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The Management Accountant

The Journal for CMAs

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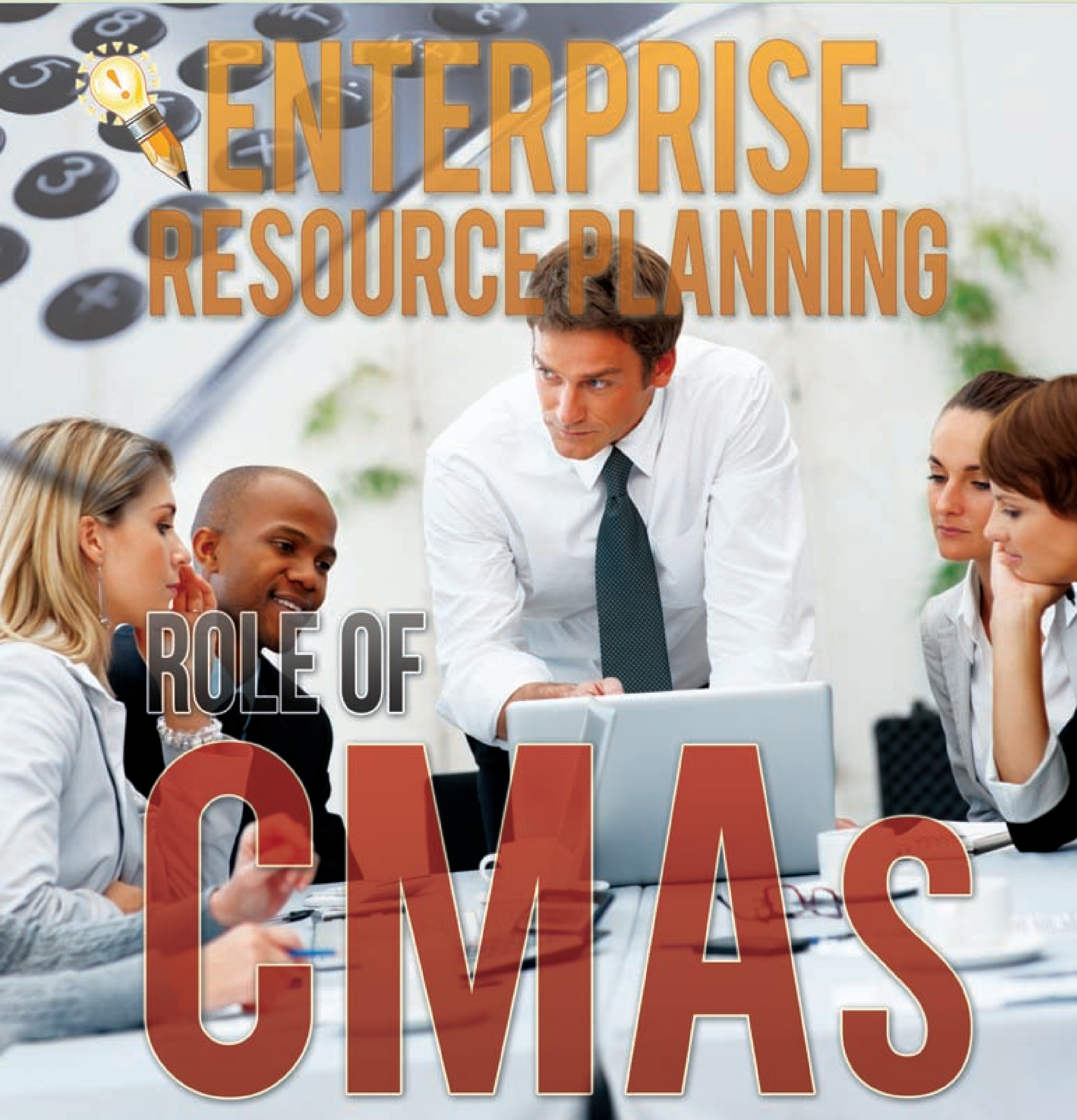
Enterprise Resource Planning—Role of CMAs



Hon'ble Chief MInister of Kerala Shri Oommen Chandy, (2nd from left) & Dr. K M Abraham, IAS Principal Secretary, Higher Education, Govt of Kerala (extreme left) with CMA Rakesh Singh, President of the Institute & CMA M. Gopalakrishnan, immediate past President at the inauguration of Additional Skill Acquisition Program (ASAP) at Trivandrum on 6.11.12

Shri Oommen Chandy, Hon'ble Chief Minister of Govt of Kerala, inaugurating ASAP launch by lighting the lamp in the presence of CMA Rakesh Singh, President of the Institute, Shri P.K. Abdu Rubb, Minister for Education, Shri Shivakumar, Health Minister and Dr. K M Abraham IAS, Principal Secretary, Higher Education, Govt. of Kerala

