes & IPRs

THE much-awaited first Budget of the new government has come. The expectations were high. The jury would prefer to be out on whether the expectations were really unrealistic, to start with. The Budget proposals were subjected to customary scrutiny and as usual with minor amendments the Lok Sabha has passed the Finance Bill for FY 2014-15, as of this writing. The budget has received both accolades and critical disclaim and has been variously described depending on the viewpoints of the admirers and critics. Given the present unappetizing scenario of slow growth with stalling exports, subsidies that are difficult to dismantle and taxes reaching saturation levels, there is no way a Union budget can please all shades of opinion. In fairness, it must be said that the new Union government has barely been in power for a couple months and the time has been too short for any meaningful strategic policy-setting and visionary grand-standing. The time constraints in budget-making were quite obvious. Nonetheless, the unabated decline in the fortunes of Indian manufacturing has particularly weighed heavily in the minds of the government and that concern is manifest in the changes relating to central excise and customs proposals in the Budget. The Budget results in the indirect taxation relating to central excise, customs and service tax however present a mixed bag on closer scrutiny. In this article, we will put significant items on the Budget indirect tax menu on the dining table and analyze the dietary effect.

Undoing the FIAT case fall-out and guaranteeing the business liberty to set arm's length Transaction Value

Ever since the watershed judgement of the Supreme Court in the Fiat India case 2012 (283) E.L.T. 161 (S.C.) in which the Apex Court in effect held that the central excise assessable value cannot be less than the cost of manufacture irrespective of any arm's length consideration received from the buyers at less than the cost of production, the manufacturing sector which is known for selling below cost owing to myriad reasons has been worried. The CBEC also issued a circular dated 15th January 2014 on putting the caselaw to the good use of Revenue. The skills of the CMAs would have been pressed into service in carrying out the determination of manufacturing cost to find out if a sale of products was below cost. Representations bordering on virtual prayers to the government to undo the effects of the judgement by legislative means have been rife all through this period. In a rare instance of the Revenue bailing out a beleaguered industry from the fall-out of an adverse caselaw, the government has now changed the valuation rule itself to sanctify below-cost assessable value provided there was no other flowback. The Central Excise Valuation Rule 6 and the new proviso added now by notification no 20/2014 dated 11th July 2014 are given below:

"**RULE 6.** Where the excisable goods are sold in the circumstances specified in clause (a) of sub section (1) of section 4 of the Act except the circumstance where the price is not the sole consideration for sale, the value of such goods shall be deemed to be the aggregate of such transaction value and the amount of money value of any additional consideration flowing directly or indirectly from the buyer to the assessee.

"Provided that where price is not the sole consideration for sale of such excisable goods and they are sold by the assessee at a price less than manufacturing cost and profit, and no additional consideration is flowing directly or indirectly from the buyer to such assessee, the value of such goods shall be deemed to be the transaction value."

The result of this rare gesture of the Revenue in relinquishing a caselaw in its own favour should enable the industry to put the spectre of FIAT case to good rest and save considerable time and money of both sides in fruitless litigation.

Taming the draconian Central Excise Rule 8(3A):

Rule 8(3A) of Central Excise Rules has hurt genuine and well-intentioned taxpayers more than the deliberate defaulters. Under this Rule, if a manufacturer was not in a position to pay excise duty within thirty days of the due date of payment, he had to forego the use of CENVAT Credit facilities and pay the ensuing tax payments in cash. He also lost the facility of monthly payment and would have to pay his duty every time he made a sale or clearance from the factory. He will have to face other penalties as well, including seizure of his goods and their confiscation for noncompliance with the provisions of this rule. The draconian rule was further compounded by the high interest rate of 18% per annum for delayed remittance of excise duty.

In a relief to the manufacturing industry, the government has tossed the rule aside and inserted a new rule which reads as follows:

"(3A) If the assessee fails to pay the duty declared as payable by him in the return within a period of one month from the due date, then the assessee is liable to pay the penalty at the rate of one per cent on such amount of the duty not paid, for each month or part thereof calculated

THE TINKERING WITH CONCESSIONS IN SEVICE TAX HERE AND THERE IS EVEN SMALLER THAN USUAL THIS YEAR. BUT WHAT TAKES THE CAKE IS THE SHEER NUMBER OF UNPLEASANT TIDINGS ON THIS TAX

from the due date, for the period during which such failure continues''

Though the relief is not full and a still-not-inconsiderable penalty of 12% per annum is retained, the concession is substantial when compared with the brutal provision that prevailed till now.

A gift with few takers: Extension of access to Advance Rulings Authority to resident Indian private companies

Hitherto only joint ventures involving a non-resident and a resident, the Indian subsidiary of a foreign company and joint ventures were eligible to ask for Advance Ruling under Chapter IIIA of the Central Excise Act and the Finance Act 1994. Now this facility has been extended to resident private limited companies. But the moot point is whether the advance rulings mechanism has established utility and credibility in the Indian context.

Duty concessions to the manufacturing sector

- Duty-free captive consumption of manufactured inputs extended to match industry.
- Certain agricultural food processing machinery has a duty reduction from 10% to 6%
- Excise duty exemption in full to drugs meant for HIV/ AIDS/National vector control programs.
- Duty exemption for certain parts used in the non-conventional energy sector such as Wind/ Solar/Bio-gas.
- Reduced excise duty on footwear in the price range of Rs 500- 1000.
- Exemption available to sub-contractors supplying goods to main contractors and which are meant for international competitive bidding projects
- Exemption for goods supplied to National Technical Research Organization and security paper factories of the government
- Exemption for reverse osmosis membrane elements
- Reduced excise duty for LED parts

Some unwelcome changes

Section 35L is amended so as to clarify that disputes relating to taxability or excisability of goods are covered under the term 'determination of any question having a relation to rate of duty' and are appealable to the Supreme Court. The Appellate Jurisdiction of High Courts gets excluded.

Section 35R is amended so as to enable the Commissioner (Appeals) to take into consideration the fact that a particular order being cited as a precedent decision on the issue has not been appealed against for reasons of low amount. The unpleasant change ensures that the appellate commissioners have been given a statutory excuse to reject precedents.

An imposition of 5% additional duty on aerated/sweetened waters including lemonades is now in place. Given that India is becoming a diabetic capital of the world, there is some justifiable reason to make sweetened drinks as highly taxed as tobacco to discourage consumption. Some additional revenue in the bargain is sweet news for the Exchequer.

Ubiquitous Return Raj across the country

An unparalleled new Section 15A is in place so as to empower the Central Government to prescribe an authority to which the information return shall be filed by the specified persons such as Income Tax Authorities, State Electricity Boards, VAT or Sales Tax Authorities, Registrar of Companies. Information can be collected for the purposes of the Act, such as, to identify tax evaders or recover confirmed dues. A new section 15B follows to provide for imposition of a penalty of Rs 100/- per day if the information return is not submitted.

The new central excise sections have been extended to Service tax law. The authorities and institutions caught in the information net are as follows:

(1) Any person, being—

(a) An assessee; or

(b) A local authority or other public body or association; or

(c) Any authority of the State Government responsible for the collection of value added tax or sales tax; or
(d) An income tax authority appointed under the provisions of the Income-tax Act, 1961; or
(e) A banking company within the meaning of clause (a) of section 45A of the Reserve Bank of India Act, 1934; or
(f) A State Electricity Board; or an electricity distribution or transmission licensee under the Electricity Act, 2003, or any other entity entrusted, as the case may be, with such functions by the Central Government or the State Government; or
(g) The Registrar or Sub-Registrar appointed under section 6 of the Registration Act, 1908; or
(h) A Registrar within the meaning of the Companies Act, 2013; or
(i) The registering authority empowered to register motor vehicles under Chapter IV of the Motor Vehicles Act, 1988; or
(j) The Collector referred to in clause (c) of section 3 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013; or
(k) The recognised stock exchange referred to in clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956; or
(l) A depository referred to in clause (e) of sub-section (1) of section 2 of the Depositories Act, 1996; or
(m) An officer of the Reserve Bank of India, constituted under section 3 of the Reserve Bank of India Act, 1934.

Good things in Customs duty changes

- Somewhat mirroring the changes in the excise duty
- Duty concessions for certain goods meant for use in non-conventional energy sector.
- Duty concessions for goods meant for national security mills.
- Duty concession for drugs meant for AIDS/HIV programs
- Duty-free passenger baggage allowance is enhanced to Rs 45,000 from the present Rs 35,000.
- Resident Indian private companies are allowed to access the Authority for Advance Rulings.
- A bill of entry may now be presented even before the delivery of import manifest or report, if the vessel or the aircraft or the vehicle by which the goods have been shipped for importation into India is expected to arrive within thirty days from the date of such presentation.
- An application can also be now filed before the Settlement Commission in cases where a Bill of Export, Baggage Declaration, Label or Declaration accompanying the goods effected through Post or Courier is filed.
- Road construction machinery imported duty free can be sold within 5 years of importation subject to payment of customs duty on depreciated value.

The Spectre of Retrospective tax

The retrospective tax changes in the Income tax a couple of years ago law have been widely recognized as the trigger for the drying-up of foreign direct investments into India. Despite knowing pretty well that retrospective tax has become an embarrassment to its image and inimical to the stability of the economy, the government has thought fit to extend Section 5A (2A) of the Central Excise Act to service tax in terms of which whenever an explanation clause is introduced within one year to a notification, the explanatory clause will be deemed to be retrospective from the date of the relevant notification it seeks to explain. This kind of back-door retrospective taxation is obnoxious and is not in sync with the assurance of the government against bringing in a retrospective law. The section 5A (2A) deserves to be excised from the statute.

Service tax gets plenty of attention with limited positives

The changes in Service tax defy the pre-budget prognoses. The *de rigueur* tinkering with concessions here and there is seen to be even smaller than usual this year. What takes the cake is the sheer number of unpleasant tidings on this tax front. Let us see how little the 'good' provisions are and how tough the avoidable and unwelcome changes.

- Advance Rulings mechanism made available to resident Indian Private Companies.
- Exemption to Life micro-insurance schemes for the poor approved by IRDA where the assured sum does not exceed Rs 50,000:
- Exemption to RBI in the area of specialized financial services received from abroad to manage forex reserves
- Exemption to tour operators in India if they provide tours abroad for foreign nationals.
- Tax reduction for transport of goods by vessel.
- Loading/unloading/packing/storage/warehousing/transport by vessel, rail or road (GTA) of cotton, ginned or baled, is now exempted. Cotton trade should breathe easy a bit.

- Transport of organic manure by vessel, rail or road (GTA) exempted.

How Service tax changes are deployed to get more revenues

The methodology adopted by the budget-makers to squeeze more revenue out of service tax is as analyzed below

- By deleting some entries from the negative list.
- By withdrawing exemptions from the mega exemption notification no: 25/2012.
- By eliminating exemptions indirectly thro' re-writing of some exemption provisions in the mega exemption notification no: 25/2012.
- By steeply increasing tax interest under section 75 aimed at forcing litigants to play safe by depositing the tax demands.
- By abolishing a time-tested and unique penalty-waiver under Section 80 and removing the danger of Revenue losing tax demands for the extended period of 5 years whenever this section was invoked in favour of the aggrieved appellants.
- By making 7.5% and 10% pre-deposit of tax / penalty mandatory for appeal filed with Appellate Commissioner and Appellate Tribunal respectively.
- By making a huge service tax target of Rs 2.15 lakh Crores for the current fiscal 2014-15. It will not be difficult to foresee the administration in the field getting tough with the taxpayers to achieve the target or get anywhere near it.

Interest rate goes up sky-high:	
Period of non-payment of service tax	Rates of Tax Interest for delayed periods
Upto 6 months from the due date	18%
6 months – 12 months	24%
Beyond 12 months	30%

Setbacks in Service tax:

Though the government claims that the steep rates are intended to curb tax evasion and encourage on-time remitting of tax that has been already collected by the assessees from the customers, the real danger is that the tax department will use the interest weapon to coerce recovery against tax payers by simply raising demands through fanciful interpretation or by refusing to comply with precedent case laws.

Advertising gets pricey

The Non-taxability of sale of space or time slots for advertisement other than advertisements broadcast by radio and television is now removed. Exemption is restricted to advertisements in print media only. There are tax implications of the move for Internet ads/onsite ads/device-based ads (ATM, Mobile phones etc).

Keeping to home is lighter on the wallet, travel is costlier

Radio taxis / Radio cabs get the call to come out of negative list. The cab business will pass on the tax to the users who will have to shell out extra money for the tax outgo. Only plain vanilla metered black & yellow cabs remain exempt. Exemption to air-conditioned contract carriage buses is withdrawn, so AC Bus travel is going to be costlier.

Educational service expenses to head north

A wide range of services exempted earlier under "auxiliary educational services" in notification no 25/2012 is cast away. Services exempted are now narrower and caged tighter. Only security/cleaning/house-keeping are spared from the axe. (The services that are now taxable are covered in bold).

Before the change	After the change
• **Any services relating to imparting any skill, knowledge, education or development of course content or any other knowledge – enhancement activity, whether for the students or the faculty, or any other services which educational institutions ordinarily carry out themselves but may obtain as outsourced services from any other person,** including services relating to admission to such institution, conduct of examination, catering for the students under any mid-day meals scheme sponsored by Government, or transportation of students, faculty or staff of such institution; **Renting of immovable provided to an educational institution**	• Services provided,- • (a) by an educational institution to its students, faculty and staff; • (b) to an educational institution, by way of,- • (i) transportation of students, faculty and staff; • (ii) catering, including any mid-day meals scheme sponsored by the Government; • (iii) security or cleaning or house-keeping services performed in such educational institution; • (iv) services relating to admission to, or conduct of examination by, such institution;"

Pilgrim accommodations and 'spiritual' resorts get costlier	
Before amendment	**After amendment**
Services by way of renting of a hotel, inn, guest house, club, campsite or other commercial places meant for residential or lodging purposes, having declared tariff of a unit of accommodation below rupees one thousand per day or equivalent.	Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having declared tariff of a unit of accommodation below one thousand rupees per day or equivalent.

The implication is that private entrepreneurial offerings to educational institutions in the area of knowledge-enhancement will be taxable.

The words "by way of renting and "other commercial places" are removed. The extent and application of tax is enlarged. Devasthanams offering above-1000 per day cottages and rooms will have to charge service tax, as also 'spiritual' ashrams offering above -1000 per day resort-like stay for their devotees. It should be noted that for service tax purposes, the room tariff alone is not conclusive. Other charges for sport, fitness, yoga, meditation and such other facilities will be addable to the limit of Rs 1000 per day.

Reduction in the scope of tax exemption for supply of municipal services

In a similar vein, re-writing of exemption under entry no 25(a) of notification 25/2012 for municipal services has kept out of tax exemption advice, consultancy and feasibility services related to the launch and supply of municipal services. The effect is a positive inflow to the Exchequer from such services. The following table highlights that. (Bold letters indicate what was earlier available).

Earlier version	New provision
Services provided to Government, a local authority or a governmental authority by way of - **(a) *carrying out any activity in relation to any function ordinarily entrusted to a municipality in relation*** to water supply, public health, sanitation conservancy, solid waste management or slum improvement and upgradation;	Services provided to Government, a local authority or a governmental authority by way of – "(a) water supply, public health, sanitation conservancy, solid waste management or slum improvement and up-gradation

Increase in reverse tax burden

The service of recovery agent is now made liable to service tax payment in the hands of Banks, Financial institutions and Non-Banking Financial Companies. There has been a reverse charge liability for companies in regard to the fees paid to the company directors. The government has now realized that directors are abundant across the corporate spectrum and not limited to companies under the Companies Act. It is now stipulated that Directors in any Body Corporate will be covered by reverse charge. A Body Corporate would denote any entity that has its separate legal existence apart from the persons forming it. It possesses a completely different legal status apart from its members. So, a body corporate shall include: a company, a foreign company, a corporation, a statutory company, a statutory body, an LLP and such other bodies that have separate legal existence.

Increase in effective Works Contract Service tax

In the name of alignment of tax rates, the effective incidence of service tax on repair and maintenance contracts relating to goods has gone up. The following table reveals that. (The change is indicated in bold print)

Existing	New
Works contracts relating to –	Works contracts relating to –
• Original works -Tax value 40%	Original works-tax value 40%
• Maintenance, repair and reconditioning and servicing of goods -**Tax value 60%**	• Maintenance/repair / reconditioning/servicing of goods : **Tax value 70%**
• Other works contracts: tax value 70%	• Other works contracts: tax value 70%

Setting Time-limit for Adjudication: a prescribed statutory duty without provision for enforcement and accountability

Similar to the central excise law, a provision has been made in Service tax that show cause notices should be adjudicated, where possible to do so, within 6 months or one year from the date of issue depending on whether the normal period of 18 months or the extended 5 year period is invoked. However, this statutory duty in the central excise law has remained an empty charade with no enforcement and accountability. For the tax payers this is a meaningless provision, unless it is stipulated that no tax interest will be charged for any delay in adjudication beyond the prescribed period.

Further delegation in Search & Seizure powers

There was a time when search and seizure in service tax could only be ordered by the Commissioner of Service tax or AC/DC authorized by him. Later this was diluted by enabling any Joint/Additional Commissioner to undertake search & seizure himself or authorize a superintendent to do that. Now the provision is further diluted to enable any excise officer to be authorized by such Joint/Additional Commissioner. The quality of care and safeguard in search and seizure will be weakened with the delegation to lower level functionaries.

Some statute changes with substantial tax impact

Section 87 of the service tax law already has powerful instruments to coerce dues out of defaulting assessees. To this a further weapon has been added. Now the tax department can recover dues from the transferee of a business if the seller has service tax dues relating to the business.

The unkindest cut is the total emasculation of section 80 which in its heyday enabled waiver of all penalties under sections 76, 77 and the draconian section 78 of the Act if the person concerned was able to establish reasonable cause for his failure to pay service tax. Another benefit was that when this section is invoked in favour of a person, the tax demand for the period of 5 years will also not survive. Now the section is restricted to smaller penalties only.

Now the Point of taxation in respect of reverse charge of service tax will be the date of payment or the first day that occurs immediately after a period of three months from the date of invoice, whichever is earlier. Previously, the period available was six months which is now shortened. Tax money will be speeded up.

Important changes in CENVAT Credit

A time limit for availing CENVAT credit on inputs and input services within six months from the date of issue of invoice, bill or challan has been prescribed. Re-credit of Cenvat credit reversed on account of non-receipt of export proceeds within the specified period, is to be allowed, if such export proceeds are received within one year from the specified period on the basis of documentary evidence of receipt of payment. Rule 12A is amended so as to disallow transfer of credit by a large taxpayer from one unit to another. There could be an exodus of companies out of LTU since this virtual cheque-writing facility on Cenvat credit balances has been removed. Input Service Distributor rules have been clarified to provide for distribution of common credit of more than one unit to all the units operational during the year.

CENVAT credit of input services where service tax is paid under full reverse charge is allowed to the service recipient after the payment of service tax only. The term ‘place of removal’ has been specifically defined in Cenvat credit Rules to mean a factory or any other place of production or manufacture of the excisable goods; a warehouse or any other place where the excisable goods have been permitted to be deposited without payment of duty; a depot, premises of a consignment agent or any other place from where the excisable goods are to be sold after their clearance from the factory.

Mandatory pre-deposit of tax and penalty

In an obvious attempt to shore up tax revenues, the government has introduced a new Section to prescribe pre-deposit of tax and penalty for filing a appeal before the Commissioner (Appeals) and Tribunal: The First Stage Appeal requires 7.5% of tax demanded or 7.5% of penalty when only penalty is in issue and in the Second Stage Appeal before Tribunal, 10% of duty demanded or penalty as the case may be is the pre-deposit. The pre-deposit amounts are subject to a ceiling of INR 10 Crore.

Conclusion

The Budget changes in Indirect taxation reveal an anxiety to bail out the manufacturing sector and in the bargain the services industry has been made to bear the cross. The tax changes are a veritable mixed bag. The tax targets for service tax are ambitious and tax payers apprehend a tough, no-holds barred enforcement drive starting soon after the Budget becomes law. In hindsight, many of the tax changes that ensure increased tax outflow from the tax payers could have been avoided in a time of economic difficulties. If the intention was to encourage citizens to consume or save more and there by recoup revenues or savings for the government in a win-win manner, it may not have been achieved by legislating outflows from citizen wallets. What is given as concession in income tax may be lost by the citizens in extra outgo on indirect taxes. The provisions fixing compulsory pre-deposit of tax or penalty may be counter-productive and result in rushed demands in favour of the Revenue to ensure a neat pie for the Exchequer. What is needed is an assurance fortified with action from the government that the abysmal quality of adjudication at all levels will be improved and that the tax payers can expect fair orders. There is thus a lot to do for the government on the indirect tax front. It may be that the Budget output is experimental and a work-in-progress and its future offerings will be a pleasant departure from the past. For that to happen, the economy would have to do a lot better than now and exports have to rise to levels commensurate with the size and potential of the country. MA

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DIRECT TAXES

Case Laws

- **In case of sale of an under Construction building, projected cost of completion to be taken as cost of acquisition :** Capital gains arising out of sale of property under construction are to be computed by taking projected cost of construction and not merely on cost till date - *CIT* v. *Tyagi Anand & Co. (P.) Ltd.* [2014] 45 taxmann.com 434 (Delhi)
- **No concealment penalty if assessee opts to take route of presumptive taxation to escape section 40A(3) disallowance :** Where at time of initiating penalty proceedings Assessing Officer did not have any material on record showing that payments made by assessee to suppliers of building materials were bogus, he could not have merely on basis of assessee's offer to be taxed on estimate basis, concluded that assessee had provided inaccurate particulars in its return. Thus, impugned penalty order passed under section 271(1)(*c*) was to be set aside - *CIT* v. *Vatika Construction (P.) Ltd.* [2014] 45 taxmann.com 471 (Delhi)
- **No denial of section 54 relief for non-execution of sale deed within time if assessee was thwarted doing so by court :** Where assessee having executed an agreement to sell in respect of a house property, purchased a new residential property within one year from date of agreement to sell, in view of fact that subsequently sale deed could not be executed within prescribed time, as assessee had been prevented from dealing with said residential house by an order of a competent court, a valid 'transfer' took place within meaning of section 2(*47*) by executing agreement to sell. Thus, consequently, relief under section 54 was to be granted to assessee in respect of purchase of new residential property - *Sanjeev Lal* v. *CIT* [2014] 46 taxmann.com 300 (SC)
- **Retention money was to be taxed when it became payable to contractor as per terms of construction contract :** Where assessee was awarded a construction contract and in terms of contract certain amount was withheld by employer of contract towards retention money for satisfactory execution of contract by assessee, retention money was to be taxed in assessment year relevant to 'previous year' in which it became payable to assessee as per terms of contract, *i.e.,* after defect liability was over and after engineer-in-charge certified that no liability was attached to aassessee - *Amarshiv Construction (P.) Ltd.* v. *DY. CIT* [2014] 45 taxmann.com 429 (Gujarat)
- **No disallowance of lawful expenditure merely due to non-compliance with provisions of Companies Act :** The offence or prohibition under law referred to in *Explanation* to section 37(1) should be judged with reference to the 'purpose' of the expenditure on a standalone basis divorced from the fulfilment or otherwise of the procedural formalities (for example requirements of Companies Act like Board's consent, general body approval, Central Govt's approval) attached with and necessary for the incurring of such expenditure - *Jai Surgicals Ltd.* v. *ACIT* [2014] 46 taxmann.com 246 (Delhi - Trib.)