Shri Oommen Chandy, Hon'ble Chief Minister, Govt. of Kerala delivering the inaugural address during ASAP launch. Seen CMA Rakesh Singh, President of the Institute, Shri P.K. Abdu Rubb, Minister for Education, Shri Shivakumar, Health Minister, Dr. K M Abraham IAS, Principal Secretary, Higher Education & other officials of Govt. of Kerala

A view of the audience consisting of Vice President, immediate past President, Council Members & officials of the institute during the ASAP launch on 6.11.12 at Government College for Women, Trivandrum

CMA Rakesh Singh, President, of the Institute delivering key note address during the ASAP launch by Govt. of Kerala on 6.11.12 at Government College for Women, Trivandrum

Shri Oommen Chandy, Hon'ble Chief Minister of Govt of Kerala congratulates and wishes CMA Rakesh Singh, President, of the Institute after the launch of ASAP for its successful implementation

The Management Accountant

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

Volume 47 ▣ No. 12 ▣ December 2012

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IDEALS THE INSTITUTE STANDS FOR

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

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MISSION STATEMENT

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

VISION STATEMENT

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

DISCLAIMER

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

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Editorial

Seasons' Greetings!

If one were to fancy a debate on the growth story of India Inc, the best place to start would probably be now ie, middle of Q3 as the story seems solid with obvious signs of the Indian macros bottoming out and the government showing strong intention to revive growth. India is all set to emerge as a big Asian economic power riding first, on the news of Baa3 rating of Moody which is more than emerging – market averages and as if this was not good enough, US Investment Bank Goldman Sachs, on the very next day, gave Indian bourses a shot in the arm by upgrading its rating for the nation's stocks. These coupled with the decision of the Finance Ministers in Europe to reduce Greece's interest rates and give it more time to pay back loans sparked rally in most global markets and India too joined the party as the markets displayed bullish sentiments with 30-scrip Sensex surging well ahead of the 19300 mark and Nifty crossing 5800 rearing to create a new benchmark in the days to come.

Business enterprises today face myriads of challenges in all areas of its operations. The ever-changing market dynamics, increasing competitions, demanding customers, and new compliance regulations are creating the need of higher operational efficiencies in every aspect of organization management and corporate finance functions are not exempted from these changes. Modern ERP systems help organizations to establish, monitor, and optimize their key business processes. Like other business managers like operations managers, purchase managers, inventory managers, Finance Managers & CMAs can also use ERP to bring about efficiency, transparency, compliance, and predictability in their operations. The history of ERP is the history of sap (System Analyse und Programmentwicklung), a German software company that in the 1990s established an extraordinary dominance of the ERP market, sap was set up by three engineers in Mannheim in 1972. Their aim was to help companies link their different business processes by correlating information from various functions and using it to run the business more smoothly.

The uses of ERP are many and diverse. For instance, in regard to Revenue Management, ERP systems provide a option to book and realize revenue. Through ERP system the revenue generation activities like revenue recognition, invoicing, and tracking of account receivables can be automated and review and approval processes can be implemented in accordance with the company and compliance norms. This helps the Finance Managers to have necessary information about the relaxed revenue, AR, and out standings. In regard to Cash management, for instance, since AR and AP are integrated in a same system, which in turn connected with the Balance Sheet and treasury operations, it helps the finance managers to manage cash more effectively. Again ERP helps in Risk Management. As most aspects of financial risks are covered in an ERP system, this with a simple integration with a BI system can help finance managers to teak and automate risk management through fish dashboards and alerts. Most of the modern ERP systems today support basic risk management features.

Apart from these operations benefits, ERP systems bring other long term and strategic values to finance managers. Since ERP systems store information in digital form, companies with an ERP system can analyze past data more successfully and draw actionable insights from this data that helps them to define competitive strategy. In this way, the CMAs can help executive management to formulate corporate strategy. Being an automated system, ERP system ensures that CMAs can spend less time in operation related works and micro-level reviews. This enables CMAs to focus more on key strategic aspects of financial risk and compliance management.

There is no denying the fact that a proper utilization of ERP system fuels, growth for a financial professional as he / she can take more active part in strategic activities rather getting bogged down with mundane day to day operations. Some of the articles which have found a place here will, I am sure, enrich the dear readers with latest development in this field.

Happy reading!

> "An investment in knowledge always pays the best interest".
> —Benjamin Franklin

CMA Rakesh Singh, President

Dear Professional Colleagues,

All of us recognize the importance of good quality investment. Quality investment is a key ingredient for sustainable development. All countries require investment to prosper and provide a decent standard of living to their population. The Hon'ble Prime Minister has also stressed upon the need of boosting infrastructure investment, which can play a major role in short and long-run.

We, the Cost and Management Accountants, also need to Invest to serve the community. But there is a difference between the investment of a businessman and a professional Accountant. The Investment of a businessman mainly comprises monetary matters whereas the investment of a CMA comprises time. We have to invest our time to enhance our competencies and better serve the society. This can be done by acquiring knowledge about the current changes as the present day economy is vibrant and volatile.

The Society and the government also look at us as a knowledge bank. They expect an informed advice and solution to their problems. We can meet their expectation only when we are informed and updated about the current changes. We should spend adequate time in gathering quality information relevant to our profession. This will not only satisfy our clients but at the same time help us prepare for the future. To facilitate our members, the Institute organizes many programmes. I am very happy to inform the members that the Institute has initiated many online services for Students and Members. This will not only enhance the quality of working but also reduce the time and effort.

Demise of CMA A. Om Prakash, Council Member

It is with great grief and sorrow I share the news of untimely demise of CMA A. Om Prakash, our beloved colleague in the Council, who passed away in Chennai on the morning of 2nd December 2012. CMA Om Prakash was suffering for sometime but I never knew that the end was so near. A true fighter as he was, he fought his best to delay the inevitable. Erudite and knowledgeable, CMA Om Prakash's contribution to the profession as well as to the development of the Institute was immense. CMA Om Prakash, during his tenure as Chairman, Training & Educational Facilities (TEF) for the year 2011-12 was responsible for the implementation of IEPS (Integrated Education Processing System) introduction of Communication & Soft Skills Training, Industry Oriented Training Programme, modification of scheme of Modular Training with a view to bring about a qualitative change in the Course. The formalization of restructuring the course curriculum and its contents through introduction of Syllabus 2012 was another major contribution. He was the one who devised the roadmap for implementing a high-quality teaching-learning through standardized lecture delivery mechanism. As Chairman of Journal committee, CMA Om Prakash imparted valuable guidance and support for improvement of the quality of 'The Management Accountant' Journal.

CMA A. Om Prakash will always be remembered for his lovable nature, generosity, humanity and bounteousness.

To apprise all the members of the activities / initiatives undertaken by the Departments/ Directorates of the Institute, I now present a brief summary of the activities.

Professional Development Directorate

Guidance Note on Training & Guidance Manual for Cost Audit Report & Compliance Report in XBRL Format-

The Technical Research Cell of the Institute released the Exposure Draft of Training & Guidance Manual for filing of Cost Audit Report & Compliance Report in XBRL Format at Institute's website for seeking views/ comments/suggestions from all stakeholders. The same is expected to be finalized in the light of the comments/ suggestions received. This Guidance Note will assist the members of the Institute in understanding the Architectural of costing taxonomy, filing of Cost Audit Report & Compliance Report in XBRL format as per the mandate given by the Ministry of Corporate Affairs.

MoU with Taxmann for making available the web contents to the students

I am happy to inform members and students of the Institute that in continuation of efforts towards capacity building, the Institute signed another MOU with Taxmann on 12th November 2012 in addition to MOU signed by the Institute for members on 6th July 2012 for providing the web contents by Taxmann through their website.

Any student who has enrolled or registered with the Institute is eligible to subscribe web contents of Taxmann at a concessional rate of Rs. 500/- (for one year subscription), Rs. 600/- for two years subscription) and Rs. 750/- (for three years subscription). The concessional subscription rates are inclusive of service tax. After subscription the students will be able to access Taxmann's web contents for last 3 years (i.e. since year 2009) through their website relating to Direct Tax Laws, Indirect Tax Laws, judgments of Supreme Court/High courts, Orders of ITAT, Notifications, Circulars and Articles etc.

Appointment of Cost Auditor by Companies

Ministry of Corporate Affairs vide General Circular No. 36/2012 dated 6th November 2012, clarified some of the issues relating to e-form Nos 23C and 23D with respect to death of existing cost auditor, resignation or change of cost auditor and additional fee thereof etc. It clarifies the following issues:

(i) In case of death of existing cost auditor, companies are allowed to file fresh e-form 23C, without any additional fee, within 90 days of the date of death.

(ii) In case of change of cost auditor for reasons other than death of the existing cost auditor, companies are required to file fresh e-form 23C with applicable fee & additional fee clearly specifying the reasons of change.

(iii) If there is error in filing the e-form 23C or 23D due to typographical errors or other mistakes, there is no provision in MCA21 system, which may allow such correction. The circular cautioned members to be careful while filing e-forms 23C or 23D. In rare case, if still any error or mistake is observed, it should be brought to the notice of MCA well before approval, enabling it to return the said form for re-submission. Else, the companies and cost auditors are required to file the fresh e-forms and pay applicable fee and additional fee.