Statutes

- **CBDT notifies new wealth-tax return form– Mandates e-filing except for those individuals or HUFs who are not liable to tax audit :** Earlier return of wealth-tax was required to be filed by individuals, HUFs and Companies in paper format alongwith certain documents(in specific cases) in Form BA. The CBDT has now notified new Form BB for filing of wealth-tax returns. The new provisions for filing of Wealth-tax return shall be as under:
  - (*a*) *E-filing of wealth tax returns* : Taxpayers shall file return of wealth-tax electronically in new Form BB from Assessment Year 2014-15. However, individuals or HUFs can still file return in paper format if they are not liable for tax audit under section 44AB of Income-tax Act, 1961.
  - (*b*) *Paperless return* – Requirement as to furnishing of following documents alongwith return of wealth-tax has been dispensed with:
    - Statement showing computation of tax payable;
    - Proof of tax and interest paid;
    - Any document or copy of any account; and
    - Form of report of valuation by Registered Valuer - [NOTIFICATION NO.32/2014 [F.NO.143/1/2014-TPL]/SO 1576(E), DATED 23-6-2014]
- **CBDT revises monetary limits for filing appeals as a measure to reduce litigation :** CBDT has revised the monetary limit for filing departmental appeal before Tribunal, High Court and Supreme Court. It further, clarifies other issues - INSTRUCTION NO. 5/2014 [F. NO. 279/MISC. 142/2007
- **CBDT allows usage of one mobile number and email-id for 10 user accounts in e-filing portal :** CBDT allows usage of one mobile number or email ID for maximum 10 user accounts as the primary contact in e-Filing portal. This move is directed towards ensuring that family members and related business concerns (not exceeding 10 separate users) not having personal email or mobile can be covered under a common email or mobile number - PRESS RELEASE, DATED 4-7-2014

INDIRECT TAXES

Case Laws

- **Courts cannot extend deadline under VCES :** Right of assessee to claim benefit of Service Tax Voluntary Compliance Encouragement Scheme is dependent upon its depositing initial 50% by 31-12-2013, which is a mandatory and authorities cannot grant extension of time to make initial deposit beyond said date - *Teknow Overseas (P.) Ltd.* v. *ACST (VCES)* [2014] 45 taxmann.com 542 (Delhi)
- **Substitution of prospective buyers of property amounts to 'real estate agent's services' :** Transfer charges received for substituting names of new prospective purchasers of immovable property/real estate transactions in place of initial prospective purchasers, *prima facie*, amounts to Real Estate Agent's Services – *MGF Development Ltd.* v. *CST* [2014] 45 taxmann.com 522 (Delhi)
- **No percentage based credit reversal required on generation of exempted by-products during manufacturing:** Sulphuric acid arising in course of manufacture of zinc is a by-product and even if it is exempt, percentage payment based credit reversal at 8% (now 6%) of sale price is not applicable - *Union of India* v. *Hindustan Zinc Ltd.* [2014] 46 taxmann.com 45 (SC)
- **Value of input used to make final marketable product is includible in value of final product :** Where assessee is selling 'dissolved Acetylene gas' and for marketing purposes, acetylene gas is required to be dissolved in Acetone, then, Acetone acts as an input and cost of Acetone is includible in value of Acetylene gas - *Ajmer Industrial Gases (P.) Ltd.* v. *CCE* [2014] 46 taxmann.com 158 (Rajasthan)
- **Duty drawback allowable on re-export only if 'let export order' was passed within 2 years of payment of duty :** For drawback on re-export under section 74, 'let export order' under section 51 must be passed within 2 years from date of payment of duty - *ONGC* v. *Union of India* [2014] 45 taxmann.com 501 (Delhi)
- **Exchange of defective compressor by manufacturer after recovering repair charges won't be deemed as sales :** Where assessee, a manufacturer of compressor, was also engaged in accepting defective compressor from its customer outside warranty period with certain fixed repair charges and replacing it at option of customer with any other repaired compressor off shelf, it was not a case of sale of repaired compressor by assessee to its customer - *ACST* v. *Kirloskar Copeland Ltd.* [2014] 46 taxmann.com 212 (Bombay)
- **Harpic' and 'Lizol' are pesticides covered by Entry 20 of Schedule IV and liable to Andhra Pradesh VAT at 4% :** Harpic and Lizol are disinfectants capable of destroying germs and micro-organisms and they fall within category of pesticides covered by entry 20 of Schedule IV and liable to VAT at 4 per cent - *Reckitt Benckiser (India) Ltd.* v. *State of Andhra Pradesh* [2014] 46 taxmann.com 65 (Andhra Pradesh)

FINANCE BILL 2014: SIGNIFICANT CHANGES IN DIRECT TAX LAW

Within 45 days of assuming office, the FM has been able to introduce thought-provoking amendments in the Income tax law. This is very creditable indeed

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BUDGET 2014 was presented on 10th July 2014 before Parliament by the New Finance Minister the Hon'ble Arun Jetley among growing expectations. Inflation was a constraint. Rising global oil prices are pushing up energy bills. The new Govt. has to promises to keep like Millions of jobs as Roads, Factories, Power lines, High Speed Trains and 100 new Cities to be built. Reforms are a must. Fiscal deficit has to be shrunk. Economic growth must be restored.

In this scenario, the Finance Minister has to choose the concerns of the middle class. He raised the basic exemption limit for levy of income tax from Rs.2 lakhs to Rs.2.5 lakhs. Senior Citizens above the age of 60 will have an exemption limit of Rs.3 lakhs. Raising the exemption limit by Rs.50,000/- for classes of incomes wil mean a tax saving of at least Rs.5,000/- for those in the 10% tax bracket, Rs.10,000/- for those in the 20% tax bracket and Rs.15,000/- for those in the 30% bracket. Tax rates and surcharges will remain the same .They are not altered. This is certainly a welcome move on the part of the Government. There has been no consideration shown in this regard for the middle class in the past 3 years.

Retrospective amendments

The Vodafone Case represented a water shed in the development of the tax law in India. The Supreme Court had upheld the company's claim that it was not liable for capital gains tax when assets located in India were transferred by one non-resident to another non-resident. Government will not take the judgment lying down. Section 9 of the Income Tax Act 1961 was amended by Finance Act, 2001 with retrospective effect from 1.4.1962. Indirect Transfers came to acquire a new meaning not visualized by the Supreme Court in the Vodafone's case. The amendment, especially its retrospectivity, shocked Corporate India. There was hope that the new Government will restore the law as stated by the Supreme Court and give up retrospective amendments. The new Finance Minister responded in a guarded manner. Early in the Budget speech, in Para 10 he observed:

"The sovereign right of the Government to undertake retrospective legislation is unquestionable. However, this power has to be exercised with extreme caution and judiciousness keeping in mind the impact of each such measure on the economy and the overall investment climate. This Government will not ordinarily bring about any change retrospectively which creates a fresh liability. Hon'ble Members are aware that consequent upon certain retrospective amendments to the Income Tax Act 1961 undertaken through the Finance Act 2012, a few cases have come up in various courts and other legal fora. These cases are at different stages of pendency and will naturally reach their logical conclusion. At this juncture, I would like to convey to this August House and also the investors community at large that we are committed to provide a stable and predictable taxation regime that would be investor friendly and spur growth. Keeping this in mind, we have decided that henceforth, all fresh cases arising out of the retrospective amendments of 2012 in respect of indirect transfers and coming to the notice of the Assessing Officers will be scrutinized by a High Level Committee to be constituted by the CBDT before any action is initiated in such cases. I hope the investor community both within India and abroad would repose confidence on our stated position and participate in the Indian growth story with renewed vigour".

What does this mean? Completed assessments pending in Appeal will have to be decided by the Courts. Pending Assessments will be referred to the High level committee by the CBDT. For the future, there is an assurance that normally tax law will not be amended retrospectively. This is a sort of compromise which has not satisfied corporate India.

Corporate Social Responsibility

Companies Act, 2013, brought in a new provision making it mandatory for companies with a net worth of Rs.500 crores or more or turnover of Rs.1000 crores or more or a net profit of Rs.5 crores or more during any financial year to spend at least 2% of their net profit on activities relating to Corporate Social Responsibility. Schedule VII of Section 135 of the Companies Act, 2013 stipulated the activities to be carried on by companies in discharge of their CSR policies. These activities related to eradicating hunger and poverty, promotion of education empowering women combating immuno-deficiency syndrome, malaria, etc., ensuring environmental sustainability, promoting vocational skills, social business projects, contribution to Prime Minister's Relief fund and such other matters as may be prescribed. The question was raised whether these mandatory expenses will fall for deduction under Section 37 of the Income Tax Act, 1961. Section 37 allows expenditure incurred wholly and exclusively for the purposes of the business as a deduction for computing taxable business income. Finance Bill 2014 amends Section 37.

The existing provisions of Section 37(1) of the Act provide that deduction for any expenditure which is not mentioned specifically in section 30 to section 36 of the Act shall be allowed if the same is incurred wholly and exclusively for the purposes of carrying on business or profession. As the CSR expenditure (being an application of income) is not incurred for the purposes of carrying on business, such expenditure cannot be allowed under the existing provisions of section 37 of the income-tax Act. Therefore, in order to provide certainty on the issue, it is proposed to clarify that for the purposes of section 37(1) any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence shall not be allowed as deduction under Section 37. However, the CSR expenditure which is of the nature described in section 30 to section 36 of the Act shall be allowed deduction under those sections subject to fulfillment of conditions, if any, specified thereon.

The amendment will take effect from 1st April, 2015 and will, accordingly, apply in relation to the assessment year 2015-16 and subsequent years.

What do we make of this amendment?

Section 135 and Schedule VII of the Companies Act were discussed in this magazine in an earlier issue. The activities mentioned in schedule VII were such that they could be considered as business expenditure mandatorily dictated by law. The issue was debatable. The amendment of Section 37 of the Income Tax Act, 1961 by the Finance Bill 2014 places the matter beyond doubt laying down that CSR expenditure will not qualify for deduction under Section 37 since it represented an application of income after it was earned.

Charitable Trusts

Reference may be made to the article "An Intelligent Interpretation of the Tax Law on Charitable Trusts" by the present authors who appeared in May 2014 of this journal. The case of Jamsetji Tata Trusts 42 docs (view all) was discussed at length. Tata Charitable Trust had argued that its dividend income was exempt under Section 10(34) because such income is taxed under Section 115(O) by way of Dividend Distribution tax. Sections 11, 12 and 13 had to be considered while applying Section (10). The Tribunal Ruled that the benefit of Section 10 cannot be denied by invoking the provisions of Section 11,12,and 13 of the Act. Once the conditions of Section 10 are satisfied, then no other conditions can be fastened for denying the claim under Section 10. The Tata Trusts succeeded.

Now comes the amendment by the Finance Bill 2014. It is explained that the primary objective of providing exemption in case of charitable institution is that income derived from the property held under trust should be applied and utilized for the object for which the institution or trust has been established. In the interplay of the general provisions of exemptions which are contained in section 10 of the Act vis-à-vis, the specific and special exemption regime covered in Sections 11 to 13 should govern cases of trusts. The specific provisions should not be allowed flexibility of being governed by other general provisions or specific provisions at will. Allowing such flexibility has undesirable effects on the object of the regulations and leads to litigation. The amendment lays down that where a trust has been granted registration for purposes of availing exemption under Section 11, and the registration is in force for a previous year, then such trusts or institution cannot claim any exemption under any provision of Section 10 other than relating to exemption of agricultural income exemption under section 10(23C). An amendment is also made to provide that under Section 11 and Section 10 (23C), income for the purposes of application shall be determined without any deduction or allowance by way of depreciation or otherwise in respect of any asset, acquisition of which has been claimed as an application of income under section 11,12 and 13. These amendments are prospective in nature. At one stroke, the Finance Bill has annulled the Rulings discussed in the Article that appeared in May 2014 in this journal. This does not show charity to the Charitable Trusts.

Kisan Vikas Patras

In para 27 of the Budget speech, the F.M has chosen to reintroduce the Kisan Vikas Patras to encourage people who may have Banked and unbanked savings to invest in these instruments. Fears have been expressed that such Kisan Vikas Patras may induce conversion of black money into white because there is no Rule laid down that the names of the persons investing in the KVPs should be disclosed before the Authorities.

Conclusion

There are various other amendments introduced by the Finance Bill touching upon transfer pricing, Dividend Distribution tax, Capital gains etc. Within 45 days of assuming office, the FM has been able to introduce thought-provoking amendments in the Income tax law. This is very much creditable indeed. MA

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TAX TITBITS

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Direct Tax Proposals – Budget, 2014

THE Finance (No.2) Bill, 2014 has followed the usual pattern with as many as 71 amendments which tinker with the law by enhancing powers of tax administration in survey, search and collection of information, besides extension of time limit for issue of statutory notices and extension of TDS provisions along with the usual neutralisation of the decisions of the Courts unsettling the settled law. Some of the proposals may require correction even before the Bill becomes law. A reference is now made to some of them.

Specter of TAS

WE have International Accounting Standards besides Accounting Standards recognised or prescribed under the Companies Act, 2013 with periodical information about the accounting treatment expected by law from various agencies like Reserve Bank, Securities and Exchange Board of India and regulatory authorities like Insurance Regulatory and Development Authority (IRDA). Tax Accounting Standards for which power is taken under section 145 had not been put to use so far except for adopting AS 1 and AS2 as TAS 1 and TAS 2. The proposed TAS Standards for 11 more items like Prior Period Items, Construction Contracts, Government Grants, etc. preponing income, postponing deductions, deeming capital receipts as revenue and revenue expenditure as deferred expenditure etc. as is evident from published Tax Accounting Standards, which will now become law on notification after the proposed amendment to section 145(2). This will be effective from 1.4.2015. Such parallel computation of income will override all other Standards on notification under amended section 145(2).

No notice has been taken of development of law with enactment of Companies Act, 2013 relating to cost accounting standards and records as for exemption under Valuation of Inventories. Tax Accounting Standards should not override the Cost and Management Accountant's concept of cost, where cost form a basis or alternate basis of valuation. While more jurisdiction is envisaged for Valuation Officer under the Income Tax law, the new provision on valuation and the expertise recognised under the new company law has also been overlooked.

Computation of income under income tax law will follow a different path in a more pronounced manner making the computation of income not only complex but also unrealistic placing an enormous burden to make adjustments for arriving at taxable income from income maintained according to requirements of company law and Generally Accepted Accounting Principles (GAAP).

Retrospective amendments

THE Finance Minister's speech has taken notice of abnormal arrears consequent on retrospective amendments. There is a proposal in the Finance Minister's speech to provide for review by a committee of the Central Board of Direct Taxes, a poor consolation. The objections to the merits of the amendment even to the extent it was prospective have gone unanswered.

Advance Ruling

THE next suggestion is for extending advance ruling to residents is a welcome one. But since advance ruling is not final according to the decision of the Supreme Court in Columbia Sportswear Company v. Director of Income-tax [2012] 346 ITR 161 (SC), it could hardly be of any great assistance except short-circuiting the appellate fora. Amendment to make the Advance Ruling final is necessary.

Settlement Commission

THE proposal to extend the scope of settlement by Settlement Commission would, if implemented will solve many of the outstanding problems and avoid unrealistic arrears of tax. Settlement Commission should be brought back on rails as before with its earlier powers restored.

The Finance Bill does not contain any provision regarding the above three proposals, but it is indicated that the necessary amendments regarding the last two proposals would see implementation in this session itself apparently by way of a separate Direct Taxes Amendment Act. In that case, all amendments to law proposed in the Bill may well be shifted to form part of such Amendment Act, where they legitimately belong.

Dividend distribution tax made more bitter

THE base for additional tax for distributed dividend and distributed income of mutual funds will no longer be on the actual amount distributed, but on the gross amount including the distribution tax, so that it becomes a tax on par with tax deduction at source, but without credit of such tax in the hands of shareholders/ unit holders. The disallowances of related expenditure under Rule 8D read with section 14A can now make no sense, since the inference that dividend income continues to be tax free can no longer be sustained. It is because the amendment would bring tax on dividend distributed on par with all tax deductions at source in Chapter XVII, so that a separate Chapter under Chapter XII-D should not be necessary.

Taxation of dividend is regressive, so that there is case for restoration of tax on such dividend in the hands of shareholders. There is also need for review of the entire system of corporate taxation, since incidence of tax on corporate income, when considered along with tax on both regular and deemed dividend income in the hands of the shareholders, is discriminatory. It may be added the set off of deemed dividend against declared dividend provided under section 2(22)(e)(iii) is not available when deemed dividend is taxed on shareholder's hand while regular dividend is taxed in the hands of the company.

Mutual funds are badly treated

TAX on long term capital gains is proposed to be jacked up from 10% to 15%. Unlisted securities and units of mutual funds will be treated as short term capital assets for period of holding upto 3 years raised from one year. Concessional rate of tax under section 112 at 10% on long term capital gains if indexation benefit is not availed will no longer be available, so that liability for units of Mutual Fund except equity oriented funds will be taxed uniformly at 20%.

Taxation of business trusts

THE two new investment vehicles recognised viz. Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (Invit) the income of which will be taxed at 5% for residents and 10% for non-residents in the hands of the investor. If these units are listed, liability for capital gains tax will be spared, if Securities Transaction Tax is paid. Tax will be deducted at source under section 194LC. If in the case of Invit units, black money in India and abroad would have surfaced, if amnesty by way of immunity from same being questioned under section 69 had been granted. Adequate resources for infrastructure with consequent employment and growth will follow. But what is provided is policing of investments with the requirement of KYC norms and rigid monitoring of information with penalties for failure to provide them.

Investment allowance

INVESTMENT allowance, which was restored last year under section 32AC but limited to investments above Rs. 100 crores is now made available for the reduced limit of Rs. 25 crores, so as to benefit the medium scale sector. It would have been much wiser to remove the limit altogether in the larger interest of the economy. It is the small scale sector which offers employment and is in need of tax relief.

Section 35AD

THE benefit of section 35AD allowing capital expenditure is now extended to (a) laying and operating a slurry pipeline for the transportation of iron ore; (b) setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines. The periodic extension for industries, which qualify for deduction for capital expenditure under section 35AD can be replaced by making it available for all manufacturing industries in view of the professed commitment to encourage manufacturing industries. Exception may, however, be made for low priority industries listed in the Eleventh Schedule.

The further restraint under section 35AD by requiring use of assets for period of eight years was rigid enough, but now the difference between the amount allowed under section 35AD and normal depreciation under section 32 will be brought to tax, if the asset is transferred or demolished, destroyed, discarded or transferred. This difference will also be taken into account in computation of book profits for Minimum Alternate Tax (MAT) and Alternate Minimum Tax (AMT). It is another dilution of benefit under section 35AD. Section 35AD only allows depreciation in advance. The loss for the industrial unit availing section 35AD is also not set off against other income. In view of these restrictions, the loss of revenue in extending section 35AD to all manufacturing industries is not only minimal, but also made good over the years. Such a step excluding the benefit to all manufacturing industries would have provided a valuable incentive for the growth of manufacturing industries, which will ultimately solve unemployment problems and provide for real growth.

Conversion for FIIs

THERE is a concession proposed for Foreign Institutional Investors (FIIs) under section 2(14)(i) by treating its stock-in-trade as capital asset limiting the liability to capital gains tax. This is a welcome clarification for foreign portfolio investors. But there is no reason why it should not be extended to Indian investors, so that the perennial controversy as to whether an assessee is a dealer or investor can be avoided with advantage of a larger turnover in stock exchange.

Charities

CHARITABLE institutions with the object of general public utility are badly affected by the amendment to the definition of charitable purpose made under section 2(15) by the Finance Act, 2008. The agony of such NGOs is compounded by the inference of business in too wide a sense, so that even statutory duties carried on by authorities set up by the Government as in the case of ISI or various certification agencies have been subjected to tax. This law has been misapplied in the case of Chambers of Commerce, which should even otherwise be exempt on the principles of mutuality, besides limiting liability to such income from service under section 28(iii) of the Act, where it is taxable.

Powers of cancellation of registration is enlarged. The NGOs are badly hit, if the earlier amendment to definition of charitable purpose and the proposal to enlarge the power of cancellation are not dropped.

Corporate Social Responsibility neutralised

ONE of the most unwelcome measure is the denial of deduction of expenses incurred on discharge of corporate social responsibility made mandatory under section 135 of the Companies Act, 2013. Even before it was mandatory, it was held deductible in CIT v. Madras Refineries Ltd. (2004) 266 ITR 170 (Mad) and CIT v. Infosys Technologies Ltd. (2014) 360 ITR 714 (Karn). They will stand neutralised. In the larger interest of the economy, the proposal should be dropped.

Presumptive tax

The limit for presumptive tax for transport operators is liberalised by substituting the income for each truck from 5000/4500 by Rs. 7500 in view of inflation after the time it was originally fixed. On this rationale, even for other businesses covered by presumptive taxation, limit should have been liberalised. MA

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Attention please – Members in Practice

Members in practice can now view their validity of Certificate of Practice by following the procedure as laid down below:

1. go to the home page of the Institute website, ie www.icmai.in
2. go to the members' log in on the top of the Home page by using your membership number as 'User ID' and a combination of your DoB (in dd-mm-year format) and Membership number as your 'Password'
3. immediately you will be led to the 'Membership Management System' page
4. go to the 'Certificate of Practice' menu on that page
5. view the validity of 'Certificate of Practice' which is the last item on that menu

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DIRECTORATE OF STUDIES

Ref. No.: DOS/8/07/2014-15 **July 28, 2014**

CIRCULAR

Sub: **Eligibility of Students for appearing at CMA Foundation Course Examinations in September 2014, December 2014 & March, 2015**

It is clarified for general information that the students who got admitted/would be admitted to the CMA Foundation Course of the Institute as per following schedule, shall be eligible to appear at the CMA Foundation Course Examination of the Institute, as follows :

Term of Examination	Date of Examination	Cutoff date as per Regulation proposed by Directorate of Studies, for implementation
September 2014	21/9/2014 (already notified by Exam.Deptt.)	23/4/2014
December 2014	21/12/2014*	21/7/2014
March 2015	21/3/2015*	21/10/2014

***Tentative, final date yet to be notified**

All concerned are requested to please take note of the same and guide the students accordingly. However, these dates for December 2014 & March 2015 stands confirmed until change in the date of Foundation Course Examination.