Cost Audit Order dated 6th November 2012

Ministry of Corporate Affairs vide its Cost Audit Order No. 52/26/CAB-2010 dated 6th November 2012 superseded Cost Audit Orders dated 2nd May 2011, 3rd May 2011, 30th June 2011 and 24th January 2012 and directed all companies covered in Cost Accounting Records (Industry Specific) Rules 2011 and Companies (Cost Accounting Records) Rules 2011 are required to get the cost audit done under this cost audit order for the products or activities Groups given in Table-I and Table-2 respectively, in respect of each of its financial year commencing on or after the 1st day of January 2013, audited by a cost auditor.

Membership Department

The Ministry of Corporate Affairs has mandated filing of cost audit and compliance report in the XBRL Mode. Filing of these reports and filing of Form 23C and Form 23D requires providing the "Firm Registration Number". The Institute, in order to meet the requirement of the MCA, has allotted six-digit "Firm Registration Number" to Partnership Firms as well as Sole Proprietors/Individuals which would supersede any other Firm Registration number allotted earlier to them. Members are requested to strictly adhere to this "Firm Registration Number" and their firm name as has been communicated by the Institute.

President's Communique

Technical Directorate

The Institute has released the following Exposure Drafts with the approval of the CAASB & CASB:

1. CASS 103
2. CAAS 104
3. The Guidance Note on CAS on Cost of Utilities

I request the members to give their valued comments/ suggestions on the above Exposure Drafts.

International Affairs Department

The delegation from the Institute attended following National / International Events during the month:

- CMA T.C.A. Srinivasa Prasad, Council Member attended the SAFA Board and Committee meetings from 8th to 10th November 2012 organised by the Institute of Cost and Management Accountants of Pakistan at Lahore.
- The President and Vice President attended IFAC Council Meeting at Cape Town, South Africa from 13th to 15th Nov 2012.
- CMA Sanjay Gupta, Council Member attended the Malaysian Institute of Accountants Conference 2012 from 26th to 28 November 2012 at Kualalumpur.

HR Department

Internal Promotion

In order to motivate the work force of the Institute an internal process of promotional activity was conducted from the position of Senior Officer to Assistant Director. The decision was taken by the Executive Committee of the Council on 31st October, 2012.

Employee Engagement

As a part of employee engagement, "Bijoya Sammiloni & Deepawali" was celebrated at the headquarters, Kolkata on 23rd November 2012, wherein employees of the Institute and their families participated and presented a musical soiree. The event was mainly organized to highlight the cultural aspects and to showcase their talent.

Hyderabad Centre of Excellence

The center conducted following programs during the month:

- ***Cost Accounting Policy Framework*** - A Practical Approach by CMA AVNS Nageswara Rao. The program was attended by large number of participants.
- ***Implementation of Cost Accounting System*** - A Systems Approach by CMA E Vidyasagar. The Programs was well attended.

Training Programs

The CEP-2 Directorate organized the Filing of Cost Audit and Compliance Report in XBRL" at Cochin. The Institute supported the Asian Centre for Corporate Governance & Sustainability for an International Conference on "Corporate Governance, Sustainability & Integrated Reporting" on 19 November 2012 at Mumbai.

The Institute was also associated with Confederation of Indian Industry (CII) as a 'Knowledge Partner' for the Conference on "Salvaging Dispute Resolution" on 24th November 2012 at New Delhi. Our members actively participated in the Conference.

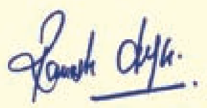
CEP – 1 department organized two Residential programmes simultaneously during 20-23th November, 2012 at Srinagar (J&K) on 'Management of Taxation' and 'Finance for Jr. Finance and AOs and Non Executives (F&A)'.

The two week induction training program for the first batch of Punjab State Power Corporation Ltd. is being held at Delhi NCR (Vaishali) during 25th November to 8th December, 2012. The training programme for the 2nd and 3rd batches are proposed to commence from 9th December and 23rd December 2012 respectively.

The International Program on `Strategic Financial Management' is being organized during 29th November to 9th December 2012 at Singapore, Kualalumpur and Bangkok.

I wish all the members and their families on the occasion of Christmas and New Years' eve.

With warm regards,



(CMA Rakesh Singh)
President, Institute of Cost Accountants of India
2nd December 2012

CMA T.C.A. Srinivasa Prasad
Chairman, Training & Educational Facilities & Members in Industry Committee

Dear CMAs,

It is a pleasure and honour in communicating to you through this prestigious Journal coinciding with the path creating "Syllabus 2012" of our Institute.

I thank the President, Vice President and all Council Members for reposing faith and confidence in me for the assignment as Chairman (T&EF) and Chairman (Members in Industry) for the term 2012-13. It is a pleasure to acknowledge the valuable contribution of my predecessor, CMA A. Om Prakash in 2011-12 term as Chairman (T&EF).

The challenges and opportunities to our profession, across borders and specifically in India, shall be increasing manifolds in the coming years. As we are aware, the challenges are always invariably followed by opportunities, especially when the business has started looking at waste elimination, efficiency increase and all round improvement of productivity.