This circular is in partial modification of the earlier Circular No.: DOS/8/2013-14 dated 13/12/2013 on revised cut off dates for admission to the CMA Foundation Course Examination.

This is further informed that June 2015 is the last term for Examination under Syllabus-2008.

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department
& In-Charge of Directorate of Studies

THE PROFESSION, PROFESSIONALS – AND THE CMAs

CMAs must prove, through their work, that they are true professionals in every sense and are here to extend their professional expertise for the benefit of all the functional areas of the economy

CMA Harijiban Banerjee
Former President
The Institute of Cost Accountants of India
Director, Senbo Engineering Limited, Kolkata

Nouvelle Vague is a French word, which means "New Wave". While the English word "Abracadabra' indicates the mantras or words a sorcerer chants before he performs his treats to do some unbelievable feat before the naked eyes of the public. In today's modern world which has popularly been defined as s Global Village, the professionals particularly those associated with accounting activities require to live between the poles of above two words 'Nouvelle Vague" and "Abracadabra'. We find various uplifts newer developments – both scientific and political. Also economic social and cultural cooperation in regional and international fronts are found to be very common phenomenon now. Opening up of so many areas of activities in such a massive manner establishes that there is a positive surge of new wave of professional manifestation all around – be it in financial and economic ideas, be it in political and social approaches thereby immensely affecting the human lives and behavior.

But all these new waves of changes have not always been well defined and appropriately structured. Fall out of such a situation has obviously created a chaotic impact in almost all the spheres of life. There was no exception to the professional world also. Which is why, the professionals are now confronted with so many changes from compliance of the statutory requirements involving Tax Laws, Cost and Management, Accounting Practices, Auditing Applications, to so many other formalities that need to be observed. Leave apart the question of non compliance, deviation or inappropriate compliance of these requirements may invite complexities along with penal provisions. Under this situation, the world is like a disarranged and unorganized table of an efficient magician who will chant his abracadabra to drive away what is wrong, what is evil so that order prevails and the spectators get relief to find that the woman assistant cut into two pieces a while ago is absolutely alive and just singing on the dais. In such a trying situation the role of Professional Accountants is more than that of an efficient magician. The importance of their active association, prudent decision, matured guidance and professional gumption is just unbound to put and arrange the things and system in order for giving life saving relief to the society.

Who is professional?

On a more mundane level we can pretty well define a 'Professional' as one who is connected with a job that needs special training or skill - especially one that needs a high level of education. Such a subjective identification attributes some qualities to a professional such as, he is specially trained or has acquired special skill to carry out the assigned duties and he has high level of education and knowledge obviously in that particular area wherein such professional is engaged.

In fact in modern times, the second decade of the twenty first century, when Drones are supposed to make home deliveries, robots to do your household work, almost half of the world population on the facebook, a professional, more particularly Accounts Professional in his engagements, is much more than what is defined above.

The main underlying difference between the academic and professional levels o f studies is that pursuing an Academic Course of study helps a student to gain knowledge about a particular area of education. Professional education, as against that, teaches how one should apply the said knowledge possessed by the said professional through academic, vocational courses or even through acquired knowledge in practical and real life situations.The basic password for success of a professional person is how he applies his acquired knowledge of specialized nature to solve a real life problem intelligently in an acceptable manner. This is more so for the persons engaged in the Accounting Profession. The subject idea can better be described by a schematic diagram as below:

The global village of accountants

Whoever likes it or not, the bare and proven fact is now that everywhere in the world all monetary transactions and activities are expressed through a universally accepted language called Accounts. Performances and activities in economic and financial areas get represented through figures which again are booked, recorded and classified to manifest accounting statements in the desired and required formats. The role of Cost and Management Accountants is immensely important at this point because he is not only supposed to have detailed knowledge about the systems through which manual figures are collated and classified to form the books of accounts, but also about the stages of production process and the activity orientation levels in various service sectors. Under such a fast changing vistas of so-called global village, the work pressure of a Professional Accountant becomes multidimensional having professional, social and ethical angles. Pervading impact of such changes, in fact, will be more prominent for the profession of cost management accountancy. Needless to say that a Cost Management

Accountant, either in practice or in employment, must equip himself adequately to cope up with the prevailing situation thereby he can comply with the requirements and expectation of the corporate world as well as the society itself.

If the test of the pudding is in eating, usefulness of Cost & Management Accountancy will have to be proved not only through the skilful and prudent use of various tools and techniques justifying them beneficial to the end users but also by the level of capability and professional wisdom to ascertain as well as to assess what is being happened now and also clearly visualize what is just going to happen thereafter. To be a true professional, a CMA requires to accommodate his professional entity always with the ever changing situations around him and must adjust his profession acumen accordingly in a befitting manner. This will aptly sharpen his professional excellences and thereby help him abundantly to accept the challenges of changing times and brush aside the rust and dust of professional obsolescence. Then and then only a CMA will acquire the unique feat of seeing what is there behind the curtain of undefined obscurity ---- how the figures talk among themselves often to tell many untold stories.

The Sage and the Urvashi

The height of professionalism and how professional approach can intelligently be applied and maneuvered may perhaps be best manifested by the two anecdotal submissions which can be stated as follows:–

A sage who in order to search the existence and omnipotence of God was grossly engaged in protracted concentration and meditation. By virtue of his penance, he acquired tremendous potential capability of even over ruling the power of nature,. This became constantly a mordant cause of anguish and anxiety of Lord Indra the King of Heaven (CEO of God and Goddesses of Heaven, the Celestial Multinational?). He was afraid of losing his kingdom to the powerful sage. So in his own usual way Lord Indra hatched a conspiracy to inactivate the power of the sage by luring him to enter into a mundane relationship with the most beautiful court dancer cum singer of Heaven, the Urvashi. As a part of the plan Lord Indra organized a soiree to have musical and dance performances by the beautiful charming and youthful Apsaras of Heaven (the lady performers) at the Nandan Kanan (the Garden of Eden). There he invited the sage to enjoy the evening as a Guest of Honour. Unhesitatingly accepting the invitation the sage in a very unassuming dress with lean thin and hair locks all overhead sat in a corner in a humble manner at the place of the event. He was absolutely unbecoming, unbefitting and mismatch with the pomp, gaiety and grandeur of Nandan Kanan.

The programme started with music as the Heavenly Wine (Somras) was served among the Gods, Goddesses and other guests. The sage took the wine quite casually. Gradually various items of entertainments were served. As the fun, frolic and fiesta became hot to hotter and having been served with good rounds of drinks the seemingly appeased sage who was even making some encore sounds, looked happy and interested. On seeing the sage in such a condition Lord Indra asked Urvashi to appear on the scene and sing serenade with provocative dance. The lady in her youthful elegance and charming appearance looked as if she was the last word of an attraction. She started dancing also. She was wearing a unique revealing dress. She was presenting altogether a total dance of inebriating nature through which was also making alluring signals of invitation to the sage. The combination of song with rhythmic dance, scent of Eden flowers and the heavenly wine created an ambience ineffable to make the viewers spell bound and numbed. Right then Lord Indra gave an indicative signal to Urvashi who immediately came in front of the sage with a dancing pose and started throwing away her dresses one by one in a strip teasing manner. Finally there was not even a single thread on her body. It appeared that the sage got deeply engrossed as he was enjoying all these. Lord Indra felt so happy thinking that his conspiracy would now bear fruit to seduce the sage and his kingdom would eventually be saved. Just at that moment the sage all on a sudden smilingly said, "Oh Urvashi, please open further and let me see more". Hardly the sage uttered these words all the skin that covered Urvashi's body instantly got evaporated. It was not Urvashi - but just a body of flesh dancing in front of the sage! The sage got up and said again with a big grin on his face, "Oh, Urvashi, please open further and let me see more". As soon as this was told, all the flesh of Urvashi's body vanished within twinkle of an eye and it was an ugly skeleton dancing in front of the sage, who then looked at Lord Indra and said, "My dear Sir, you made a great mistake in trying to provoke me with this skeleton only. Remember, I am already provoked with the professional wisdom by which I am trying to know the God. I have been trying to know the truth of life and what is there beyond. I never cared for your kingdom of heaven". By saying these words he put Urvashi back in her original form and shape and thereafter left the Heaven.

The sage was an exemplary model of true professional who by dint of his knowledge and wisdom could ascertain what was there beyond the apparently visible things and what truth was there behind.

Finding out the truth and revealing it, as the modern Management Gurus think, may not always crown professional excellence to a person since reality and truth are two different angles of earthly activities of lives which, it is needless to say, get greatly influenced by the economic and financial hazards, taking place every now and then in our world of Global Village .

In this context, the story of Yudhisthira in Mahabharat can be cited as a topical example of extreme professionalism. By loudly telling " **Aswathama Hoto Roney**" and then whispering "**Eeti Gojo**" to his Guru Dronacharya, he uniquely submitted the fact of reality in such a way to mean something altogether different and the essence of communication benefitted the Pandavas to win the war ultimately. This is what the modern world expects from the professionals, especially from the profession like ours – CMAs.

To acquire professional excellence CMAs , at the time of execution of their assigned task, must sincerely try to find out the underlying facts of the situation involving a job , then search for the truth. Once these are available with him duly supported by facts and figures, he should table them in such a professional manner that should prove beneficial to all the stakeholders like, he himself, client, regulator and the society. One can ask how so many stakeholders -- all at a time -- having divergent and contradicting interests, can be satisfied by the CMAs? The honchos of modern management think that it can be done, yes, it can even be done even easily. They feel if without professional education, our parents can play the role of father, mother, son, daughter and even in-laws satisfying the varying requirements of all the members of family, neighbours, friends, guests etc. then why not qualified professionals? They have all the needed academic and professional knowledge, special skill to tackle situation and expertise to cope up with the adversities. Yet in one particular aspect they may be lagging, which is called "Intelligentsia". This very important matter for a professional and needs to be acquired by studying and analyzing the circumstances prevailing around . CMAs should never concentrate on one particular aspect or point, instead must make an in depth analysis of all the available / non available relevant points and then should focus on a particular point of conclusion. Frankly speaking, in terms of dynamic management of today, Arjuna, the most efficient Pandava would have been termed as "Professional of Mediocrity" since in the practical test of archery he fixed his target only on the eyes of the bird in the bush forgetting the world, environment around him. As against this a successful professional of today –well before fixing a target -- has to judge, analyse and consider all the situations prevailing around him along with ever changing economic financial and political scenarios and thereafter should ascertain what his target be and what he has to pin point to justify the professional excellence and correctness of his decision !

Conclusion

A popular English adage goes as follows -

"Tell me who your friends are
I shall tell you who you are"

This signifies that a man is known by the company he keeps. The underlying philosophy of the above saying has farfetched implication and can be applied for CMAs also. In the present scenario of the country, as our CMA fraternity also strongly believes, India will make a great leap forward in the coming years. At this critical time of uplifting, we the CMAs, must prove our quality effectively and sustain the excellence all along. Through our skilful deeds and acts we must prove that we are true professional in every sense and are here to extend our professional expertise for the benefit of all the functional areas of the economy – be it industry, be it the regulators, be it the society itself.

As the Moon shines with the rays of the Sun, a profession or an Institute can shine only with the achievements and successes of its members and students. Achievements and glorious attainments by the members and the students make the profession and the Institute glow bright to brighter. Let us hope CMAs and the profession of CMAs will appropriately decorate our mother Institute, "The Institute of Cost Accountants of India" with ornamentals laurels they earn through their successful achievements as professionals. Let the smile of our members and students bring a genuine smile of happiness on the face of our Mother Institute also and it is a universal truth that the **mother is always greater than the heaven** ! MA

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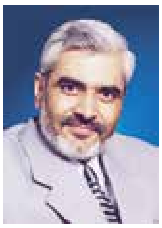
CMA DOSSIER

A directory of some research papers on 'Government Accounting' that appeared in various journals/periodicals/magazines across the world is presented below for the reference of readers. The articles are available at the link provided next to them.

Name of the topic	Author	Reference with date	Link
Towards a new era in government accounting And reporting	PwC Global survey on accounting and reporting by central governments	PwC, April, 2013	http://preview.thenewsmarket.com/Previews/PWC/DocumentAssets/284413_v2.pdf
The role of management as a user of accounting information: Implications for standard setting	Brigitte EIERLE Wolfgang SCHULTZE	Accounting and Management Information Systems Vol. 12, No. 2, pp.155 –189, 2013	http://www.cig.ase.ro/RePEc/ami/articles/12_2_2.pdf
Effect of IFRS and Financial Statements: Implications on FDI and Indian Economy	Rakesh H M Shilpa R	IRACST – International Journal of Commerce, Business and Management (IJCBM), ISSN: 2319–2828 Vol. 2, No.5, October 2013	http://www.iracst.org/ijcbm/papers/vol2no52013/2vol2no5.pdf
Promoting improved transparency, accountability and economic policy for governments: The Australian experience	Jeffrey Luckins CPA	October 2012	http://www.cpaaustralia.com.au/~/media/corporate/allimages/professional%20resources/reporting/transparency-accountability-economic-policy.pdf
Adoption of international public sector accounting standards in Nigeria: Expectations, benefits and challenges	Ijeoma. N. B Oghoghomeh. T.	Journal of investment and management 2014; 3(1): 21-29 Published online march 10, 2014	http://article.sciencepublishinggroup.com/pdf/10.11648.j.jim.20140301.13.pdf
Improving government accounting and financial management reporting in Iraq.	Aso Ahmed Abdullah	European Journal of Accounting Auditing and Finance Research Vol.2, No. 6, pp. 69-77, August 2014	http://www.eajournals.org/wp-content/uploads/Improving-Government-Accounting-and-Financial-Management-Reporting-In-Iraq.pdf
The Innovative Approach for Accounting and Accountability of Government Revenues in Iraq	Dr. Talal A. Al- Kassar Prof. Dr. Mahmoud Al-Wadi Dr. Alexander Dawoody	Research Journal of Finance and Accounting Vol.5, No.9, 2014	http://iiste.org/Journals/index.php/RJFA/article/view/13035/13425
Accounting for influence of execution of financial conventions on revenue utilization in local government areas: Nigeria's experience of level of voluntary compliance	Akabom-Ita Asuquo, Aniefiok Udoh Akpan, Mr Charles Effiong	European Journal of Accounting Auditing and Finance Research Vo.2, No.5, pp.1-18, July 2014	http://www.eajournals.org/wp-content/uploads/Accounting-For-Influence-Of-Execution-Of-Financial-Conventions.pdf
Government Regulation to Enhance the Accounting Profession's Focus on the Public Interest for Professional Service Delivery	Eric Clubb	Proceedings of World Business Research Conference 21 - 23 April 2014, Novotel World Trade Centre, Dubai, UAE	http://www.wbiworldconpro.com/uploads/dubai-conference-2014-april/accounting/1398064759_111-Eric.pdf
Management accounting and control Systems in the context of public sector Reforms: a case study of a government Department in Papua New Guinea	Thaddeus kambanei	University of canberra February 2014	http://www.canberra.edu.au/researchrepository/file/42415009-dd8e-4dd4-aa1c-c4f046e49f7d/1/full_text.pdf
Management accounting and control The Accounting Methods of the Local Government Department Output by Factor Analysis	Haoyuan Zhong, Guangming Deng	Applied Economics and Finance Vol. 1, No. 1; May 2014	http://redfame.com/journal/index.php/aef/article/view/363/321
Does Accounting Quality Influence Product Market Contracting? Evidence from Government Contract Awards	Kai Wai Hui Joseph Pacelli P. Eric Yeung	March 2014	http://www.insead.edu/facultyresearch/areas/accounting/events/documents/INSEAD-03-17-2014.pdf
Government Preferences, SEC's Enforcement Actions and Firms' Accounting Violations	Jonas Heese	November 2013	http://accounting.eller.arizona.edu/docs/Workshop_papers/Spring%202014/Jonas%20Heese's%20paper.pdf
Agential conflicts and accounting reforms in 'Less Developed Countries': The Case of the Nepalese Central Government	Pawan Adhikari and Kelum Jayasinghe	2013	http://www.apira2013.org/proceedings/pdfs/K180.pdf
The relationship between Accrual government accounting and Compliance auditing	Abolfazl Darehzereshki Saeed Saeida Ardakani Ramin Abghari	Interdisciplinary journal of contemporary research in business Copy right © 2013 institute of interdisciplinary business research 3 5 5 November 2013 Vol 5, no 7	http://journal-archieves36.webs.com/355-364.pdf

SME LENDING MODELS OF PUBLIC SECTOR BANKS IN INDIA: INNOVATIVE THINKING

For banks in India innovating thinking for adopting right serving models does not remain a choice but compulsion owing to the contribution of SME sector in employment, export, manufacturing and economy growth



CMA Dr Ram Jass Yadav
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LENDING has been assumed as a key element for enhancing competitiveness of SMEs for building productive capacity, to create jobs, to contribute to poverty alleviation for ensure equitable development of nation. Without finance, SMEs cannot acquire or absorb new technologies nor they can expand to compete with larger firms in global as well as in domestic markets. Traditional approach of banks has been reluctant to service SMEs for a number of well known reasons such as SMEs are regarded high risk borrowers due to insufficient assets & low capitalization, vulnerability to market fluctuations and high mortality rates; lack of accounting records, inadequate financial statements or business plans makes it difficult for bankers to assess bankability of potential SME proposals. Banks are generally found biased toward large corporate borrowers, who provide better business plans, have credit ratings, more reliable financial information, better chances of success and higher profitability for the banks. When banks lend to SMEs, they tend to apply tougher screening measures, which drives up costs on all sides. A well- functioning mechanism for SME financing adopts a market approach which enhances banks' ability to provide finance to SMEs with commercial understanding that lower costs and minimize their risk exposure. This innovative sense of business will find SME lending more profitable, and thus be encouraged to construct lending programs targeted at SMEs as compared to large corporate which are driving down margins and fees. Banks in developed countries have launched a number of intuitive that improved profitability of lending to SMEs and also provide SMEs with better access to finance. A number of leading banks have demonstrated that providing financial services to SMEs can be turned into a highly profitability business.

Business environments in developing and developed countries though differ in many respects, the problems of servicing SME customers are similar, namely high perceived risk, problems with information asymmetry and high administrative costs. In this backdrop, author has made an attempt to review latest trend of lending practices for SME in India and based on the observations of the survey innovative thinking for lending to sector is suggested in the paper to build capacity of SMEs.

Methodology & Sample

A study has been carried out to analyze impact of a credit delivery model adopted for SMEs loans by public sector ban (PSB) in India and also collected primary data from bank officers on numerous issues involved in lending to SME Sector. The data used in this paper covers a sample of 251 officers & executives who have been interviewed on various guidelines of SME lending in India; of which 125 officers / executives representing 49.80% of the sample size have led the branches during their service with the Bank. Innovative Thinking being the central focus primary data gathered through a structure questionnaire is used in the study to suggest ways for improving competitiveness of small business for capacity building.

Findings Of Study

The major findings of the study based on the analysis of lending practices for SMEs observed during the survey are discussed below –

Time Value in Credit Business

Time lapsed without its use can never be restored and more importantly in lending business the loss from delayed decision cannot be quantified in monetary terms. It is said that 'if one wants more time to take correct decision in that case a right decision is also wrong when it is too late.' The analysis of responses collected from bank officials (Table-1) is presented below –

Table -1: Credit Efficiency Index (CEI)

Adherence	Numbers	% age*	Credit Assessment	Numbers	% age*
Acknowledgment of Loan Applications	151	60	Reserve Limits for payment to SMEs by Large Corporate	66	26
Fixing appointed date to discuss applications	202	80	Providing collateral free loans to eligible MSEs	121	48
Observance of Turnaround Time	152	61	Assessment of working capital limits based on Turnover Method up to limit of Rs. 5 Crs	199	79

%age works out to total responses from 251 officers / executives in Bank

Timely credit observed in 152 responses that represents 61% of the sample. It leads to the inferences that credit is delayed in 39% cases which may cause non achievement of business plan and thus attribute to poor sales and also postponement of project implementation that makes advances non performing. Laxity in credit decisions on one side taxes the economic growth (GDP) of country and on other way it is drainage on banks' profitability.

The further analysis of credit efficiency reveals that loan applications are dealt with poor governance as merely 60% officials reported that they acknowledge receipt of loan requests from borrowers. Two hundred two officers that constitute 80% of total sample size informed that an appointed date for discussion on applications is given at time of receiving the same. Lack of professionalism in handling loan application might be one major reason of non-observance time norms in delivering quality & timely credit to entrepreneurs.

Credit Assessment

Providing loan is like feeding a baby for his growth. Relationship between lenders & beneficiaries should be therefore, treated a biological relations of mother & child to understand significance of granting adequate credit to entrepreneurs in time. It is observed from the data exhibited in Table -1 that working capital limit up to Rs.5 Crores for SMEs is assessed as per applicable method of lending in 199 cases which represents 79% sample size. Further, the sanctioned is carved out for payment to SMEs by large corporate only in 66 cases constituting 26% as against 100% as per central bank's directives. The analysis signifies that optimum level of credit is not provided by 21% officers of the bank that may force SMEs to avail private borrowings at higher cost to run their business and thus banks dues are getting second preference to be served after private lenders. Also large corporate do not settle supply bills of SMEs for want of separate limit for the purpose as per RBI guidelines which adversely affect product cycle due to liquidity problems of SMEs and become reason of non achieving their business plan. It is more surprisingly noticed during the survey that only 121 bankers representing 48% of total numbers are providing collateral free loans to eligible MSEs that deprives of the needy entrepreneurs to avail finance from banks despite their loans are guaranteed by the Trust (CGTMSE) which is promoted by Government of India in collaboration with SIDBI. The indifferent attitude to encourage lending under CGTMSE Scheme by bankers causing poor growth of SME sector particularly those entrepreneurs who are venturing in new projects with innovative ideas in their mind but don't have collateral to avail finance.