Pursuant to pronouncements by the Ministry of Corporate Affairs on mandatory maintenance of cost records, cost compliance certification and cost audits for specified companies, there is a sea-change in regulatory structure to bring about transparency in corporate discipline and governance mechanism.

To strengthen and equip to face the recent changes in India and to continue to be at par with the International Standards set by IFAC (International Federation of Accountants) and IAESB (International Accounting Education Standards Board) and Initial Professional Development – Professional Skills (Revised) through IEG (International Educational Guidelines), "Syllabus 2012" is being introduced wef 1st December 2012 with a passion

- To promote the importance of cost & management accounting profession for successful decision-making,
- To inculcate the required knowledge and equip the professionals through proper education and adequate industry-oriented trainings
- To increase awareness the relevance and application of generally accepted cost accounting principles and its techniques for managerial decision-making
- To ensure employability amongst budding professionals
- To align with the dynamic and complex requirements of the different sectors of the industry

The "Syllabus 2012" is

- Based on six skill-sets – knowledge, comprehension ,application, analysis, synthesis and evaluation
- Mapped with four knowledge pillars – management, strategy, regulatory function and financial reporting
- With increased emphasis on Accounting, analysis, reporting & control, Strategy, Performance Measurement, Corporate & Allied Laws, Taxation, Ethics and Governance

The brick-building of budding CMA professionals are laid on the strong foundation which includes enriching inter-active class room sessions, knowledge-sharing and coaching (oral/postal), communication & soft skills training, computer trainings, industry-oriented training programmes. Students are also being provided with quality study materials, workbook and compendiums. They are being better equipped with rich industry exposure and hands-on-experience which helps to demonstrate their professional - knowledge, skills, values, ethics and attitudes.

The aim of the course is to foster a new generation of accounting and finance professionals equipped to serve the greater interest of their stakeholders, ability to sustain and overcome the geo-socio-eco dynamic challenges and opportunities that lie ahead in the global financial environment.

I am confident that the accounting fraternity and the Nation as a whole shall be benefited with this syllabus.

The Committee for Members in Industry has initiated a survey for our members. This survey will certainly throw light on the expectations of the members from the Institute and identify the expectation gap and also their readiness in value additions to the members and the profession. I request each one of you and especially members who are contributing to various industries in different capacities, to take part in the survey. This will ensure that "Together we move up". The same has been hosted on our website and can be viewed at http://mindtech.imrbint.com/CostAccountIndiaCAWI/ICAIHome.aspx

It gives great pleasure in reminding that our structured placement process started a year ago and acted centrally with the help of Regions, is providing rich dividends in the form of new and prestigious organizations in various sectors - banking, regulatory, software, metal, cement, services to name a few, taking part in the programme in all the regions and selecting our Final qualified graduates. Apart from the above, due to the initiatives taken towards training, various organizations are giving opportunities to our students for three years training.

Anything good can be achieved only through an excellent teamwork which is being amply demonstrated by the officials of our Institute. At this juncture, I would like to place on record my gratitude to all the officials and support staff of the Institute with special mention to Directorate of Studies on T&EF matters and Directorates of Training & Placement and CEP2 for their support in placement and Industry related matters

As the countdown for the New Year has already begun, I wish you and your family a bright and pleasant New Year ahead.

Wishing you all the very best,

With warm regards,

(CMA T.C.A. Srinivasa Prasad)
Chairman, Committee (Training & Educational Facilities) &
Chairman, Committee (Members in Industry)
December 02, 2012

Enterprise Resource Planning – Role of CMAs

Parmod Kumar Gulia
ACMA, M.Com, M.Phil, MBA
Assistant Professor (Commerce), Pt. NRS Govt. College, Rohtak, Haryana

With the evolution of information technology, the role of accountants has been considerably changed. Previously the accountants remained engaged in collection of data from different sources. It used to consume their significant time. Due to which only a little time was left with them for the analysis of data for decision making activities. According to Sutton & Arnold (2002), the Information technology and its use in accounting have changed considerably during the last four decades. Even during late 1970s, only a small proportion of accounting functions like payroll, inventory handling and time keeping were carried out with the help of computers. The cost accounting, financial accounting and most of the managerial functions were carried out manually. During the 1980s, the financial accounting and different managerial functions started to be carried out with the help of personal computers. Various **Best of Breed (BoB)** software were designed for different uses and organizations were purchasing them from different developers. The BoB software solve the problem of data collection and analysis up-to some extent but the duplicity of data and availability with the different departments again posed a serious problem for the managers and accountants. The data was required to be collected from different sources and then data was complied for making specific decisions. Further the data was not stored in a well planned and structured manner often facing the problem of losing of the data and unavailability of data related to a specific problem. During this period, the work was carried out on manual as well as with the help of computers. Hence, sufficient data bank was not available for the engineers, managers and accountants for taking immediate decisions and to prepare reports related to a specific issue. For example, Boeing Company was relied on hundreds of suppliers for various components for manufacturing its airplanes. These components were required to assemble in the right sequence with the help of hundreds of systems which were non-integrated. The flow of data was not consistent and also unsynchronized. Due to which the partially manufactured aircraft remains standing in the assembly line waiting for the components. When the demand of airplane increased significantly, Boeing Company feel itself unable to manufacture them and the production in its assembly lines was come to halt. Boeing has since replaced the various systems with ERP to overcome the limitations of non integrated systems.