Credit Processing Mechanism

Application for availing loan from banks is the first step which needs to be simple with guidance note for filling the format enabling applicant to submit the application

Table -2: Date on Loan Application Process					
Measures to streamline application submission	Numbers	%age	Information Parameters	Numbers	% age**
Provide guidance note on each column of application to fill up it	89	30	Imparting education awareness to SMEs on CIBIL information for building credit history	176	70
Online application & seeking appointment date to submit all papers at one go	86	29	Simplified credit proposal note to process loan application	95	38
Help desk at branches for initial scrutiny of application	65	23	Usage of customized project / TEV Study Report available at DIC/MSME deptt	58	23
Simplification of existing application form	53	18	**** %age works out to total responses from 251 officers / executives in Bank**		
Total	293*	100			
*Responses are mutually inclusive					

with all requisite papers in one go.The feedback gathered from bank officials on the related issues is presented in table – 2 which is analyzed as (Ref. Table 2).

The existing loan application in use for SME clients has been observed simple by 82% officers because only 18% of responses found in favor of its further simplification. One hundred & seventy five officers representing 59% of total numbers are found of the opinion to provide guidance note on filling up an application with provision login their requests online to the bank. Help desk at branches for the purposes of preliminary scrutiny of applications observed to be useful by 65 bank officials in the survey. It is revealed during the study that 176 officers representing 70% of sample are educating SMEs on CIBIL information for building their good credit history which can be considered an innovative move by bankers towards the improvement of credit access. However, the need to simply credit proposal note has been felt by 62% officers because the present format of credit approval note reportedly lengthy with a scope to avoid repetition of some information. Also the usage of customized project / TEV study report available at DIC/MSME department at district headquarters should be explored because only 23% operating units are using the available reports. It may be inferred that banks are asking a fresh TEV Study or project reports from beneficiaries which at times costs to them and also create a layer of middlemen for availing finance from banks.

Centralized Credit Delivery Model (CCDM)

Credit being the specialized area many banks has carved out lending functions by creating a centralized credit delivery in different nomenclature such as SME Loan Factory (SMELF), SME Loan Hub (SMELH), and SME Central Processing Cell (SMECPC). Functional experience of bank officers on the model is summarized in table-3 and analyzed as below –

Table -3: Functional Experience of CCDM		
Impression of Bank officials	Numbers	% age
Centralized Model is growth driver & has boosted SME business	137	50
Less slippage to NPA as compared to business processed at Branches	59	21
Documentation & Disbursement at branches delays utilization of loans & at times lack of business ownership by operating units	31	11
SME Loan Hub (SMELH) asks more papers from branches	37	13
Discontinuation of centralized credit delivery model	11	5
Total (Responses are mutually inclusive)	275	100

The model found useful because 137 officers representing 50% of total numbers have endorsed that SMELH model assumed a growth driver & it has boosted SME business in their command areas. Only 11 officers constituting 5% of responses are of the opinion to discontinue the model which means 95% operating units are in favor to continue & strengthen the centralized credit delivery model because of many reasons such as better quality of business processed at SMELH, lesser papers formalities at hub as merely 13% officers informed that hubs ask more papers from branches. In light of positive result of the model 31 officers found of the opinion that documentation & disbursement should also be done at SMELH instead at branches to further reduce turnaround time (TAT) and enhance utilization of loans.

Business Processing Flow (BPF)

The credit requirement of SMEs varies in its nature as compared to large corporate. Banks have therefore, offerings customized products & services to this sector to cater their financial needs. The impressions on product usage and processing flow of business at SMELH are analyzed below based on survey results exhibited in **table-4**.

While ascertaining reasons of not picking up SME products from bank officials, it was observed that 55% responses assume poor marketing & remaining 45% officers are of the view to create awareness of available products among frontline staff. Also it is suggested that pricing & margin norms require to be rationalized and also cap of loan limits in some products should be revised upward to make the products more acceptable to the sector. The product marketing, their publicity in market and USP awareness among staff observed to be area of focused attention. One hundred & six officers which are 44% of interviewees observed that applications are disposed off within 2 weeks. It leads to the inference that credit delivery efficiency on time index (TI) requires improvement in 56% cases. It may be further inferred that more hands in business processing causing delay in delivered because in majority of the cases (i.e. 61%) branch recommendation by SMELH is insisted for and only in 58% cases information are directly asked from borrowers.

Leaning Operations

The overall functioning experience of centralized hub found satisfactory and growth driven, however, bank officials were interviewed in the survey to seek their opinion for making CCDM more effective and useful. The feedback gathered (table–5) from ground functionaries of hub is analyzed below –

Table -4: Product Marketing & Processing Flow

Why Products not picking up?	Numbers	% age	Processing at SMELH	Numbers	%age*
Poor Marketing & Publicity	79	55	Branch to recommend new business to SMELH	148	61
Need Product USP to staff for sale	65	45	Application disposed off within 2 weeks	106	44
TOTAL	144	100	SMELHs obtain information directly from Borrowers	140	58
Suggested Innovation	95	-	*Responses gathered from 242 officers / executives working at SMELH & numbers shown above are mutually inclusive.		
Reduce Margin	14	15			
Rate of Interest – Rationalize	67	70			
Cap on loan limit - Increase	14	15			

Table -5: Corrective Measures Index (CMI)

Measures suggested by Bank Officials	Numbers	% age
Delegate higher sanctioning power to SMELH functionaries	45	12
Reduce intervening layers in recommending process i.e. obviate need of recommendation by Regional / Zonal / Circle offices if proposal falls in power of Corporate office	60	16
Introduce Joint Appraisal by branches / SMELH with Regional / Zonal / Circle office Team to reduce time lag in sanctions	59	16
Equip SMELH with adequate skilled / groomed manpower	149	41
Attitude & Psychometric Test before posting officers in Loan section	52	15
Total (Responses are mutually inclusive)	365	100

Centralized hub functions on the principle of assembly line concept which means the business is generated & canvassed by operating units and it is referred to hub for processing and approval. Therefore, it is pre-emptive to equip SMELH with adequate skilled & groomed manpower and same is endorsed by 149 officers during survey that constitute 41% of total numbers. Since elite class of officers & executives handles the business at hub, 164 responses representing 45% of numbers found of the opinion that higher sanctioning power to be delegated to functionaries at hub; to obviate need of recommendation by Regional / Zonal / Circle offices if proposal falls in power of corporate office and also to introduce joint appraisal by hub with higher offices team to reduce time lag in considering business. Besides leaning the functions at hub, an important suggestion is offered by 52 officers regarding posting of officers with positive blend of attitude at these hubs because credit is indeed an outcome of approach & attitude.

Recommendations – Innovative Approaches

Innovative thinking emerged on the basis of empirical observations of the study are discussed in the paper which probably would help bankers in adopting best lending practices to deal SME business differently.

Credit governance

Finance in business is like life blood in human body and its supply at right time with required quantum confirms healthy & longer life of business entity. As observed in the study that credit decisions are delayed in 39% cases; banks should therefore, introduce a system of giving appointed date for preliminary discussion on loan applications to reduce time lag in credit disposal. Also the applicable method of limit assessment should be used for adequate credit to mitigate risks of under or over financing. Large corporate buyers of SMEs products normally delay in settlement of dues towards their bills of goods supplied that adversely affects business operations. Government has though strengthened the provisions of Interest on Delayed Payment after enactment of MSMED Act; banks are also directed to sanction separate sub-limits within the overall limits sanctioned to the corporate borrowers for meeting payment obligations in respect of purchases from SME sector. The same is also to be certified by practicing Chartered Accountants while completing their audit of large corporate for which the professionals should be meticulous in their certificate and must exercise all due care. It is recommended that banks should obtain bifurcation in total purchase and age of creditors from SMEs in monthly statement of operating data (MSOD) to ensure that sub-limit reserved for SMEs is judiciously used in compliance of procuring policy and timely payment to SMEs. Also there is need to introduce Credit Governance Audit (CGA) to examine compliance of time and credit assessment norms for SME finance because non adherence of laid down rules on the subject causing high opportunity loss which remains un-captured in loan books of the banks and it charge to the growth of national economy.

Online tracking

Deregulated financial system provides an opportunity to borrowers for approaching to multi lenders at a time which of course creates competitive environment for better credit deal but at the same time exposes lending institutes to the risks of multi financing, charging a common securities to many lenders. Under prevailing SME credit mechanism neither banks nor do customers have any track on the loan application for want of online tracking system thus traditional method of credit access lacks transparency. It is therefore, suggested to introduce a system of login the loan request by an applicant online with a provision to seek appointed date for verifying necessary papers with loan application as it is being done in other department such as passport application, driving license etc. This move towards paperless loan application model will bring cost effectiveness, transparency in process system and also implement green initiatives in banking. A few banks in India such as Bank of Baroda has introduced "Protrack" in-house system of tracking loan application at all levels from its entry point at SME Loan Factories (the dedicated cell of processing SME loan applications) to disposal stage. Under this system higher offices have access to the system and can ascertain nature of information being asked by operating units from applicants and turnaround time is automatically worked out from the system. However, access of such system should also be given to applicants for tracking its disposal. The suggested online tracking method should have a central server for all members' banks operating in India like National Payment System (NPS) in case of payment settlement so that member banks can ascertain status of multi lenders application by the beneficiaries which will also prevent frauds.

Promoting SME education

Large India Inc (determined with reference to net worth, turnover or profit) will now require constituting a Corporate Social Responsibility (CSR) Committee to formulate and recommend to the board a CSR policy for the company as mandated in new Companies Act 2013. Companies must "make every endeavor" to ensure that they spend a minimum amount i.e. 2% of the average net profits for preceding 3 years on activities pursuant to their CSR policy.

Promoting education is considered one of the approved CSR activities under the new Act. As observed with thumps majority of 70% in present study, banks have proactively started to spread education awareness to their clients under Credit Information Companies (CIC) Act for building healthy credit history of beneficiaries to enhance credit accessibility; still there is scope of further promoting education to small entrepreneurs on various government initiatives, banks' schemes customized to SMEs, enhance usage of customized projects / TEV Study Reports available at district level with DIC/MSME department to make bank credit more popular & cost effective. Counseling of SMEs is warranted not only for financial issues but also in non-financial matters such as technology up gradation, marketing tie up, taking benefit of procuring policy, branding of their products etc. Training Colleges of banks should be given target to reserve at least 15% of their annual programs for EDPs which can be under aegis of newly introduced Corporate Social Responsibility (CSR) provisions under Companies Act. Merely financial support or donation of any extent cannot be substitute of providing good education and governance as real contribution under CSR especially when knowledge has become powerhouse in the world. Further, Government should set up SME Universalities on the line of Central University concept to give high status to SME education. Also banking institutes like NIBM, IIBM, IIBF etc. should launch diploma or certificate course on SME Lending and due weight age for qualifying such courses by bankers need to be given in promotion, posting etc on line of JABII, CAIIB examination.

Strengthen BPR Model

Centralized Processing Model with different nomenclatures in banks is functioning as Back Office for processing lending business. Adoption of right Business Processing Reengineering (BPR) models helps a bank in identification of wastage which led to more than 50 percent reduction in TAT for customers' more than 50 percent reduction in duplication of work. Less number of handovers and system inputs lowers chances of error and reduce operating risks which in turn enhance productivity and efficiency in lending operations. It is therefore, suggested to empower central processing hubs by delegating higher sanctioning power to their functionaries and as far as possible need of recommending the business proposals by Regional / Zonal / Circle offices should be dispensed with for cases which falls in power of corporate office to avoid re-processing of the proposals. Similarly branches should work as a sales center to generate business for processing hubs and thus obviate need of recommending such business by branches while referring to SMELHs because at the time of making reference of business to hubs branches can't recommend unless it is appraised. Banks should introduce SME Lending Automation Process System (LAPS) as it is done in retail banking, to simplify existing appraisal format that ranges from 30 -60 pages. This will avoid reproducing the information of historical nature made available in application form or repetition of statement of facts. More emphasis in appraisal should be given on justification & evaluation part that normally found to be missing in sanction note. Banks should introduce a model document of terms & conditions of sanction to maintain uniformity across the organization.

Customer Onboarding

Product launching and its innovation are part of business growth strategy that requires research / survey, marketing & publicity efforts, awareness among staff & piloting feedback from beneficiaries before it put into market. Also a detailed guidance note to fill up loan application form should be provided by banks with their application format with example so that beneficiaries can fill up the loan application at their own without engagement of middlemen. This process is prestigiously known as Customer On boarding which from a relationship standpoint refers to the first communications from the bank to a new customer. Best practice banks distinguish themselves through various means such as Tailoring product/services to diverse SME needs; Systematic in-market tests and continuous innovation; Coordination of marketing, sales, and back-office activities; and a dedicated product management unit. It is suggested that banks should introduce a system of scoring based feedback sought on product innovation & development capturing best practices indexes as illustrated in the paper and minimum qualifying scores should be gained in piloting phase before products are offered for sale. Adequate publicity of products and training should be imparted to front office staff with USPs of the products to make sales happened.

Build a Pool of Professional SME Bankers

SME Banking being the specialized area of operations require skilled employee with positive attitude of thinking who can be incentivized and trained specifically to serve SMEs. Managing SME bankers' performance is therefore supported by two pillars namely Selection & training; and Incentives. The relational skills are needed to gain trust and be accepted as counselor & guide by the client. Soft skills training should not be limited to Relationship Managers but should be extended to all other client-facing staff and to ensure active participation training credit system should be introduced for enhancing effectiveness of the programs. Further, to improve customer management by their manpower, banks should incentivize staff to have some parameters that should have a clear link to a value metric based on an important set of elements. The choice of elements should reflect both short term profit impact and long-term sustainability such as revenue generation, non-performing loans levels, and customer satisfaction, observance of adherence index on TAT, limit assessment. Best lending practices should be awarded by way of having a provision of variable compensation say 15-20% for staff. Besides, cash incentives the non-monetary rewards scheme may be introduced for star performers like quota in fast-track promotion, identification for overseas posting & training. This will foster both sales and commitment to develop SME sector

Conclusion

Innovation is something that cannot be introduced by force because it is like invention to enhance efficiency of existing system. For banks in India innovating thinking for adopting right serving models does not remain a choice but compulsion owing to the contribution of SME sector in employment, export, manufacturing and economy growth (GDP). Empirical observations based on the present study suggest that competition especially through innovation require to move banks out of their comport zones where lower yields on large corporate loans is disincentive for banks with higher concentration risks. Future banking is predicted in SME lending because of higher NIM, sustainable growth and longer relationship with them owing to the facts that today's SME is tomorrow MNCs. Public Sector Banks have though started to give special treatment to SMEs, however, study reveals that there is scope of innovative Best Business Practices (BBP) to have leverage of large branch network as compared to private banks and foreign banks operating in India. The recommendation that emerged from the study will help to grab huge business opportunities from SMEs which is a bonanza for banks as approximately 95% MSMEs are still not availing institution credit. Innovating Thinking towards SME lending will realize the theme "…faster, sustainable & more inclusive growth…" of 12th Five Year Plan of our country. Let us join move of 'Thinking New' to deliver things differently.

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ACTIVITY BASED COST MANAGEMENT WITH ERP MODULES IN HEALTHCARE: OPPORTUNITIES FOR CMAS

The many problems of the healthcare sector could be solved by establishing proper systems including Activity Based Cost Management integrated with ERP modules

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"Ensuring equitable access for all Indian citizens, resident in any part of the country, regardless of income level, social status, gender, caste, or religion, to affordable, accountable, appropriate health services of assured quality (promotive, preventive, curative, and rehabilitative) as well as public health services addressing the wider determinants of health delivered to individuals and populations, with the government being the guarantor and enabler, although not necessarily the only provider, of health and related services"

-High-Level Expert Group (HLEG) on Universal Health Coverage (UHC), 2010 Definition

One of the important objectives of Government of any Country is improvement in the standard of living and health status of its population. For this, every government endeavours to provide its populations accessible, affordable and quality healthcare. Indian Government is also making efforts to improve the standard of living and health status of its population and it remains one of the important objectives in Indian planning. The five year plans had reflected long term vision consistent with the international aspirations of which India has also been a signatory. India's health care system have mixed ownership patterns and with different systems of medicine – Allopathy, Ayurvedic, Unani, Siddha and Homoeopathy.

The health care sector in India comprises both of private sector and public sector. Health care service is gradually emerging as one of the largest service sectors in India. The private health care sector consists of the 'not-for-profit' and the 'for-profit' health sectors. The not-for-profit health sector includes various health care services provided by Non-Government Organisations (NGO's), charitable institutions, trusts, etc. Health care services in the for-profit health sector are provided by various types of practitioners and institutions in private sector. Most of the healthcare services are provided by the private sector. The increased spending power of the middle class is providing growth opportunities to healthcare providers. The public health sector also known as publicly-funded government hospitals consist of the central government, state government, municipal & local level bodies. Though Health is a State responsibility but the central government contributes substantially through grants and centrally sponsored health programs/ schemes.

Publicly-funded government hospitals provide basic care only and often lack adequate infrastructure. We may witness that the publicly funded government hospitals are crowded and waiting times in these hospitals is very long. Further, the Government hospitals are often understaffed; however the cost of care is signifi-

Table-1: Contrasting Conditions

Contrasting conditions						
	Expenditure on Health as% og GDP		Hospital Beds	Nurses	Physicians
	Government	Private	Per 10,000 Population		
Germany	7.8	2.7	82	108	35
UK	7.2	1.5	34	103	21
USA	7.3	7.9	31	98	27
Japan	6.7	1.6	138	41	21
Russia	3.1	1.7	97	85	43
Brazil	3.7	4.7	24	65	17
South Africa	3.3	4.9	28	41	8
ThaiLand	3.0	1.1	22	15	3
China	2.0	2.3	41	14	14
Vietnam	2.8	4.4	29	10	12
India	1.4	2.8	9	13	6
Global medlan	5.0	3.3	24	28	12

Source: World Health Statistics (2008)

Table-2: Health care services

	% OF GDP SPENT ON HEALTH CARE	PER CAPITA HEALTH EXPENDITURE	GOVT SHARE IN HEALTH CARE SPENDING (IN%)	HEALTH EXPENDITURE AS % OF TOTAL GOVERNMENT EXPENDITURE	% OF PRIVATE OUT-OF- POCKET EXPENDITURE
USA	18	$8,608	46	20	11
UK	9	$3,609	83	16	9
INDIA	4	$60	31	8	60
CHINA	5	$278	56	12	35
BRAZIL	9	$1,121	46	9	31
GERMANY	11	$4,875	76	19	12
RUSSIA	6	$807	60	10	35
NIGERIA	5	$80	37	8	60

Source: Article appeared in the Forbes India magazine issue of 15 November, 2013

cantly less as compared to private hospitals. On the other hand, the private hospitals offer a high standard of health care and are well equipped with modern technology, the doctors are highly qualified and often trained abroad, though the cost of care is significantly more at these private hospitals. *Furthermore, the private sector in India has a dominant presence in medical education and training and other areas such as medical technology and diagnostics, pharmaceutical manufacture and sale, hospital construction and ancillary services.*

Health Care Expenditure by Government

Public healthcare expenditure by Indian government as a percentage of gross domestic product (GDP) is 1.4 per cent which is far lower than the global median (5 per cent) and compared to the healthcare spend/GDP ratio close to 6 per cent or above for most developed western countries, even BRICS (Brazil, Russia, India, China, South Africa) nations such as Brazil and South Africa are far superior to India on this score. Further, healthcare sector lacks skilled human resources as compared to western countries (**Table 1**).

What Governments spend on health care[1]

- At 60%, India has one of the highest out-of-pocket health care expenditures. Besides, the country has only 6.49 doctors per 10,000 people, lower than even Pakistan, which spends just 2.5% of its GDP on health care.
- 54% of US health spending is private, out of which insurance spend accounts for 59%, one of the highest in the world.
- With 95% of its total GDP spend on health care, Cuba has the highest government health spending globally. It also logs 67 physicians per 10,000 people, the most in the world.
- Oil-rich Qatar spends the least on health care, 1.9% of its GDP, next only to 1.6% of South Sudan, the youngest nation. (Table 2)

As per 12th five year plan (2012-17), main thrust areas inter alia identified are infrastructure, health and education. 12th plan provides for inclusive agenda for health care which includes '*access to health care services by all segments of population, Special services for the vulnerable and disadvantaged groups, Training of health and rehabilitation professionals*'. Also, there is substantial increase in the health sector expenditure as compared to 0.94 per cent of GDP in tenth plan and 1.04 per cent in eleventh plan.

Problems of healthcare system in India

The Indian healthcare system is in a dilapidated state. The cost of medical care in private hospitals rises day by day and it seems there is no control of government on these hospitals. Much of these costs can be attributed to the diagnosis and treatment of chronic diseases and conditions such as diabetes, obesity, cardiovascular disease and asthma. Though healthcare costs look affordable to medical tourists, but the health care is costly, almost prohibitive, to the average Indian citizen. Further, the quality of healthcare in India varied from hospital to hospital in urban and rural areas. Access to quality medical care is limited or unavailable in most of the rural areas. For a poor family with a meagre income, the health care is almost unaffordable. One medical procedure can cost lakhs of rupees and this may send the family of a patient into a huge debt.

Further, the population accessing private services largely encounter with unlicensed practitioners who deliver poor quality of services. High cost of treatments in private hospitals is due to lack of regulations and standardized cost of procedures prescribed by the Government. Therefore, there is an urgent need to control and prescribe the standardized cost of procedures/ treatments as good medical treatments can be afforded by those who are in the higher income brackets.

Reasons of rising healthcare costs

1. One of the main reasons for rising healthcare costs in India is: use of latest sophisticated technology and equipment by the doctors and hospitals. Earlier, Doctors prescribed tests only if the patient's illness was of serious nature and also those tests were very simple. Now doctors advise a battery of complex tests to ensure correct diagnose.
2. Medical negligence cases are now under the purview of consumer courts and the doctors have no alternative but to ask for the test reports before prescribing the treatments. This has also lead to the over-recommendation of diagnostic services.
3. The opening up of the private sector in providing healthcare has also contributed to the rise in costs. In Private Hospitals all things are commercial be it Land, Professional fees to Doctors, salary to Nurses, staff etc. So while fixing the charges for treatments/ procedures by the private hospitals, the costs are to be loaded and the patients have to pay more for diagnostic, hospital stay, doctor fees, nursing charges, and planned diet while seeking treatment from private hospitals.
4. As per WHO data-2012, Higher life expectancy 64/68 years (male/female) and lower infant mortality rate of 56 per 1000 live births have also played its role and more people are seeking healthcare putting a demand on its availability and hence pushing the cost upwards.
5. Higher purchasing power due to rising income levels and rising literacy levels has boosted awareness on preventive and curative healthcare and, in turn, increase the hospitalization rate.
6. The sustained expansion of healthcare insurance coverage also pushing the hospitalisation rate.

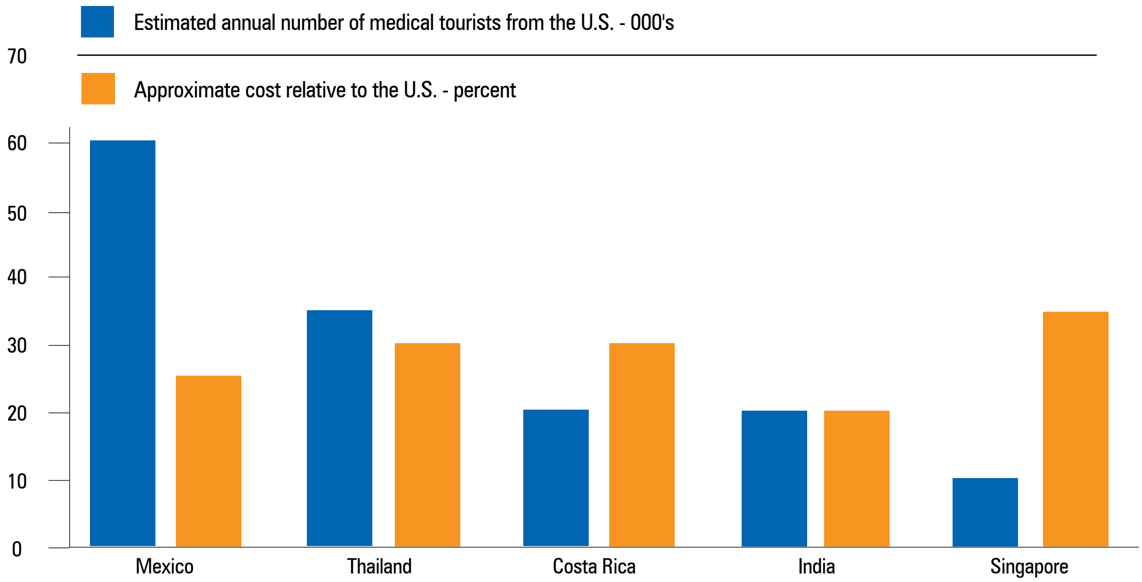
Medical tourism

'Medical Tourism' is a term which refers to medical treatment by a patient in a country other than the country

[1]http://forbesindia.com/article/world-watch/what-govts-spend-on-health-care/36443/1#ixzz35LZoywWk

Medical Tourism by Country

Five of the Countries visited most often for medical treatment



Estimates are rough. Most patients are not tracked

Source: Deloitte, Josef Woodman (Consultant and author of Patients Without Borders

where he resides. It is also called medical travel, health tourism or global healthcare. The medical travellers seek many services such as elective procedures, complex specialized surgeries namely joint replacement (knee/hip), cardiac surgery, dental surgery, cosmetic surgeries etc.

India is preferred medical tourism destination due to low costs of treatments as compared to developed and western countries. Further, in India availability of latest and sophisticated medical technologies and growing compliance on international quality standards also attract the foreigners for medical treatments in India.

Though India is seen as a centre for cost-effective treatments by people around the world but it is losing its competitive edge in the medical tourism due to strict visa regime in India. This is playing havoc and the foreigners give a miss in favour of other Southeast Asian nations like Thailand, Singapore and Malaysia which, although costlier, are seen as more welcoming of medical tourists.

Indian government is taking steps to address infrastructure issues, cost effectiveness and has removed visa restrictions on tourist visas to attract medical tourists in India.

Medical procedures

A medical procedure is a course of action intended to achieve a result in the care of persons with health problems. A medical procedure with the intention of determining, measuring or diagnosing a patient condition or parameter is also called a medical test.

As mentioned under reasons for rising healthcare costs that due to medical negligence cases are now under the purview of consumer courts and the doctors in order to correctly diagnose the diseases and due to other reasons generally prescribe numerous diagnostic tests which are unnecessary in many cases. The tests/ procedures are very costly in private hospitals. Many private hospitals are owned by corporate houses and Doctors are given internal targets in their budget in terms of number of cardio vascular surgeries, orthopaedic surgeries, various tests, other surgeries, ICU occupancy rate, etc. Based on such budgets doctors are offered rates per procedure to get them affiliated to the hospital(s). So to meet the internal targets, the doctors perform procedures on patients without any regard for the genuine need of procedure on particular patient.

There needs to be transparency in charges levied by Private Hospitals. Helpless patients are forced to pay huge amounts unnecessarily because they are fear of their life. *When many organisations such as banks, airlines etc. could display their rates/charges then why cannot the Private Hospitals do?*

The Times of India in an Article "**Private hospitals will have to display treatment costs**" dated October

8, 2012:

Jagdish Prasad, director general of health services (DGHS), mentioned: "*Our aim is to notify standard costs for various medical procedures such as angioplasty, coronary bypass surgery etc. We also plan to categorize hospitals based on quality of services offered and develop standard treatment costs for each category*"

Dr Kameshwar Prasad, head of the clinical epidemiology unit of AIIMS mentioned: "*Unwarranted procedures and diagnostic tests put extra financial burden on the healthcare system and cause increased morbidity and mortality. For example, a person suffering from muscular chest pain does not require angiography. Still, many hospitals routinely put such patients through this procedure*".

Experts cite studies showing rampant use of unnecessary procedures in India. For instance, hormone replacement therapy is carried out in post-menopausal women despite there being no evidence that it reduces cardiac events. Similarly, antioxidant vitamins are commonly prescribed for reducing cardiovascular disease though there's no evidence of its efficacy. The Elisa test has till recently been widely used for diagnosis of tuberculosis. It has since been banned due to its unreliability.

Cost Management System in hospitals

Profitability and Cost Management is necessary for healthcare sector which is possible through better costs management system. Most of the healthcare organizations continue to struggle with identifying the costs of products and services provided by them. Cost control and cost reduction are the most challenging issues faced by the healthcare industry. Many organizations are introducing shared service centres, centralizing certain operations either in the front or back-office in order to reduce indirect costs.

Further, pricing of healthcare services depends the way a hospital books the expenses (direct & indirect), identify the cost centres/Activities, cost drivers and allocations of indirect expenses based on these cost drivers to the activities/apportionment to cost centres etc.

Challenges in costing of services of hospitals

As discussed above, the Healthcare sector or Industry needs very sound costing system and practices integrated with ERP in view of the following challenges:

1. Many Studies conducted in India show that "Out of Pocket expenses" constitute more than 80% of total bill. Therefore, healthcare industry should focus on ways and means to reduce the cost of services through good cost management system and through restructuring the businesses and service lines;
2. Costs of procedures vary from hospital to hospital *(rural & urban)* and also patient to patient under "Packages" for CGHS, Insurance companies, Corporates, private and public;
3. Price fixation for numerous procedures/ diagnostics tests and facilities cannot be similar in all the hospitals due to various reasons such as competition, demand for the product in the community, affordability, the need to generate funds, varied cost of facilities, infrastructure cost, professional fees to doctors (specialists/ super specialists), salaries to nurses, technicians & staff, establishment cost etc.
4. To provide efficient and cost effective services to patients, making available updated information at one desk with respect to appointments, bed availability, and schedules of doctor, specialized services, costs of treatments etc.;
5. To coup up with rising costs coupled with decreased funding from government and other funding agencies, and to find ways and means to reduce costs;
6. For making quick and efficient decisions to authorize, modify or discontinue a programme or activity; and
7. For effective planning and management of inventories, as determination of the right inventory for hospital is very difficult in view of need for customizing services to each and every segment of customers, etc.

Activity Based Cost Management helps to identify the non-profitable areas so that the organization takes decisions to control costs. The project control system also helps organizations get a fair indication of the existence and the extent of such problems.

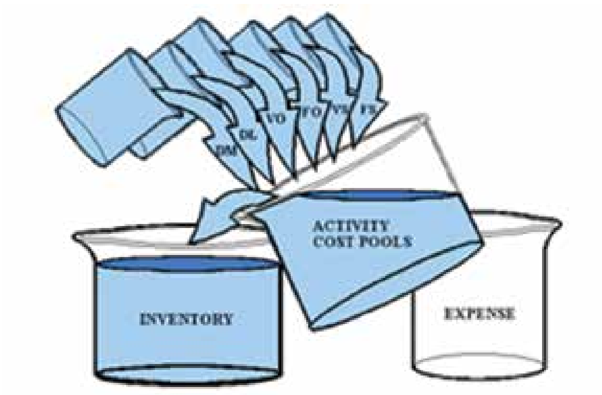
Jo-Ann Mulligan et al (2003)[2] in their study evaluate the feasibility of economic evaluation methods for specified interventions and assessment of the intensity of the problem to be addressed by the health authorities. The study explores how assessment of standardized regional unit costs for a range of health care resource inputs and providing such information to the authorities [DCPP (Disease Control Priorities Project)] with the ratios of relative costs for different regions, helped the authorities in developing and introducing unit pricing for regions where-ever they intended to execute their plans. Such

[2] *Jo-Ann Mulligan et al (2003),Unit Costs of Health Care Inputs in Low and Middle Income Regions, Working paper funded by Disease Control Priorities Project (DCPP), London School of Hygiene and Tropical Medicine and World Health Organisation*

planned execution lead to realization of the intended objectives ensuring deployment of right resources and have effective control over the cost.

Activity-based Cost Management System

As mentioned above that the Healthcare/hospitals need very sound system of cost management due to various reasons indicated thereat. In Traditional Costing System we consider total costs for valuation of products or services and overhead costs, which constitute major portion in total cost, are allocated on these products/ services arbitrarily on the basis of volumetric measures such as the



Source: http://maaw.info/Chapter2.htm

labour hours or machine hours, space, watts etc. So allocation of such costs to products/services in an arbitrary manner distorts the final cost of products or services.

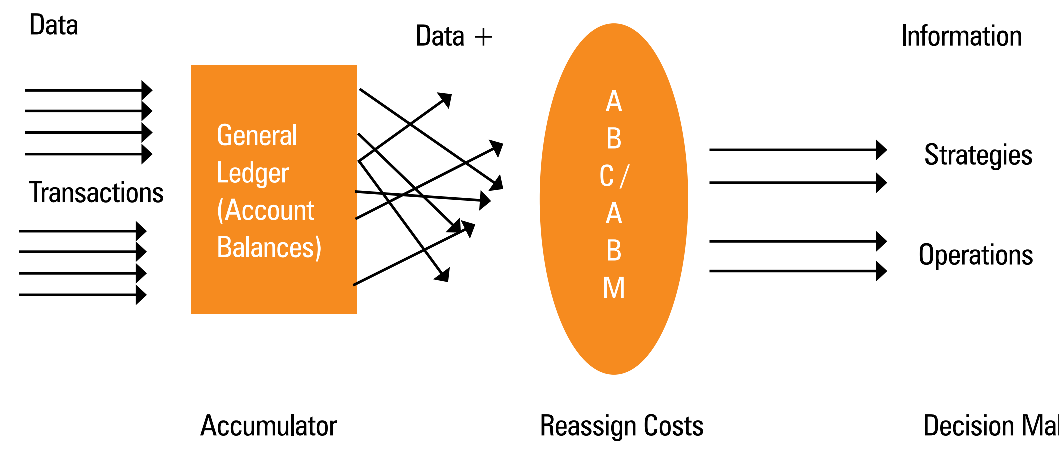
The hospitals which are already struggling to reduce the cost of services may not be able to value their services effectively. Activity Based Costing (ABC) solves this problem by tracing major portion of overheads into direct costs through cost drivers.

In Activity-based costing (ABC), we identify activities and assign the cost of each activity with resources to all products and services which benefit from the activity according to their actual consumption. Some of the examples of activities are material ordering, material handling, quality testing, machines set-ups, and customer support service etc.

In ABC maximum indirect cost (overheads) are converted into direct costs as compared to traditional costing system. ABC replaced cost allocations with substantially more realistic and consequently much greater accuracy. As mentioned by Gary Cokins in his book "Activity-Based Cost Management Making it Work" that "Activity-based costing (ABC) is of that sea change. ABC is not a replacement for the traditional general ledger accounting. Rather, it is a translator or overlays, as in Figure 1, that lies between the cost accumulator or the expenditure account balances in the general ledger and end-users who apply cost data in decision making. ABC converts inert cost data into relevant information so that the users can take action."

In ABC identification of activities are done and those activities are eliminated which are not contributing value to the prod-

An ABC/ ABM System serves as a translator, not replacement, for accounting system.
It supports decision makers



Source: from Gary Cokins: Activity Based Cost Management Making it Work (2007) *ucts and services that are unprofitable and lower the prices of those that are overpriced.*

Activity Based Cost Management (ABM) uses the data provided by Activity Based Costing for various analyses to achieve continuous improvement. The use of ABC tool for managing costs at activity level is known as ABM. ABM is a natural extension of ABC. ABM allows managers to examine non-value-added activities and make rational decisions to eliminate them. ABM manages activities rather than resources. ABM supports business excellence by providing information to facilitate long-term strategic decisions about such things as product mix, process, line of business, product design, capital investments, pricing etc. It models business processes to determine cost, profitability and drivers. It allows product designers to understand the impact of different designs on cost and flexibility and then to modify their designs accordingly. Further, ABM focuses on management of activities as the route to improving the value received by the customers and the profit achieved by providing this value and new insights on performance management.

How ABC work?

- Resources costs are assigned through activities;
- Activities are identified for both production and services;
- Cost drivers for each of the activity are determined;
- Cost is accumulated for each activity according to the cost drivers;
- Assignment of cost of activities to products and services on the basis of cost drivers.

Activity, Resource and Cost Drivers

For activity-based costing, several terms are used viz. activity, resource, resource consumption cost driver, and activity consumption cost driver.

- An **activity** is a specific task or action of work done. Activities comprises of all operational activities including management and support functions.
- A **resource** is an economic element needed or consumed in processing products or performing activities such as salaries and supplies. The resources can be taken from the General Ledger or Chart of Accounts.
- A **cost driver** is the underlying factor that creates or drives the cost relating to that activity. For example, the cost of the activity of bank tellers can be ascribed to each product by measuring how long each product's transactions (cost driver) takes at the counter and then by measuring the number of each type of transactions. For the activity of running machinery, the driver is likely to be machine operating hours. A cost driver is either a resource consumption cost driver or an activity consumption cost driver:
  - Resource consumption cost drivers measure the amount of resources consumed by an activity, such as the number of items in a purchase or sales order or labour hours or machine hours etc.
  - Activity consumption cost drivers measure the amount of activity performed for an object, such as the number of batches used to manufacture a product.

Time-Driven Activity Based Costing (TDABC)

The Activity Based Costing is generally used in Manufacturing Industry. As Hospital industry is a Service Industry, it requires to ascertain time spent on each activity or transaction and ascertain their multiple cost drivers. *Kaplan and Anderson developed a Time-Driven Activity Based Costing (TDABC) which requires only two parameters viz. (i) unit cost of supplying capacity and (ii) the time required to perform a transaction or an activity.*

Designing a healthcare Costing System

In healthcare industry, the costs are mainly categorized into Hospital Costs, Physician Costs, Indirect Costs/ Overhead Costs. The patients are billed for each activities/procedures performed on him/her. It is therefore imperative to identify the cost of each activity/ procedure to have efficient cost accounting and profitability analysis systems in a hospital. TDABC approach identifies the different departments, their costs and their practical capacity.

For healthcare operations, the practical capacity is expressed as the amount of time that employees can work, without idle time. Often practical capacity is estimated as a percentage, say 80% or 85%, of theoretical capacity[3]. By dividing the total cost by the practical capacity, the cost per time unit is calculated. Costs then are assigned to the cost object by multiplying the cost per time unit by the time needed to perform the activity.

Cost of activities is to be segregated in Direct Cost and Indirect Costs.

(a) **Direct Costs:** Direct cost is that cost which can be

[3]Kaplan R, Anderson S. Time-driven activity-based costing. Harvard Business Review 2004;82:131–8 and Kaplan R, Anderson S. The innovation of time-driven activity-based costing. Journal of Cost Management 2007;21(2):5–15.

directly related to the activity of a patient such as In-patient nursing (Medical/Surgical, Intensive Care Units, Operating Rooms), diagnostic & therapeutic, Laboratory, Diagnostic Imaging, Pharmacy, Physiotherapy, specific equipment and specialists' fees etc.

(b) **Indirect Cost:** Indirect Cost is the total support cost of the nursing and medical departments. These are the cost centres which provide support services to the nursing and medical cost centres. Support Services are: Administration - Corporate, Finance, Human Resources including Personnel & Security and Depreciation.

These costs are apportioned to the direct cost centres based on appropriate cost allocation drivers.

Patient Cost Centre:	
General Medicine	Dermatology
Pediatrics	TB & Chest
Surgery	Physiatrist
Orthopedics	ENT
Gynecology	Physiotherapy
Ophthalmic	Dentistry etc.....
ICU/ICCU/PICU/NICU	
Facility Cost Centres	
Room Facility/Ward	Blood Bank
Lab	Radiology
Medicine/ Pharmacy	Laundry
Dietics and Canteen Facility	Gym and Club
Anesthesia	DG and Power etc.
Support Cost Centres	
Manpower and HR	Purchase & Stores
Accounts & Finance	Central Sterile Service Maintenance
General Administration	Security
IT	Compliances and Legal etc.
Housekeeping	

Cost to serve a patient for emergency surgery

As mentioned above there are many cost centres but a modal based on activity based costing for emergency surgery[4] is presented below:

Step 1: Identify cost objects: For present model based on activity based costing, cost per patient who has come to Emergency Department for endoscopy surgery is identified as cost object.

Step 2: Identify and define activities and activity cost pools: next step is to identify direct costs related to patients:

(i) Cost of medicines provided to a patient
(ii) Fee for surgeon/ anesthesiologist
(iii) Cost of medicines used in surgery
(iv) Cost of Lab/Diagnostic Tests
(v) Specific equipment used in procedure, which are charged directly to patient. There are some other equipment such as high powered lights, surgery table costs etc. which are not directly chargeable but are allocated based on utilization.

Step 3: Wherever possible, directly trace costs to activities and cost objects: The following costs are directly traceable to patient:

(i) Costs towards Patient Admission (Check in and discharge)
(ii) Clinical Labs
(iii) Surgery
(iv) Patient Care after surgery

Step 4: Identify the costs associated with each activity pools: The cost associated with each activity is consolidated in Activity Pools which are relatable to cost object.

(i) **Patient Admission Cost Pool:** Cost of staff associated with admission activity, cost of stationery used for patient admission, Rent/ depreciation of space occupied by Admission Staff (Allocated proportionately), Depreciation of computer/ printers/scanner and other devices used by admission staff, Cost of telephone calls etc.

(ii) **Emergency Room Cost Pool:** Cost of staff associated with endoscopy activity such as checking of patient's blood pressure, temperature, weight, taking blood sample,

Based on above, the following costs can be identified with cost pools:	
Activity Pools	**Associated Indirect Cost (Rs.)**
Patient Admission	10,00,000
Diagnostics	12,50,000
Surgery	62,50,000
Patient Care after Surgery	3,75,000
Patient Check in and Discharge	62,500
Total	**89,37,500**

[4]Adapted from http://www.naggesh.com/2014/04/16/activity-based-management-in-healthcare-cost-to-server-a-patient/

depreciation of medical equipment required for endoscopy, rent/depreciation of the space occupied (allocated proportionately), accessories used for surgery activities, printing & stationery including depreciation of computer/ printers etc. used for generating reports for patient.

(iii) Other Patient Care Cost: Other costs associated with surgery, patient care after surgery, patient check in and discharge are to be identified and need to be grouped into respective activity cost pools.

Step 5: Identify the costs drivers for each activity pools: The following will be cost drivers for the activities identified above:

Activities	Cost Drivers
Patient Admission	No. of Patient Admitted
Diagnostics	Direct Labour Time (Hours)
Surgery	Patient/ days
Patient Care after Surgery	Patient/ days
Patient check in and Discharge	No. of Patient checked in and Discharged

Step 6: Identify rate per unit of cost driver: To know the cost of each activity, the costs as identified above (Step 4) are to be calculated per unit based on cost drivers identified as per step 5 above.

Note: # The Associated indirect cost and quantity of cost drivers are taken for a month. However, there shall not be any difference in the result obtained if the indirect cost and quantity of cost drivers are taken on annual basis.

Step 7: Compute the indirect costs allocated to a patient

The activity rates as calculated in the step 6 will be used to assign the indirect costs to cost object. Let us assume, a patient consumes 90 minutes for diagnostics, ½ day for surgery, and 3- days for patient care after surgery. Based

Step 8

	Particulars	Costs (Rs.)
Direct Costs per patient		
(i)	Cost of medicines (from step 2)	5,000.00
(ii)	Fees for Surgeon/consultant & anaesthesiologist (from step 2)	15,000.00
(iii)	Cost of Lab/Diagnostic Tests (from step 2)	7,500.00
(iv)	Specific equipment used in procedure, which are charged directly to patient (from step 2)	9,000.00
	Total Direct Cost (A)	**36,500.00**
	Total allocated indirect cost as per step 7 (B)	**21,100.00**
	Total cost per patient (A+B)	**57,600.00**

Step 6

Activity Pools (A)	Associated Indirect Cost# (Rs.) (B)	Cost Drivers (C)	Quantity of Cost Drivers (D)	Rate per Unit of Cost Driver (B÷D)
Patient Admission	10,00,000	No. of Patient Admitted	10,000 Patients	Rs. 100 ÷Patient
Diagnostics	12,50,000	Direct Labour Time (Hours)	500 hours	Rs. 2500÷hour
Surgery	62,50,000	Patient/ days	250 patient- days	Rs. 25000÷ patient days
Patient Care after Surgery	3,75,000	Patient/ days	250 patient- days	Rs. 1,500÷ patient days
Patient Check in and Discharge	62,500	No. of Patient checked in and Discharged	250 patient- days	Rs. 250÷ patient days
Total	**89,37,500**			

Step 7

Activity Pools (A)	Quantity of Cost Drivers (D)	Rate per Unit of Cost Driver (B÷D)	Allocated Cost Rs. (BxC)
Patient Admission	1 Patient	Rs. 100÷ Patient	100.00
Diagnostics	90 minutes	Rs. 2500÷hour	3,750.00
Surgery	½ patient- days	Rs. 25000÷ patient days	12,500.00
Patient Care after Surgery	3 patient- days	Rs. 1,500÷ patient days	4,500.00
Patient Check in and Discharge	1 patient	Rs. 250÷ patient days	250.00
Total			**21,100.00**

on these assumptions, total indirect costs allocated to one patient will be as follows:

Step 8: Compute the total cost per patient: To compute the total cost per patient, we have to take direct costs associated with the patient and allocated indirect cost as arrived at above as follows:

ERP modules used in hospitals

Hospitals need a very good ERP module to address multi-discipline angles related to hospital management and services, doctors, patients etc. Speed and efficiency with quality delivery is the moto of each and every hospital. The hospital should select such an ERP module which may improve human resource management that may lead to maximized value realization of the investment made by it and reduces human requirement and intervention for different hospital activities. The hospital management system integrates different systems used in hospitals such as financial management, inventory management and other important systems. The integration of all systems leads to availability of updated information at one desk. Information about appointments, bed availability, and schedules of doctor, specialized services, and treatments is easily available to the person sitting in the front desk.