Due to globalization, privatization and liberalization policies adopted by various nations during the 1990's and onwards made it mandatory for the various multinationals to brought down the cost by aggressive cost control measures, to make benefit cost analysis of various products and to produce the most appropriate, economical and beneficial products. Further the enterprises feel that the management should be well informed about the day to day developments and flexibility should be maintained in the business organization to cope up with the future changes. During the late 1990s, the multinational companies replaced their existing Best of Breed information structure with the wide ranged, integrated and multifunctional system known as **Enterprise Resource Planning** which provides the integrated data bank and solve the problem of duplication and synchronization of data. Very soon the medium and small sized firms also came forward to use the ERP system and replaced the existing systems. This type of system established the power of centralized ICT infrastructure. An ERP System stores, streamline and standardizes the collection, analysis and dissemination of data.

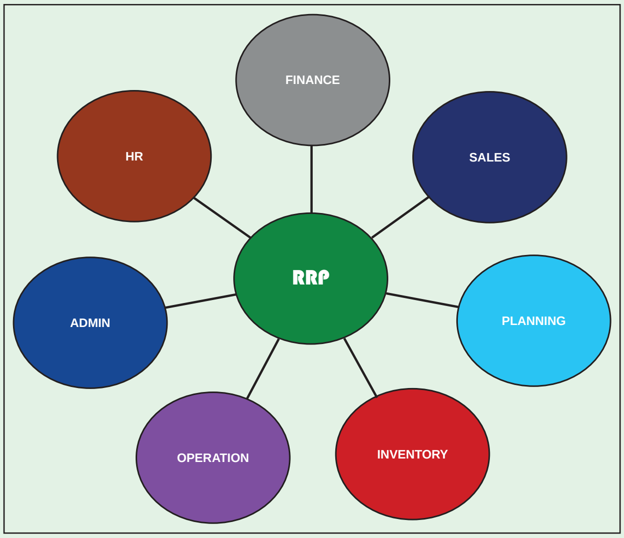
ERP- An Overview

An ERP system is an integrated, sophisticated, specialized, multifunctional information system which covers all the functional areas of business like, financial accounting, cost controlling, procurement, production and human resource management for the effective and efficient utilization of men, material, machine and money. It optimizes the resource allocation to different parts of the organization with the help of integration of various resources through proper planning, procurement and control of resources. It acts like a tool for effective planning, monitoring and controlling of the functions of organization. ERP comprises integrated sets which include a set of mature business applications and tools for financial and cost accounting, sales and distribution, materials management, human resource management, production planning and computer integrated manufacturing, supply chain and customer information (Boykin, 2001: Chen, 2001). According to Granlund and Malmi (2002), ERP is defined as "module-based integrated software package that controls all the personnel, material, monetary and information flows of a company". It provides help in enhancing management ability in utilization of resources through proper plant layout, utilization of available plant capacity, reducing inventory and logistic scheduling. Depending upon the need which arises due to growing business requirements, various application software were introduced into the business world to meet the challenges posed by cut throat competition. These are as follows:

1. Management Information System (MIS)
2. Integration Information System (IIS)
3. Executive Information System (EIS)
4. Corporate Information System (CIS)
5. Enterprise Wide System (EWS)
6. Material Resources Planning (MRP)
7. Manufacturing Resources Planning (MRP-II)
8. Money Resource Planning (MRP-III)

ERP has evolved from the system known as MRP-II system with the integration of information between vendors, customers and manufacturers using networks such as LAN, WAN and Internet etc. MRP-II is a method for planning of all the resources of the manufacturing company. This system is capable to answer the 'what if' problem. It integrates the production planning, material planning, capacity planning with the financial reports such as Purchase, Logistic, budgeting and inventory for production. However MRP-II was not fully successful in integration of enterprise resources in an effective manner.