There are many software companies who design the *"Hospital Management Information System"* integrated with Activity Based Costing with a view to reduce operational costs of serving patients by removing operational inefficiencies and improving the quality of health care. Hospital Management Information System also reduces the workload of hospital employees and improves their efficiency.

Further, if majority of the clinical processes are automated then it would make available to hospital staff more time to devote in providing quality patient care. It would also streamline personnel management of nurses, clinical specialists, physicians and other health care professionals to provide highest quality care, 24x7. ERP also gives complete in-sight of project related data in a structured manner. The ERP system integrates projects with procurement, fixed assets and stocks. Further, the ERP system plays an important role in creating centralized storage of data, and its easy access helps the management to take timely informed decisions.

There are many integrated ERP modules[5] relating to healthcare industry which are available in the market such as:

1. ***Reception/Cashier:*** This module may have several sub-modules enabling staff to provide the information relating to Appointments (showing dash board for information relating to Today appointment, scheduling, re-scheduling appointments, history of earlier appointments), Doctor Directory, Cash Desk of collection of payments, Reports, Billing, Refund etc.
2. ***OPD Consulting:*** This module may have several sub-modules covering the services such as: Appointments, Patient History, Doctor Corner, Prescription, Investigation, Follow-up appointments, Symptoms, Diagnosis Tracking, Last Visit Details etc.
3. ***IPD Consulting:*** This module may have several sub-modules covering the services such as: Cost Estimation (initial estimate prepared for patient depending on ward/surgery chosen) Admission Request, Transfer Details (transfer from ICU/shifting across wards can be done), Doctor Notes (updation of status of patient during every doctor visit), Nursing Notes (updation of status of patient by nurses tracking different patient parameters), Drug Request (indenting of drugs by nurses patient-wise as per advice by doctor), Discharge Summary, Refund Management, Scroll management (daily cash/credit card/ corporate/ insurance/TPA tracking).
4. ***Wards:*** This module may have several sub-modules covering the services such as: Ward Allocation, Ward Shifting, Ward Master, Occupancy Dashboard, Consent Form, Record Management, Label Generation (automated label generation for patient as well as patient files), Inpatient Registration, Payee/Company/Insurance (input details of self-paying/corporate/ insurance/TPA/package).
5. ***Operation Theater (OT):*** This module may have several sub-modules covering the services such as: OT Allocation (booking of OT on particular date/time with OT team), OT Master (different type of surgeries with class/ speciality/grade/ward/price master), Surgery Master, Surgery Class Type (different types of class to be included), Doctor/Anaesthetist Booking, OT Status (utilisation of OT daily/weekly/monthly/ annual), OT Tool Details (booking of OT tools for particular operation), OT Reports, OT Inventory Management (charging of consumables/special services during an operations).
6. ***Nursing:*** This module may have several sub-modules covering the services such as: Patient Record Updation (updation of status of patient parameters), Physical Examination Module, Drug Indent, Drug Returns, Drug Transfer (drug transferred across wards/location depending on requirement), Drug Re-Order (automatic reorder

[5] *BigSun Hospital Management software*

depending on nursing indent requirement), Investigation Management, Procedure Management, and Diagnostics Management.

7. Billing: This module may have several sub-modules covering the services such as: Payment Module (tracking of cash/credit card/corporate credit/TPA credit), Patient Billing Details, Automatic Room Charges, Provision for Pre-Billing, Posting of Charges for Services, Insurance Module/TPA (interlinking of corporate with respective insurance/TPA), Maker Checker Module (provision for checking of bills generated by cashier), Billing Scroll Summary (details of daily/weekly/monthly collections for cash/credit card), and Advance/Refund Management.

8. Pharmacy: This module may have several sub-modules covering the services such as: Billing (billing for both OPD and IPD), Drug Inventory, Supplier Information (tracking of vendor information, delivery, turn around time), Drug Issue to patient, Manage Expired Items, Goods Receipt & Stock, Minimum Stock Levels, Reorder Quantity, and Reorder Quantity.

9. Laboratory Information System: This module may have several sub-modules covering the services such as: Equipment Integration, Sample Management, Electronic Data Exchange, Patient Data Management, Patient Data Analysis, Report Generation, Barcode Generation, Equipment Maintenance, and Quality Insurance.

10. Investigation: This module may have several sub-modules covering the services such as: Investigation Master, Package Master, Respective Doctor Master, Investigation Service Billing, Investigation Dashboard, Investigation Reference, Sample Collection, and Investigation Reporting.

11. Electronic Medical Records (EMR): This module may have several sub-modules covering the services such as: Patient Information Retrieval, Instant Information (data available for both online and offline instantly), Analysis (analysis of various record of similar diseases available to doctor), Evaluation (tracking of different types of treatment on various diseases), Accuracy of Information, Treatment Analysis, Drug Taken, History Availability, and Ancillary Services.

12. Administration: This module may have several sub-modules covering the services such as: OPD Master, IPD Master, Investigation Master, Package Master, Doctor Master, User Master, Announcement Master (ticker running continuously giving announcements, any major changes), OT Master, and Ward Master.

13. Insurance: This module may have several sub-modules covering the services such as: Initial Estimate, Insurance Master, TPA Master, Package Master, Outstanding Report (tracking of outstanding of corporate/ insurance/TPA), Advance/Refund Management, Actual Cost, and Billing.

14. Dietician: This module may have several sub-modules covering the services such as: Diet Management, BMI (immediate calculation of body mass index as per patient), Calorie Management, Food Ordering, Raw Material Indenting, Diet Sheet, Quality Check, Cost of Services, and Billing of Special Services.

15. Engineering Services: This module may have several sub-modules covering the services such as: Asset Management, AMC Services, Spares Management, Contract Labour Management, Vendor Management, Stores, Consumable Tracking, Scrap Management, and Repair & Maintenance.

Maintenance of Cost Records and Cost Audit by Healthcare Industry

Considering the importance of Healthcare Sector in India, the Government of India for the first time through Companies Act 2013 vide section 148 included the "Services" and Service Industry for maintenance of cost records and conduct of cost audit by such class of companies as may be prescribed through rules.

Ministry of Corporate Affairs, Government of India has vide GSR 425(E) dated 30th June 2014 notified "Companies (Cost Records and Audit) Rules 2014" defining & prescribing class of companies which are required to maintain cost records and conduct cost audit. These rules include Healthcare Industry also for the purpose of maintenance of cost records and cost audit by those healthcare companies who meet the respective threshold limit prescribed thereunder. In view of importance of healthcare sector, these rules include healthcare industry at two places i.e. under two sub-rules, extract of which are given below:

Rule 3C(a)(x)

"Companies engaged in health services viz. functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories"

Rule 3D

"Companies (including foreign companies other than those having only liaison offices) engaged in the production, import and supply or trading of following medical devices, namely:-

(a): (i) Cardiac Stents; (ii) Drug Eluting Stents; (iii) Catheters; (iv) Intra Ocular Lenses;(v) Bone Cements; (vi) Heart Valves; (vii) Orthopaedic Implants; (viii) Internal Prosthetic

Replacements; (ix) Scalp Vein Set; (x) Deep Brain Stimulator; (xi) Ventricular peripheral Shud; (xii) Spinal Implants; (xiii) Automatic Impalpable Cardiac Deflobillator; (xiv) Pacemaker (temporary and permanent); (xv) patent ductus arteriosus, atrial septal defect and ventricular septal defect closure device; (xvi) Cardiac Re-synchronize Therapy ; (xvii) Urethra Spinicture Devices; (xviii) Sling male or female; (xix) Prostate occlusion device; and (xx) Urethral Stents".

Opportunities for CMAs in healthcare sector

There are abundant of opportunities available in healthcare industry for CMAs, gist of which is given below:

(i) As mentioned above, Government of India has created new opportunity for CMAs in healthcare industry and the threshold limits prescribed under Rule 3(C)(a)(x) and Rule 3(D)(a) for maintenance of cost records and cost audit are very low. Even trading and supply of medical devices have been covered under Rule 3(D)(a). In view of these rules the CMAs may provide the following services to healthcare sector:

(a) Maintenance of Cost Records as per companies (cost records and audit) rules 2014;

(b) Cost Accountants can be appointed as Cost auditors by the healthcare companies who meet the threshold limits under Rule 3C(a)(x) and Rule 3(D) aforesaid;

(c) Designing of Costing Accounting System keeping in view requirement of companies (cost records and audit) rules 2014, Generally Accepted Cost Accounting Principles (GACAP), Cost Accounting Standards (CAS) and Cost Auditing Assurance Standards (CAAS);

(d) Designing of Integrated Costing Accounting and ERP System based on Activity Based Cost Management as per the steps suggested in this article above under "Designing Healthcare Costing System".

(ii) Fixation of charges for various services provided by the healthcare industry using latest costing concepts and methodologies e.g. opportunity cost, joint costing principles and based amongst other on Total Costing Method, Activity Based Costing Method, and Marginal Costing Method etc.;

(iii) Managing cash activities, billing, finances, Finance & Accounts activities, Budgeting, Budgetary Control, Inventory Control, and Finance Management and Costing Systems etc.;

(iv) Designing standalone Inventory control management system;

(v) As per estimate India requires 2000 medical colleges with 500 bedded hospitals immediately to meet with the requirement of the country. This also present enormous opportunities to CMAs who may provide their expert services in the following areas:

(a) Preparation of Project Reports following the norms prescribed under "Establishment of Medical College Regulations, 1999" by Medical Council of India for establishing a Medical College & Hospitals;

(b) Project appraisal & evaluation and project monitoring being a member of Project Implementation Team;

(c) Help the management in project financing through Financial Institutions;

(d) Tendering, evaluation of tenders of civil & electrical and other works, Procurement of equipment, furniture & fixture etc. and helping management in award of various works;

(e) Monitoring day to day project activities through MIS system, Reports may comprise of the Comparative Statements for Projected Costs of Activities/ Actual Costs, cost over-runs, payment of Running Account (RA) Bills, evaluation of extra and substituted items, escalation & other claims etc.

(f) After the hospital and college established, designing a costing systems for hospital as suggested above and for medical college, helping in establishing a costing system which may enable it to fix the fees for various courses offered by it, examination fee, hostel charges and charges for various services rendered by medical college.

(vi) The Companies Act 2013 contains several opportunities for CMAs apart from maintenance of cost records under section 148(1), conduct of cost audit under section 148(2) and internal audit under section 138. Accordingly, CMAs can be appointed internal auditor in the healthcare sector.

(vii) In view of provision of internal audit in the Companies Act 2013, the Ministry of Health & Family Welfare vide its letter dated 19.5.2014 informed the Institute that the National Health Mission (NHM) will empanel the cost accountants also for internal audit & concurrent audit.

(viii) In addition to appointment as internal auditor ibid, CMAs may design the Internal Control and Internal Audit System of the healthcare Industry and also prepare Internal Audit Manual for them.

(ix) Reporting of compliance of laws to various governmental agencies etc.

Conclusion

From the above discussion, it may be observed that the healthcare sector is facing many problems which could be solved by establishing proper systems including Activity

Based Cost Management integrated with ERP modules. Costing System based on Time Driven Activity Based Cost Management will be most appropriate for hospitals, which may enable them to fix the charges for various services being provided by them. ABC combined with ERP will provide a hospital an edge over the other hospitals that are not following either ABC or ERP systems. The healthcare companies would be more responsive to their patients in providing cost efficient quality services since they would be in a position to know the accurate cost of their services/ procedures etc.

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UNION BUDGET AND THE EXPENDITURE MANAGEMENT COMMISSION: IMPLICATIONS FOR COST MANAGEMENT

The new expenditure management policy of the government should at least open up more prospects for the professional in this area very soon

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THE Union Budget for the fiscal year 2014-15 was presented on 10th of July, roughly one and half months after the Bharatiya Janata Party came to power at the center with an overwhelming political majority. The pre-budget discussions on what might be the most compelling decisions to be taken by Mr. Arun Jaitley, currently both the Finance and the Defense Ministers of the union government, heated up the pre-budget market. There were both expectations and apprehensions in view of the general right wing orientation of the new government. It was certainly forecast that the defense budget will go up substantially. We will shortly review another major aspect of the rather long and ceremonious proceedings that usually accompany the presentation of the budget in the Indian parliament, often criticized for generating more sound that lights for the future. Albeit it was hardly a foregone conclusion, but one would have thought that the current government which commands the support of a large number of parliamentarians from the same party should behave differently in terms of designing the union budget as compared to the previous no-policy-decision government and make a strong statement on the direction that the economy would take. While it did not frustrate completely, but the budgetary provisions were also not of the types that an economist would like to call the first-best. It should however be acknowledged at the very outset that the government is barely in its infancy and needs time to consolidate both power and thoughts about how to run 'minimum government, maximum governance'. Still, the budget showed that the homework (that technically begins on the day the election campaign is officially launched) for creating a stronger economy has been poor. It was rich on the usual populist gimmicks, however. The specialists pointed out that while the budget speech itself was imprecise and seemed to hold back the justifications for allocations announced therein, the document is not particularly bad if one focuses on the economic and social opportunities it may create in the short and medium-run. The union budget, admittedly, should be all about the smooth passage it can curve out for the economy.

And, of course, the budget is also about directions to a sensible fiscal management. At the very basic level the fiscal deficit of the government is the difference between revenue and expenditures. The national and state revenues come from the tax and non-tax sources that the government reviews in every budget and makes admissible changes depending upon the temporal requirements at the economy-wide level. For example, in the case of fiscal deficits, the government is faced with two options: finance the deficit by printing money or borrow from the market by issuing bonds. The fiscal deficit is estimable upfront, because after making allowances for all possible taxes and sources of revenue, the government may still find that its expenditures are higher than the revenue ex ante. Now, this may or may not be true when the revenues and expenditures are finally realized in a 'normal' year. By a normal year, one would mean that there was no major economic and political shock in that year, whether arising from oil price or a conflict with one's neighbor, or even a volcanic eruption. In fact, the volcanic eruption in Iceland was almost immediately followed by the world-wide financial crisis beginning in the same country. Why would an average Icelander borrow so much and fail to payback is however, beyond the scope of this article. Nevertheless, it may be noted that the huge private loan debacle facing banks in Iceland turned itself into a massive snowball (well, if it begins in Iceland, snowballs are the least one expects) faltering on real estate and other debts globally, via deeply interlinked banking operations. The governments all over had to eventually address the crisis by fiscal intervention and via demand resurgence in respective countries. The world had never seen the application of Keynesian policies more pervasively practiced the world over. After all, this has got to do with how such policies affect the government exchequer. The time series movements of the budget deficit has to take these special features into account, whereby, the deficit is analyzed on the basis of temporary and permanent shocks facing the country. In addition, the modern day econometrics allows for measurements of how even the temporary shocks may have permanent components, wherein the path of a variable is permanently altered in a statistically significant manner. For example, the subprime crisis briefly discussed above is expected to leave a palpable and restraining impact on the prudential norms practiced by the individual banks under the guidance and rules designed by the central banks in all countries. This may affect the trend line that so far characterized the flow of bank credits in various countries. One would consequently observe a structural shift in both the intercept and the slope of the credit supply function.

In order to finance any such fiscal deficit as discussed above, or the normal negative budget imbalance which many countries regularly face, the government is forced to either borrow or print money. There is a third option of linking the domestic budget deficit with the situation in the balance of payments. The government may squeeze in (withdraw from the market) or sterilize (meaning convert foreign currency to domestic currency and supply in the domestic market) the foreign exchange reserve depending on whether the balance of payments is favorable or unfavorable and whether, the inflationary pressure needs to be addressed. Among the first two options, the printing of money cannot be a choice in times of high inflationary pressure (the food price inflation in India is almost in the two-digits for last several months) because it would mean more money available to people without adequate support of the commodity or service base. It is easy to understand that there is usual time lag for production to catch up with demand generated in the market. Meanwhile, there will be too much money chasing too few goods exacerbating the inflationary pressure on the economy, unless the country allows freer imports to cater to the short-run imbalance. This may have to depend on the conditions of the balance of payments. For the same reason, sterilizing the foreign exchange (India had been facing a high reserve of foreign exchange for quite some time during the last five years until the flow seized in the middle of 2012) is not a viable option because it would again allow more money to bid up the price of limited supply of goods in the short run. If printing money for financing the budget deficit is then ruled out, the government is left with borrowing money from the people, by issue of something like Infra-Bonds. Note that, the issue of government bonds is expected to have just the opposite impact on the inflationary pressure for two reasons. But, this may not come without a cost – it may put certain other projects in jeopardy. Let me elaborate on this briefly before we finally discuss the scope

> **THE BUDGET SHOWED THAT THE HOMEWORK FOR CREATING A STRONGER ECONOMY HAS BEEN POOR. IT WAS RICH ON THE USUAL POPULIST GIMMICKS, HOWEVER**

of expenditure controls and expenditure management in the government and the role that the cost accountants and managers can play in this regard.

The issue of bonds and the lure of good returns over time backed by the government guarantee might attract a large number of investors. This should draw excess money out of the hands of people and lower the inflationary pressure on the economy. Two things follow. One, the investors would not only invest in the economy, but also reduce consumption expenditure if the well known Ricardian Equivalence is true for the investors in this economy. In its simplest possible form, Ricardian Equivalence implies that higher investments and the expectation of higher future income do not necessarily influence individuals to increase present consumption. Why is that? The main reason is that the individuals are aware of the fact that when the government borrows to cover fiscal deficit and for initiating development projects like infrastructure, the mechanism is often not a one-time affair because there is almost no certainty that the government will get positive returns from that in foreseeable future. The bonds issued by the present government may have to be retired by future governments only by borrowing further from the market or by raising the level of taxes imposed on individual incomes. Now, it is quite possible that individuals may not care about leaving bequests for their descendants and might not be interested in how they balance the earnings from the principal and interest accrued on the bond vis-à-vis the higher interest rate to be surely levied by the government that retires the bond. In that case, the investors of today will also spend a lot in the current period and may finally leave a negative bequest for the descendants. The bequest would be negative because the government might impose a higher tax rate that would render the net return from bonds (principal plus interest differential from other options) negative. Country-level experiences suggest that the Ricardian Equivalence is found to be true for some countries in the world and not substantiated in some other. For example, Japanese investors are known to display this phenomenon while those in the US do not. Overall, the Ricardian Equivalence suggests that the individuals save exactly the same amount of money in the current period, compared to what they expect to get back when the bond is retired. This is the principle behind the said phenomenon, and like most other theoretical and statistical findings, is also not infallible. So, when the principle is in work the inflationary pressure on the economy is likely to go down not only by the amount of investments in public bonds, but also by the forced savings it brings forth. Does it solve the problem unambiguously? The answer is, no. The increased 'public' enthusiasm to draw in funds from the hands of the individuals may make them choose between public bonds and private alternatives. This may begin an interest war. Consequently, higher interests dissuade investments because the payback is also costlier than ever. Thus, the public investments may crowd out private investments as one major outcome. This can lower production in the economy and raise the price of many other goods. The government may not be fazed by the higher interest rates because they always have the ability to impose higher taxes (of course, depending upon the tax elasticity of consumption) directly or indirectly, and even improve upon the tax base compared to previous years. The present budget did not do any such thing, although it was expected that the burden of taxes should get more

RECENT STUDIES FOR LARGE DEMOCRACIES SHOWED THAT BIGGER THE SIZE OF THE GOVERNMENT, THE SMALLER THE AMOUNT IT CAN SPEND ON DEVELOPMENT PROJECTS. LARGER GOVERNMENTS SPEND A SUBSTANTIAL AMOUNT OF THE REVENUE TO MAINTAIN THOSE IN THE GOVERNMENT AND FOR RELATED EXPENDITURES

evenly spread in this country and relieve the overwhelming pressure imposed on the tax-paying middle income groups.

All these possibilities discussed above preclude what the government may otherwise do in terms of a stricter control on the expenditure side. Recent studies for large democracies showed that bigger is the size of the government, the smaller is the amount it can spend on development projects. Larger governments spend a substantial amount of the revenue to maintain those in the government and for related expenditures. The remaining amount of the revenue is distributed between plan and non-plan expenditures that also includes the payments for government and semi-government (such as grant-in-aid organizations) employees maintained by the government. It should be remembered that when the size of the bureaucracy gets bigger, they also command more bargaining power via labor unions and can influence the government to deliver more in their favor. In certain countries where the bureaucracy is very strong, even increasing the weekly working hours may become rather difficult for the government. Thus, when the government is hard pressed to improve productivity and output to generate more revenue and yet cannot implement any of the stringent policies as mentioned above, then the only viable option to make ends meet is to cut back on current levels of expenditure. The West Bengal government is known to have done that recently, wherein they are even denying the employees of the legitimate dearness allowance on time. The whole discussion above should therefore serve as a precursor to the 'expenditure commission' set up by the government to monitor the expenditures incurred by the federal government via several ministries. If one recollects the recent era when then-then railways minister kind of inaugurated one new train every week and had big ceremonies on the occasion of those inaugurations, one should directly connect to what I am trying to convey. The railway exchequer had depleted alarmingly over the last few years. Neither did the government allow rise in railway ticket prices, nor did it raise freight charges. Moreover, it could not control large unproductive expenses incurred by this organization. On the same ground, the national flight carrier of India should have been grounded long time back, financially and administratively restructured and disinvested in due course. Nothing of that sort happened in the present budget. The ministries duly aided by bad bureaucrats rarely care that they are custodians of the tax-payers' money and have absolutely no rights to deliberately waste billions of dollars worth of revenue on totally unproductive purposes. No developed country engages in any such directly unproductive activities, unless it involves something like celebrations on Independence Day which would also be driven by huge populist demand, remembering the luminaries for their unforgettable contributions to the country, and on new inventions and discoveries that will have the potential to land the country into newer trajectories over time. Apart from these, most other expenditures incurred by the government on the behest of populist demand are usually driven by election promises that serve more as opium than elixir. By the time the caste-driven, the religion-driven and the lust-for-money driven illiterate electorate realizes that the government had given them a slip, it gets too late to recover the billions lost in directly unproductive activities.

So, if the bureaucrats keep quiet despite being fully aware of the disastrous effects of these expenditures sprees, who can control these? It is well known that the CAG is responsible for looking into the activities of all government organizations as far as the accounts department is concerned. The CAG regularly points out discrepancies, often theft and embezzlements, in the way

WHAT MAY BE REQUIRED FOR AN EDUCATED APPROACH OF THE COST ACCOUNTANT IS POSSIBLY A CLEARLY DEFINED VIEW OF THE ORGANIZATION AS A WHOLE, AS WELL AS THE ABILITY TO RECOGNIZE AND ADDRESS MINUTE DETAILS THAT AFFECT THE REVENUE AND EXPENDITURE. THIS INVOLVES APPLYING HIGHLY-DEVELOPED SKILLS IN MARGIN ANALYSIS AND PROJECT COSTING AND IT SHOULD ALSO DRAW ADEQUATE RETURNS IF THE JOB IS WELL DONE

money has been spent in public organizations on the same ground that they run on revenues collected from taxes and cannot therefore engage in any activity that may be deemed as unscrupulous, partisan, wasteful and beyond recuperation. There are well-laid out rules and regulations within which the offices must stay in order to avoid any overstepping. Yet, there is no dearth of cases that show that almost every organization has deliberately or unwittingly engaged in unlawful use of public money. One reason behind this incapability of the organizations to stick to the regulations is the absence of trained staff and awareness of how to control costs. This job should be left entirely to the professionals engaged in cost control and management.

A cost accountant observes and analyzes the costs associated with doing business. In this case, we will have to interpret the same as cost controls in public organizations and perhaps, ministries. These costs can be tangible or intangible and cover everything from the cost of the office lease to inventory and labor expenditures. The CAG notes that the organizations not only incur wasteful expenditures but also falter on several performance parameters including the employment rules and payments. The coordination between legal aspects of running a public organization and the cost/expenditure aspects of it can be a vexing task for administrators without adequate training in any of these disciplines. A close observations shall easily reveal that apart from technically trained administrative officers, the general lot comes from softer disciplines where number crunching and analysis are hardly used on a day-to-day basis. The smooth functioning of the organization will have to depend significantly from how much the officer-in-charge trusts the supporting cast. The scope for variations in such relations is enormous. Instead, if the job is delegated to certified and able cost administrators, the outcome may be an efficient one for all parties. A person in this position is responsible for determining which costs can be reduced or eliminated and how to implement the savings without compromising the quality of daily operations or customer service. Unlike the administrator, the analytical capacity of a cost accountant is fairly constant regardless of the industry in which he or she works. In recent times, armed with software support a cost accountant delves into details on material, manufacturing and labor costs. He or she includes analyses of costs versus profitability in all areas of operation. The finer points of his or her research may include utility costs, real property and equipment values, tax issues and variations in profit margins. In case of non-profit organizations of the type we were more keenly interested in here, the cost management and making ends meet without legal infringements are considered as the main functions. What may be required for an educated approach of the cost accountant is possibly a clearly defined view of the organization as a whole, as well as the ability to recognize and address minute details that affect the revenue and expenditure. This involves applying highly-developed skills in margin analysis and project costing and it should also draw adequate returns if the job is well done. The new expenditure management policy of the government should at least open up more prospects for the professional in this area very soon. MA

skar1801@yahoo.com

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – SEPTEMBER 2014

FOUNDATION COURSE EXAMINATION
(Multiple Choice Questions – Online Mode)

<table>
<tr><th>Day & Date</th><th colspan="2">Foundation Course Examination</th></tr>
<tr><td rowspan="2">Sunday,
21st September, 2014.</td><td colspan="2"><u>Syllabus-2008</u></td></tr>
<tr><td><u>Paper – 1 & 2 (100 Marks)</u>
<u>Time : 10 A.M. to 12.00 Noon</u>

Paper 1 : Organisation and Management Fundamentals (50 Marks)

Paper 2 : Accounting (50 Marks)</td><td><u>Paper – 3 & 4 (100 Marks)</u>
<u>Time : 2 P.M. to 4.00 P.M.</u>

Paper 3 : Economics and Business Fundamentals (50 Marks)

Paper 4 : Business Mathematics and Statistics Fundamentals (50 Marks)</td></tr>
<tr><td rowspan="2">Sunday,
21st September, 2014.</td><td colspan="2"><u>Syllabus-2012</u></td></tr>
<tr><td><u>Paper – 1 & 2 (100 Marks)</u>
<u>Time : 10 A.M. to 12.00 Noon</u>

Paper 1 : Fundamentals of Economics and Management (50 Marks)

Paper 2 : Fundamentals of Accounting (50 Marks)</td><td><u>Paper – 3 & 4 (100 Marks)</u>
<u>Time : 2 P.M. to 4.00 P.M.</u>

Paper 3 : Fundamentals of Laws & Ethics (50 Marks)

Paper 4 : Fundamentals of Business Mathematics and Statistics (50 Marks)</td></tr>
</table>

Examination Fees

<table>
<tr><td rowspan="2">Foundation Course Examination</td><td>Inland Centres</td><td>₹ 1000/-</td></tr>
<tr><td>Overseas Centres</td><td>US $ 60</td></tr>
</table>

1. **The Foundation Examination in both syllabus (2008 & 2012) will be conducted in M. C. Q. Mode through Online only**.
2. Total Questions : 100 (Multiple Choice Questions), Maximum Marks : 100 (Each Question will carry 1 Mark). There will be no negative marking for wrong answers.
3. **(a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.**
   (b) Application Forms for Foundation Examination is available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US **$** 10 per form.
   (c) Students can also download the Examination Form free of cost from ICAI Website at www.icmai.in.
   (d) Students can also pay their requisite fee through payfee module of IDBI.
4. **Last date for receipt of Examination Application Forms without late fees is 6th August, 2014 and with late fees of ₹300/- is 16th August, 2014. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of ₹300/- will be waived if applied within 16th August, 2014.**
5. Examination fees to be paid through **Bank Demand Draft** of requisite fees drawn in favour of "**The Institute of Cost Accountants of India**" and payable at Kolkata.
6. Students may submit their Examination Application Forms along with the fees at ICAI, CMA Bhawan, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
7. **Examination Centres**: Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Gandhidham, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Nasik, Nellore, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Port Blair, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Valsad, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat. **(If no examination centre is available at a particular location, examinees will be accommodated at the nearest Centre available)**
8. **A candidate who is completing all conditions will only be allowed to appear for examination.**
9. **Probable date of publication of result** : **Foundation – 26th September, 2014.**

A. Das
Director (Examination)

COST ACCOUNTING STANDARD ON MANUFACTURING COST (CAS – 22)

(The appendix is continuing form the previous issue)

Cost Statement showing Manufacturing Cost of (Name of excisable good) for the period

	Name of the Manufacturer		
	Address of the Manufacturer		
	Excise Registration Number		
	Name of the unit		
	Address of the unit		
	Central Excise Tariff Heading		
A	Quantitative Information	Unit	Quantity
1	Normal/Installed Capacity		
2	Production		
3	Captive Consumption		
4	Production as %age of Normal/Installed Capacity		

B	Cost Information	Unit	Quantity	Rate	Amount	Cost per Unit
	Materials (specify)					
1	A.					
	B.					
	C.					
	D …..					
	Total Materials Consumed					
2	Process Materials					
3	Utilities					
4	Direct Employee Cost					
5	Direct Expenses					
6	Consumable Stores and Spares					
7	Repairs and Maintenance Cost					
8	Quality Control Cost					
9	Research & Development Cost					
10	Technical Know-how Fee/Royalty, if any					
11	Depreciation/Amortization					
12	Other Manufacturing Overheads					
13	Total(1 to 12)					
14	Add/Less Work-in-Progress Adjustments					
15	Less Credit for Recoveries , if any					
16	Packing Cost					
17	Cost of Inputs Received Free or at concessional value from the buyer of the excisable good					
18	Manufacturing Cost (13 to 17)					

Date: Seal & Signature of the Company's Authorised Representative

I/We have verified above data on test check basis with reference to the books of account, cost accounting records and other records. Based on the information and explanations given to me/us, and on the basis of generally accepted cost accounting principles and practices and Cost Accounting Standards followed by the entity, I/we certify that the above cost data reflects true and fair view of the manufacturing cost of the above excisable good.

Date: Seal & Signature of Cost Accountant
Place: Membership No.: Firm Regn. No.:

Note: Separate Cost Statement(s) shall be prepared for each excisable goods

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Service Tax No.	AACCI1864PSD002

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Dates	Topic	Venue
12-14 November, 2014	Recent Trends in Financial Management Including Companies Act, 2013	New Delhi
16-19 December, 2014	Service Tax-Issues and Problems	Shirdi
	Contracts and their Management	
20-23 January, 2015	Advance Tax, TDS & Tax Planning	Jaipur
	Risk Based Internal Audit for Effective Management Control	
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23-26 March, 2015	Recent Trends in Financial Management including Companies Act, 2013	Srinagar

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- Budgeting and Budgetary Control
- Auditing-Internal Audit, Statutory Audit and Government Audit
- Costing for Decision Making

FOR WHOM

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UNION BUDGET (2014-15) : COMMENTS ON AN EMPIRICAL APPROACH

The Central Government should take positive steps for reviving investment, entrepreneurship and overall growth momentum in order to put the economy back on the growth trajectory

Dr. Dilip Kumar Datta
Director & CEO, Sayantan Consultants Pvt. Ltd., Kolkata

Mousumi Pal
Research Associate, Sayantan Consultants Pvt. Ltd., Kolkata

Paromita Dey
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THE union budget for any year is a comprehensive statement of projected sources and applications of fund of the government for that year. In this paper, we make an attempt to empirically analyse the historical data of earlier year's budget with an aim to find out whether the amount projected for various components of this year's budget proposal is realistic and achievable. We follow the methodology normally adopted by the financial analysts for projecting future cash flows of a company. We perform this exercise in three stages. In the first stage, we carry out trend analysis based on historical data. In the second stage, we perform variance analysis and in the last stage, we exhibit a comparative statement depicting the figures shown in the union budget and those derived from our empirical analyses. Finally, we conclude. As one knows, this year's budget is presented at a time when Indian economy is passing through certain adverse economic scenario, namely, rising inflation, high fiscal and revenue deficit and low growth rate. Keeping this in view, we take reference period for 10 years from 2004-05 to 2013-14 in order to take care of the fluctuations occurred in the past.

Trend analysis based on historical data

Different components of Union Budget as percentage of GDP during the reference period are given in **Table 1**. **Figure 1** captures revenue receipts (RR) and revenue expenditures (RE) as a percentage of GDP. Figure 2 captures trend in respect of capital receipt

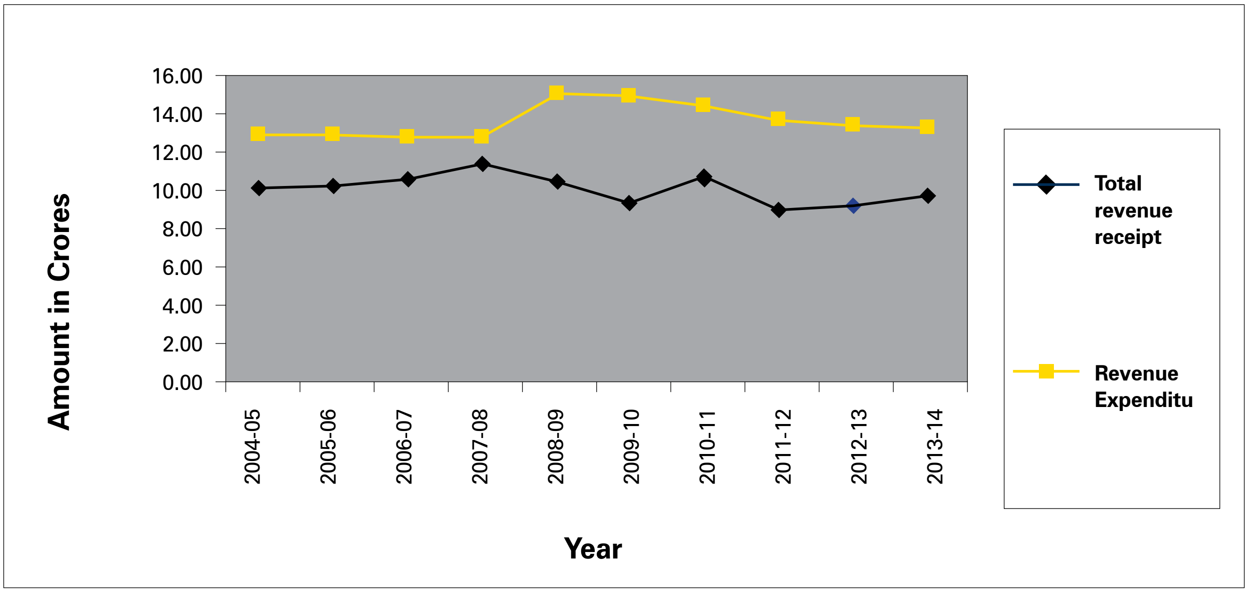
(CR) and capital expenditure (CE). **Figure 3** addresses the trend in revenue deficit (RD) and fiscal deficit (FD). Figure 4 captures Debt servicing capacity (DSC) and Interest servicing capacity (ISC). It is observed that there was not much fluctuation in the trend with respect to most of the components of budget excepting those whose mean value is comparatively low. They are revenue deficit, fiscal deficit, capital expenditure and non-tax revenue. There was wide variation in both revenue deficit and fiscal deficit over the last ten years. During the financial year 2008-09, revenue deficit as percentage of GDP increased from 1.39 to 4.55. In this year, fiscal deficit also increased from 3.65 to 6.93 percentage of GDP. The reason may be the global financial crisis and consequent economic downturn. Mean ratio of total revenue receipt (TRR) and CR as percentage of GDP during the reference period was about 1.68 indicating that CR was about 60 percent of Total Revenue Receipt. Debt receipt (DR) as a percentage of CR increased from 68% (2004-05) to 93% (2013-14). However, DR as percentage of total receipt (TR) does not show much fluctuation during the study period. This shows that DR is not only the main source of capital receipt (long term sources of fund) but also it indicates centre's increasing reliance on outside debt. Interest payment as percentage of revenue expenditure

Table 1: Different Components of Union Budget as Percentage of GDP (₹ in crores)

Components	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Mean	CV
Net tax revenue (NTR)	7.60	8.09	8.75	9.42	8.79	7.47	7.78	7.50	7.90	7.98	8.13	0.08
Non tax revenue	2.53	2.19	1.96	2.04	1.81	1.90	3.04	1.45	1.38	1.85	2.01	0.24
Total revenue receipt (TRR)	10.13	10.28	10.71	11.46	10.60	9.38	10.81	8.95	9.29	9.83	10.14	0.08
Capital receipt (CR)	9.10	4.73	4.00	4.02	5.82	7.42	6.18	6.78	6.01	5.36	5.94	0.26
CR as % of TRR	89.85	45.98	37.40	35.09	54.93	79.09	57.12	75.71	64.71	54.52	59.44	0.30
Total receipt (TR)	19.23	15.00	14.71	15.48	16.99	16.77	16.78	15.54	15.24	15.19	16.09	0.09
Revenue Expenditure(RE)	12.99	12.99	12.82	12.85	15.15	14.93	14.54	13.65	13.45	13.36	13.67	0.06
Capital expenditure(CE)	4.03	2.02	1.89	2.64	1.84	1.84	2.25	1.89	1.79	1.82	2.20	0.32
Total expenditure(TE)	17.02	15.00	14.71	15.48	16.99	16.77	16.78	15.54	15.24	15.19	15.87	0.06
Total interest payment (TIP)	4.24	3.84	3.70	3.75	3.63	3.49	3.32	3.26	3.37	3.63	3.62	0.08
TIP as % of RE	32.61	29.53	28.85	29.22	23.98	23.37	22.85	23.84	25.07	27.16	26.65	0.12
Revenue deficit (RD)	2.87	2.71	2.11	1.39	4.55	5.55	3.72	4.70	4.17	3.54	3.53	0.36
Fiscal deficit (FD)	3.98	4.15	3.49	3.65	6.93	7.40	5.56	6.89	5.89	5.01	5.29	0.28

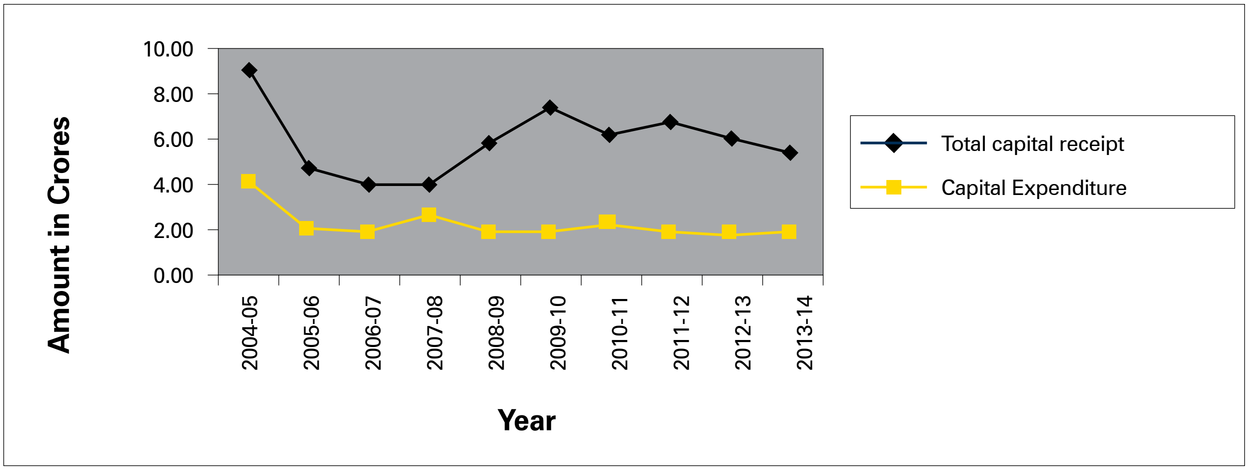
Source- www.indiabudget.nic.in , www.planningcommission.nic.in

Figure 1: Revenue Receipt and Expenditure as Percentage of GDP at Factor cost at Current Price



Source: Table 1

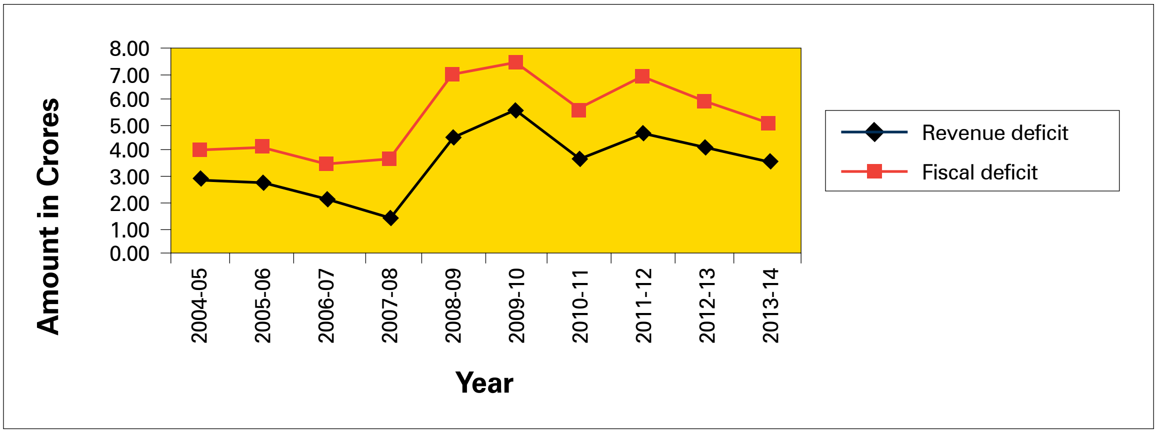
Figure 2: Capital Receipt and Expenditure as Percentage of GDP at Factor cost at Current Price



Source: Table 1

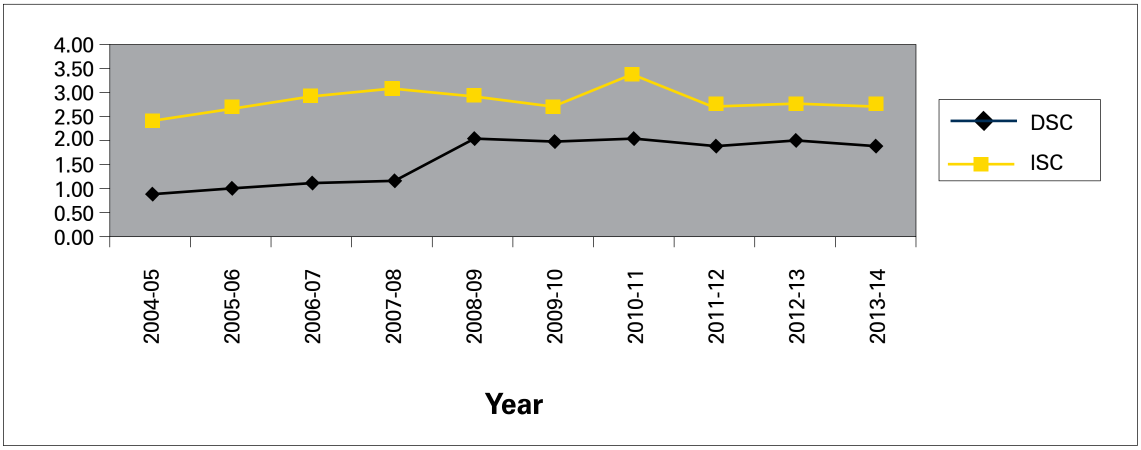
decreased from 33% in 2004-05 to 27% in 2013-14. The same as percentage of GDP remained constant at about 3.38%. Such decline does not indicate favourable situation if one analyses with reference to higher incremental growth rate of revenue expenditure compared to that of interest payment. DSC increased from 0.86 (2004-05) to 1.89 (2013-14). ISC increased from 2.39 (2004-05) to 2.71 (2013-14). DSC of a country should be an indicator showing how much of the total borrowings and other liabilities a country can pay on demand from total revenue receipt (TRR). ISC should indicate how much of interest payment can be made from interest collected. We calculate DSC as a ratio between TRR and borrowings and other liabilities of that year. ISC is a ratio between amount of interest receipt, dividends and profits to amount of interest payments and repay-

Figure 3: Revenue and Fiscal Deficit as Percentage of GDP at Factor cost at Current Price



Source: Table 1

Figure 4: Debt servicing and Interest servicing Capacity as percentage of GDP at Factor cost at Current Price



Source: Table 1

ment premiums in a year. Another interesting feature is that average y-o-y growth rate of GDP was about 7% while the same for total expenditure (TE) was about 14%. This is an alarming situation. Rate of increase in income is less than rate of increase in total expenditure. This leads to more dependence on outside borrowings which might impair sovereignty of a country.