ERP as the name suggests is the integration of Enterprise Resources. The technological evolution of ERP from MRP has been presented in detail by Chen (2001) and by Chung and Snyder (2000). ERP works on the simple concept of team work which brings synergy effect. Similarly the ERP integrates various resources and the effective result is more than the sum of its units. It



provides an integrated storehouse where information is stored once but can be used on need basis. It avoids the duplicity of data and the data can be reprocessed for other uses also. The home grown software were developed for specific problems and they were not useful to cope up with other problems. ERP is the answer to these problems. It has interface with the several departments for its implementation

1. **Finance and Accounting Department:** Most of the data relates to Finance and Accounts department. This department is responsible for Financial Accounting, Investment Management, Cost Control, Working Capital Management, Capital Budgeting, Profitability Analysis, Assets Management, Enterprise Controlling, Cost and Profit Centers and Activity Based Costing.
2. **Sales and Distribution Department:** This department is responsible for Order processing, Product Configuration, Delivery Quotations, Pricing, Promotions, Distribution requirements, Transportation Management, Shipping Schedules & options, Export Controls, Billing, Invoicing and Rebate Processing.
3. **Material Management Department:** It is responsible for Purchasing of material, maintaining of Inventory Levels, Warehouse functions, Suppliers' Evaluation, JIT Delivery and Invoice verification.
4. **Production Department:** It is responsible for Computer Aided Designing, Computer Aided Manufacturing, Process Planning, Bill of Material, Product Costing and MRP etc.
5. **Personnel Department:** It is responsible for Workforce planning, Employee Scheduling, Training and Development of employees, Payroll and Benefits, Travelling Expenses Reimbursement, Application data, Job Description, making Organization Chart and Work Flow Analysis.

ERP system integrates all these departments into a single entity and reports can be generated at a central point with the help of data inputted and processed by different departments.

Benefits of ERP:

1. It improves the cost control process by providing sufficient data and reports on real time basis for decision making.
2. It eliminates the dependency on various software companies for maintenance of various software obtained from different developers and safety of data is ensured.
3. It brings down the time taken in decision making as the exact information is made available in short-time duration.
4. It improves the procurement schedule and lesser inventory is kept in store resulting reduction in costs of handling the inventory.
5. It provides help in cash collection by reduction in time taken by customers in making payments.
6. It improves the follow up time and response to customers.
7. It improves the linkage between supply and demand functions with remote locations and branches in different countries.
8. It is helpful in international operations as it can work with different tax structures, different currencies and multiple period accounting and language.
9. It provides help in multi access to the data for the users for quicker resolution of queries.

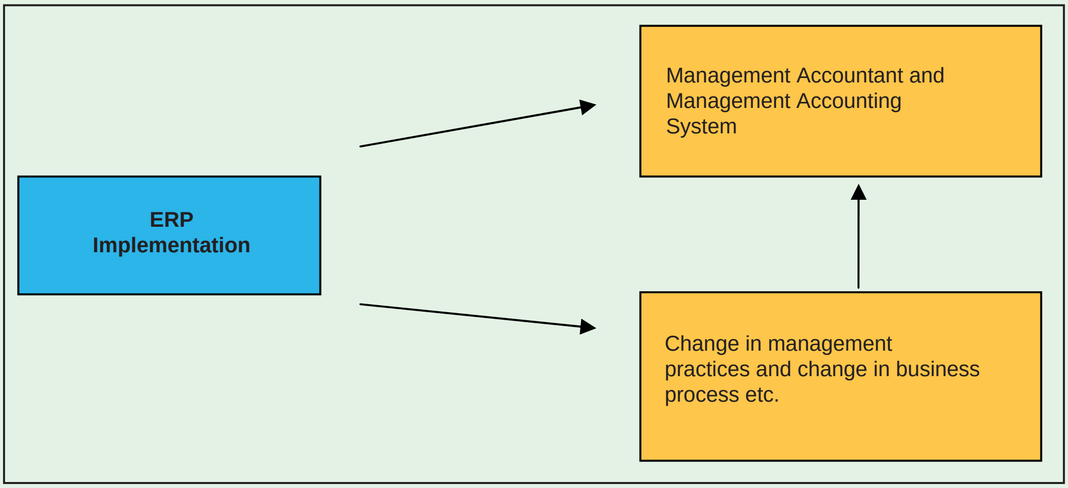
Steps for ERP implementation:

Various steps are involved in the process of implementation of ERP in an enterprise and the CMA plays a pivotal role in implementation of ERP. The CMA is the key personnel of an enterprise who almost works with all departments of the enterprise. They have direct interface with all departments of an organization and provides help in implementation of ERP. The following steps are required for implementation of ERP Package:

1. First of all an enterprise is required to identify the needs for implementing an ERP package in the organization.
2. The organization should make SWOT analysis before the implementation of an ERP package.
3. The expected change in current structure may be decided after the implementation of ERP. Business process reengineering may also be introduced for the desired results expected from ERP. The whole activities may be reconsidered from starting and their utility may be examined in the light of their benefit/ cost analysis.
4. The most valuable resource of an organization, i.e. the human resource should be taken into confidence before implementation of ERP. The necessary training may be provided to them to overcome the difficulties expected during the implementation phase.
5. The available ERP packages may be judged on the basis of needs of organization and best suited one may be selected with required modules.
6. For implementation of ERP, the necessary hardware and network requirements are required to be installed for the selected ERP Package.
7. The consultants should be appointed for implementation of the ERP and the ERP package should be implemented after giving proper training to the concerned staff.