Variance analysis

Variance analysis for the reference period shows interesting features. While capital receipts showed favourable variance, revenue receipt showed adverse variance. Total receipt showed maximum favourable variance of about sixteen percentage in 2008-09 and maximum adverse variance of seven percentage in 2005-06 with a mean favourable variance of three percentage during the reference period. Similarly, total expenditure showed maximum adverse variance of about twenty percentage in 2008-09 and maximum favourable variance of one percentage in 2005-06 with a mean adverse variance of four percentage. Gap between long term sources of fund (LTS) and long term applications of fund (LTA) widened leading to increasing trend in revenue deficit (RD). This RD, in the language of financial analysts, is deficit in net working capital (NWC) of an entity. More will be the gap, more would be the deficit in funds required to run

Table 2: A Comparative picture of the Union Budget (2014-15) (₹ in crores)			
Sl. No.	Components	Realistic estimate on the basis of trend and variance analyses	Amount shown in the Union Budget
a.	Net tax revenue (8.13% of GDP)	902525	977258
b.	Non-tax revenue (2.01% of GDP)	223133	212505
c.	Total revenue receipt (TRR) (a+b)	1038447	1189763
d.	Capital reciept (CR) (59.44% of TRR)	611787	587969
e.	Total reciept= [(c+d) + 3% of (c+d)]	1780364	1794892
f.	Revenue Expenditure(RE) (13.67% of GDP)	1517530	1568112
g.	Capital expenditure(CE) (2.20% of GDP)	244225	226780
h.	Total expenditure= [(f+g) + 4% of (f+g)]	1832225	1794892
i.	Total interest payment (26.65% of revenue expenditure)	372977	427011
j.	Revenue deficit (f-c)	479083	378349
k.	Fiscal deficit [(h-(c+Loan recoveries+Other receipts)]	794679	602306
Source: www.indiabudget.nic.in , www.planningcommission.nic.in			

the government. To sum up, one can say that the projections made in the earlier years' budget have hardly been achieved in reality.

A comparative study

In this section, we depict what should have been the realistic picture of the Union budget (2014-15) on the basis of underlying assumptions arising from results of the trend and variance analyses given as above. Table 2 gives a comparative picture. According to the trend analysis, net tax revenue and non-tax revenue should be considered as 8.13 and 2.01% of GDP. On the basis of present economic scenario and global economic environment, we assume that GDP will grow at the rate of 6% during 2014-15. This means GDP would be Rs. 11101175 crores during the financial year 2014-15. Capital receipt over the period of the last ten years was 59.44% of TRR and we have considered the same for next year's budget. Revenue expenditure, in accordance with trend analysis, should be taken as 13.67% of GDP and expenditure on capital account should be taken as 2.20% of GDP. With respect to total receipts and total expenditures, there was variance of about three and four percentage. Total interest payment was about 26.65% of revenue expenditure. What we find from **Table 2** is that government has projected lower fiscal and revenue deficit by estimating higher amount of sources of fund. On the basis of past trend and variance analyses, this does not seem to be realistic and achievable.

Conclusion

The comparative picture (Table 2) shows that the main difference lies in revenue deficit and fiscal deficit. Looking from the perspective of a financial analyst, figures projected in this year's budget appear to be not realistic and achievable. In reality, both revenue and fiscal deficit would be much more than projected in the Union Budget. These additional deficits are likely to be met by external borrowings. Increasing reliance on external borrowings may lead to a situation of debt trap. The government also proposes to disinvest assets worth Rs. 65000 crores to meet a part of revenue deficit. This does not conform to financial discipline of an entity. In such a situation, we suggest that central government should take positive steps for reviving investment, entrepreneurship and overall growth momentum in order to put the economy back on the growth trajectory. This would be possible only when government takes multi-layer strategies to effectively implement second generation reforms which will create additional factor inputs with improved efficiency by means of technological upgradation driven by innovative methods. MA

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

IMPORTANT ANNOUNCEMENT

Ref. No: BOS/01-05/14-15

Dated: Kolkata, 27th May, 2014

Applicability of The Companies Act, 2013 for December 2014 CMA Examinations (Intermediate Course and Final Course)

It is hereby notified for general information that the **Sections** of ***The Companies Act,2013 as specified in Annexure I for Intermediate Course and Annexure II for Final Course, along with its Rules framed thereunder shall be applicable for the CMA Intermediate Course and CMA Final Course Examinations respectively for December,2014 Examination. Supplementary Study Material containing detailed on relevant sections would also be hosted in the website by 10th June,2014.***

Accordingly, there will arise corresponding change in the following papers in the Chapter/s specified hereunder :

Syllabus 2012		
Course	Paper/Subject	Chapter/s
Intermediate	Paper 5 – Financial Accounting (FAC)	5,8
	Paper 6 - Laws, Ethics & Governance (LEG)	5, 7
	Paper 12- Company Accounts & Audit (CAA)	3, 4, 7, 8,10, 15,16,17,18
Final	Paper 13 - Corporate Laws & Compliance (CLC)	1, 2,9
	Paper 18 - Corporate Financial Reporting (CFR)	1, 2, 3
	Paper 19 - Cost Audit & Management Audit (CMAD)	6,10
Syllabus 2008		
Course	Paper/Subject	Chapter/s
Intermediate	Paper 5 - Financial Accounting (FAC)	7, 8, 10
	Paper 6 – Commercial & Industrial Law & Auditing (CIA)	6, 7
Final	Paper 16 - Advanced Financial Accounting & Reporting (AFAR)	1, 2, 3
	Paper 17 - Cost Audit & Operational Audit (COA)	5

Note:

(i) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act,2013 are enforced.

(ii) If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

(iii) For reference and benefit of CMA students, the Department would release relevant material.

(iv) For applicability of Companies Act,2013 for June 2015 examinations would also be notified in due course and appropriate reading material would also be made available to students well in advance before examinations.

(v) The sections notified for December 2014 Examination were notified by MCA,GOI w.e.f.12.9.2013.

Institute reserves the right to modify applicability of sections of the Companies Act,2013. All concerned are hereby requested to note this announcement/clarification and facilitate to make a proper and wide publicity to meet the concern of stakeholders on the stated subjects.

This issues with an approval of the competent authority.

CMA Chiranjib Das
Joint Director, Head - Academics Department (Board of Studies)
Secretary to the Board of Studies Committee

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DATE OF ADMISSION : 23rd June 2014

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We are in the process of updating certain details relating to your membership profile. Requesting you to kindly spare your precious time to fill in the details in the prescribed proforma which is uploaded under 'Members' section on the Institute website www.icmai.in

The proforma, duly filled in, may be forwarded to membership. sanjoy@icmai.in

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Guidelines for submitting articles for 'The Management Accountant'

1) Contributors are requested to send soft copies (in MS Word format) through emails to The Editor, The Management Accountant, The Institute of Cost Accountants of India, CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata - 700 025. The soft copy of the article should be mailed to **editor@icmai.in.**

2) In case of theme article, the soft copy to be mailed to the above stated mail ID latest by 1st of the preceding month in which the article is sought to be published. That is, for an article to be published in February, the same may be forwarded by 1st of January, at least.

3) The articles must be relevant to the economy, society and the nation.

4) The articles should be around 1500 to 2000 words and must be an exclusive contribution for the Journal.

5) The cover page should contain the title of the paper, author's name, designation, official address, contact phone numbers, e-mail address and an abstract of not more than 150 words.

6) References should be given at the end of the manuscript and should contain only those cited in the text of the manuscript.

7) The contribution must be original in nature and is neither published nor under consideration for publication anywhere else. A scanned copy of signed Declaration by the author is to be attached with the article. The format of the declaration is given below.

8) A scanned passport size photograph (at least, 600 dpi) of the author and in case of joint authorship of all the authors should also be mailed along with the soft copy of the article.

9) Figures and tables should be numbered consecutively and should appear near the text where they are first cited. The figures must be in editable format.Captions of the figures and tables are to be given at the bottom and at the top respectively. Headlines of the sections and sub-sections should start from the left-hand margin.

10) The final decision on the acceptances or otherwise of the paper rests with the competent authority / editorial board and it depends entirely on its standard and relevance. The final draft may be subjected to editorial amendment to suit the Journal's requirements.

11) The copyright of the contributions published in the Journal lie with the publishers of the Journal.

Declaration

I/We affirm that the article titled '_______________' is my/our original contribution and no portion of it has been copied from any other source, and it would not be sent elsewhere for publication. The views expressed in this article are not necessarily those of the Institute or the Editor of the Journal.

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All authors are requested to keep to the word limit of 1500–2000 words for articles. Those who have already sent their articles are also requested to revise their articles and send them to us within the word limit.

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)
www.icmai.in

Eastern India Regional Council

Bhubaneswar Chapter of Cost Accountants

The Chapter organized a seminar on the theme 'The Companies Act & Rule, 2013' on July 6, 2014. CMA Dr. S.K. Gupta, Director (Technical), of ICAI, being the chief speaker discussed on Company Incorporation, Board of Directors, Company Meetings, Independent Director, Accounts & Audit and Scope of Cost Accountants under The New Companies Act & Rule, 2013. CMA S.S. Sonthalia, Past Chairman, EIRC of the Institute, & Moderator of the technical session deliberated on the Companies (Cost Records and Audit) Rules, 2014. Practicing members, invitees along with all the members of the managing committee participated in the seminar. On July 13, 2014 the Chapter organized a panel discussion on 'Union Budget 2014-15' at its conference hall. Shri S. K. Srivastava, IRS, Principal Chief Commissioner of Income Tax, Bhubaneswar was the Chief Guest and deliberated the changes made both in Indirect and Direct Taxation in the Union Budget 2014-15. CA A.K. Sabat, a leading Tax Consultant and Budget Analyst in Odisha was the Guest Speaker and CMA Niranjan Swain, G.M (Finance), OPGC Ltd, Bhubaneswar was the Resource Person on the occasion. They deliberated on 'Direct Taxation and Union Budget-2014-15 & its impact on

individual and industry' and 'Indirect Taxation & Union Budget 2014-15 & its impact on Indian Economy' respectively. It was an interactive session and attended by more than 100 members, Managing Committee Members & Invitees. CMA S.P. Kar, Chairman, PD Committee of the Chapter, CMA Manas Ranjan Lenka, Chairman of the Chapter were among the members present in both the occasions and made the event a delightful one. CMA Damodar Mishra, secretary of the Chapter ended the programmes with his formal vote of thanks.

Guwahati Chapter of Cost Accountants

On July 5, 2014 the Chapter organized an inaugural function of oral coaching session. Chairman of the Chapter, CMA Swapan Kumar Saha briefed the students about the introduction of cost accounting, historical background of the Institute as well as the Chapter. CMA Rana Bose, immediate past chairman of the chapter, CMA P.L. Kanoi, practicing cost accountant and CMA Sankar Majumdar, Treasurer of the chapter as well as a cost accountant in practice, discussed about the scope and prospects of the course and also motivated the students to pursue the same with full vigour and confidence. CMA Rupom Sharma, one of the faculties also encouraged the students and made them understand with appropriate illustrations to keep faith on a well versed cost accountant in practice. The session was quite interactive and attended by about 35 students and 15 members. On July 12, 2014 the Chapter organized a seminar on the topic 'Union Budget 2014'. CMA Mrityunjay Acharjee, Associate VP (Finance) of Balmer Lawrie & Co Ltd., Kolkata being the keynote speaker delivered the speech

on the said topic covering all the aspects of Direct Taxes and Indirect taxes and its impact on the following years to come. CMA Rana Bose, immediate past chairman of the Chapter introduced the brief academic and professional profile of the speaker Shri Acharjee. CMA Mukesh Sharma, secretary of the Chapter ended the seminar with his formal vote of thanks.

Northern India Regional Council

Faridabad Chapter of Cost Accountants

The Chapter organized a members-students meet in association with NIRC and made a discussion on 'Emerging fields/Challenges ahead in CMA Profession' on June 15, 2014. The meet was opened by an excellent speech by chairman, Faridabad Chapter, CMA Adish Suri, who highlighted the achievements and activities of the Chapter. He shared his valuable views on the topic of discussion. CMA Rakesh Bhalla NIRC chairman discussed the opportunities for CMAs in the emerging fields with the members and students and shared his excellent views. Central Council Member, CMA Sanjay Gupta resolved beautifully the queries raised by the members and the students. Around 75 members/students attended the event which earned the members 2 CEP points. The event ended with a vote of thanks by CMA Sunil Kumar, Secretary of the Chapter. On July 6, 2014 the Chapter restarted its inaugural session of oral coaching/computer training/GDBC with kind support from NIRC. CMA Adish Suri, chairman, Faridabad Chapter,

described the students in details regarding the value of profession, opportunities for CMAs and career path. He also discussed the schedule of oral coaching, Computer training, GDBC, Seminars and Industry exposure plans.

Kota Chapter of Cost Accountants

On June 29, 2014 the Chapter organized inaugural function of new oral coaching session for the term July-December, 2014. CMA S.N. Mittal, Director Coaching, discussed in details about the CMA course. CMA Vinod Jhalani, Treasurer of the Chapter explained about the benefits and future opportunities of the CMA profession. CMA Rajendra Natani, secretary of the Chapter ended the programme with a proposed vote of thanks.

Southern India Regional Council

Trivandrum Chapter of Cost Accountants

A joint meeting on 'ASAP-CAT' with Government of Kerala ASAP officials, ICAI Chapters of Kerala & ROCCS of Kerala was held by the Chapter on June 21, 2014. CMA M Gopalakrishnan, CMA TCA Srinivasa Prasad, Council Members, CMA H Padmanaban, Vice Chairman , SIRC and Chairman SBAT, CMA L Gurumurthy, Director CAT, Shri C. Madhusudhanan, Head, Quality ASAP, Government of Kerala, representatives from Chapters and ROCCs of Kerala participated in the meeting. Shri C. Madhusudhanan, Head, Quality, ASAP, Government of

Kerala elaborated the requirement of imparting quality training and the quality frame work measures taken by them to attain it. The session was led by CMA TCA Srinivasa Prasad, Council Member and he made almost all the faculties to speak about their experience with students, the course material, method of coaching etc. The dignitaries present over there stressed the need of the CAT examination and spoke about the latest development in the coaching/ arrangement for the CAT exam, and online mock test for the students etc. Queries of the trainers were clarified by CMA M Gopalakrishnan and CMA TCA Srinivasa Prasad and also informed points discussed by them with ASAP-CAT officers of Government of Kerala as to various aspects of the ASAP-CAT students. On June 24, 2014 the Chapter conducted a one day Seminar on 'Service Tax and Reverse Charge Mechanism' and was led by CA Tony M.P. FCA, DISA (ICA), Practicing Chartered Accountant. He discussed various points of Service Tax regulations, Cenvat credit, Reverse Charge Mechanism etc. CMA Venugopal S. IPTAFS, Director (Finance), KSEB Ltd. inaugurated the seminar and briefly discussed on the confusion prevailing among corporate regarding Service Tax regulations. Delegates from 15 corporates, practising and employed members and students participated in the seminar and clarifications were sought on various points. CMA S Veerapudran, secretary of the chapter concluded the programme with a vote of thanks.

Tiruchirapalli Chapter of Cost Accountants

The Chapter inaugurated 81st Oral coaching session and orientation class for students appearing for December 2014 examination on June 22, 2014. The chief guest CMA T Ananthasayanam, AGM-Finance, BHEL, Trichy inaugurated the oral coaching classes for both foundation and intermediate courses. He emphasized the need and role of the CMA profession in all fields like Industry, business, government etc and advised the students to concentrate on the latest changes and developments in taxes, duties apart from covering the CMA course. Prof. G. Balakrishnan, former Vice Principal of St. Joseph's College and quiz master, also well known career counseling and communication skill expert, motivated the students to inculcate a sense of self confidence and improve communication skill to achieve better results in the examination.

Vishakhapatnam Chapter of Cost Accountants

On June 8, 2014, the Chapter conducted the classes for the session June-Dec 2014. CMA P. Suresh, IRAS, Sr. Divisional Finance Manager, Waltair Division of East coast Railway was the chief guest of the programme who explained about the importance of Cost and Management Accountancy course and also its necessity in the current competitive scenario. The SIRC Member CMA K. Sanyasi Rao, discussed about the future prospects of the CMA course. Over 72 students, 7 faculty members attended the session being presided over by CMA Prakash Uppalapati, chairman of the chapter. CMA Harinarayana Tankala, secretary of the chapter proposed the vote of thanks. On June 22, 2014 the chapter organized a Professional Development Meet on 'Andhra Pradesh State Re-Organization Act 2014' and VAT & CST Implications at its premises. Dr K. Hari Babu, Honorable Member of Parliament from Visakhapatnam being the chief guest addressed the members on various issues on the AP Re-organization. Sri T. Siva Sankara Rao, Deputy Commissioner (Commercial Taxes), Visakhapatnam highlighted the implications of Value Added Tax (VAT) and Central Sales Tax (CST) on the industry and the consumers at large. On July 7, 2014 the chapter inaugurated the classes for their Foundation Course at its premises. The chief guest CMA D. Zitendra Rao, Practicing Cost Accountant, Hyderabad, congratulated the students for joining the Professional course and emphasized the importance of Cost Accountancy profession He also gave a detailed introduction to the subjects. CMA K. Sanyasi Rao, addressed the students and provided details of the institute and the importance of this course in the industry as well as to the society. The chairman of the chapter, CMA U. Prakash explained about the course details. CMA C. S. Sundara Murthy, member of chapter proposed the vote of thanks

Western India Regional Council

Surat South Gujarat Chapter of Cost Accountants

On July 15, 2014 the Chapter organized a full day seminar on post changes in Excise, Customs, Service Tax and Income Tax. CMA Ashok B. Nawal (MD of BIZSOL India Pvt Ltd) explained the impact of budget in details for optimum benefit of all participants and also explained the practical issue for compliance by SEZ and DTA units. Shri Subhash Patel, Secretary AIA, attended the seminar and appreciated the same. He also provided necessary assurance and support from AIA in conducting such seminars. CA Surendra Rakhecha described the impact of Direct Taxes. The whole programme had been coordinated by CMA R.K.Rathi, Vice Chairman of the chapter.

Aurangabad Chapter of Cost Accountants

As per the Chapter news item date, June 2, 2014, it organized a felicitation function to celebrate and boost up the successful students of the December 2013 Examination. The chapter on the same day also organized inauguration function of oral coaching of the current session. Shri Munish Sharma, Director General MIT, Aurangabad was the chief guest and Shri Sanjeev Shelar, Consulting Structural Engineer, USA was the guest of honour of this programme. Shri Munish Sharma and Shri Sanjeev Shelar both advised the students and provided necessary guidance for achieving success in the examination. CMA Pravin Mohani, chairman of the chapter, briefly narrated the scope and opportunities of the CMA Profession. CMA Sunilkumar Maniyar, vice chairman of the chapter and CMA A. R. Joshi, Ex. Chairman of Training Committee narrated about the achievements of the training committee & provided guidance for completion of CMA Course. The programme was attended by a large number of students & their parents and CMA Vaibhav Argade, secretary of the chapter proposed a vote of thanks.

ATTENTION MEMBERS!

Annual membership fee for FY 2014-15 became due for payment w.e.f. 1st April 2014, the last date of which is 30th September 2014.

Members are requested to kindly make payment of their prescribed membership fee without waiting for the last date of payment.

ATTENTION MEMBERS!

Members are hereby requested to intimate the Transaction ID, Date of payment, amount deposited and membership number to membership@icmai.in and finance.arijit@icmai.in for membership fee payments made through Bank by NEFT.

In case of payments made directly by organizations to the Institute's bankers on behalf of the members, the details of the same may also be intimated to the above mentioned mail IDs as soon as the payment is made by the organization concerned.

NON-RECEIPT OF THE MANAGEMENT ACCOUNTANT JOURNAL

This is for the information of members who fail to receive the management accountant journal despatched to them either due to un-intimated change of address or postal problems. Such addresses of the members whose journals have been returned undelivered are regularly hosted on the website of the institute (www.icmai.in) under the 'Journal' section.

Please inform the membership department immediately any address update to ensure regular and timely delivery of journals to you. Members can also update their addresses online in the 'members' section. The new address gets automatically updated in the centralized data base of the institute, from where the journal mailing list is prepared. Any queries or complaints in this regard can also be sent by email at **journal@icmai.In.**

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

CLARIFICATION

Ref. No: BOS/01-04/14-15

Dated: Kolkata, 1st April,2014

Clarification on applicability of Finance Act, 2013 and CAR 2011, CARR 2011 and CASs for CMA Examinations

It is clarified for general information of all concerned that:

(A) Finance Act, 2013 shall be made applicable involving Assessment Year 2014-15 for the following papers in June 2014 and December 2014 terms of Examinations of the Institute:

Syllabus 2008	Syllabus 2012
Paper 7 - Applied Direct Taxation	Paper 7 - Direct Taxation
Paper 10 - Applied Indirect Taxation	Paper 11 - Indirect Taxation
Paper 14 - Indirect and Direct Tax Management	Paper 16 - Tax Management & Practice

This is also clarified in the Examination Notification issued by the Directorate of Examination of the Institute (http://icmai.in/examination/notification)

(B) Cost Accounting Record Rules 2011, Cost Audit Report Rules 2011 and Cost Accounting Standards - 1-17 will also be applicable for the following papers for June 2014 term of Examination:

Syllabus 2008	Syllabus 2012
Paper 17 - Cost Audit and Operational Audit	Paper 19 - Cost and Management Audit

(C) It is further clarified for general information that the provisions of "***The Companies Act,2013***" ***shall not be applicable*** ***for the CMA Intermediate and Final Course Examinations for June,2014 term of Examination. (Clarified vide*** BOS/01-08/13-14, on 26th August,2013 and reiterated vide **BOS/01-12/13-14 on 18th December, 2013). Applicability of provisions of The Companies Act,2013 for Examinations of the Institute would be notified in due course.**

All concerned are hereby requested to note this clarification and facilitate to make a proper and wide publicity to meet the concern of stakeholders on the stated subjects.

CMA Chiranjib Das
Joint Director, Head - Academics Department (Board of Studies)
Secretary to the Board of Studies Committee

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