Impact of ERP implementation on working of CMAs':

With the implementation of ERP system in an organization,



the data becomes available on real time basis. The CMA can now spent the more time on data analysis and decision making rather than collecting various types of information from different departments.

In a non integrated environment, CMA remains busy in collecting various types of data. It consumes their significant time and the same can be saved with the help of integrated system where all kind of data can be found on a mouse click. Now the CMAs can spent their valuable time on data analysis and decision making activities. Their focus can be changed from historic to forward looking. They can spare their time for finding out the solution of various problems and can provide better aid to managers for facing the cut-throat competition. They can make cross functional analysis with the help of ERP system as the relevant data will become available for such type of analysis. They can use the modern accounting techniques like Activity Based Costing, Life Cycle Costing, Target Costing, etc. for better control over the costs.

Types of ERP Software and Market share of ERP Vendors:

Several vendors are available in the market which provides the ERP Packages. The ERP Vendors may be divided into three broad categories which are:

1. **Tier I** – It includes the SAP, Oracle, Oracle eBusiness Suite, JD Edwards, People soft and Microsoft Dynamics etc.
2. **Tier II** – It includes the Epicor, Sage, Infor, IFS, QAD, Lawson and CDC Software etc.
3. **Tier III** – It includes the ABAS, Activant Solution Inc., Compiere, Exact, Net Suite, CGS, Syspro etc.

Small companies which usually have less than 30 users and less demanding needs prefer using Tier III software. Mid-size companies with less than 100 users prefer Tier II software. They usually have just a few localized sites and prefer short term investments. Tier I software is targeted for large enterprises. The share of ERP vendors in the market is shown by the following figure

Table 1: Top 10 ERP Software Vendors by total Software Revenue, worldwide, 2008-10

(Millions of US Dollars)

Vendor	2009 Rank	2010 Rank	2008	2009	2010	Share % 2009	Share % 2010	Growth % 2009	Growth % 2010
SAP	1	1	5757	5139	5373	25.6	25.3	–10.7	4.6
Oracle	2	2	2719	2415	2602	12	12.3	–11.2	7.8
Sage	3	3	1436	1339	1265	6.7	6.0	–6.8	–5.5
Infor	4	4	1313	1082	1053	5.4	5.0	–17.6	–2.6
Microsoft	5	5	890	856	946	4.3	4.5	–3.8	10.5
Kronos	6	6	456	450	497	2.2	2.3	–1.1	10.3
Totvs	8	7	235	303	409	1.5	1.9	–28.8	34.9
Lawson Software	7	8	387	360	390	1.8	1.8	–7.0	8.5
UNIT 4	9	9	285	279	308	1.4	1.5	–2.0	10.4
Concur	10	10	216	248	290	1.2	1.4	14.4	17.3
Other Vendors			7705	7620	8061	37.9	38.0	–1.1	5.8
Total			21399	20091	21194	100	100	–6.1	5.5

Source: Gartner (Mar-2011)

The above table 1 shows that the SAP is the leading ERP Vendor followed by Oracle and Sage. However the growth rate in market shares during the year 2009 has shown a down fall in almost all companies except Totvs and Concur which show a positive growth rate. This is mainly due to slowdown in world economies. However the market share again shows the positive growth rate during the year 2010 in all companies except Sage and Infor which shows negative growth rate in the same period.

The ERP software is available with different modules. Here the modules of leading ERP Software **SAP R/3** have been discussed as other software also uses almost same type of modules:

1. **Material Management Modules:** It provides the accurate information about the procurement of material, Minimum Level, Maximum Level, Danger Level and Re-order level of Inventory which are primarily the areas of CMA. It helps in reducing the cost related to logistic operations and costs related to warehouses. In international operations, it provides help in generating custom invoices. The CMAs are actively involved in the activity of minimizing the cost of material used in manufacturing process. They fix the various levels and Economical Order Quantity to purchase each time to minimize the costs associated with the procurement and handling of inventory. Without the help of CMAs, this module cannot be implemented successfully.
2. **Sales and Distribution Module:** This module mainly handles the delivery schedule and sales orders. This is directly interlinked with Production Planning and Material Management modules. It helps in credit control and provides information about required quantity of raw material for efficient use of available plant capacity and production facilities. The management accountant must ensure about the economical utilization of Material and Machine to minimize the cost of production. He should prepare the delivery schedule to cater the needs of different markets in such a manner that neither the consumers may feel shortage of goods nor the excess stock should remain in warehouses waiting for the orders from the purchasers.
3. **Production Planning Module:** This module handles activities related to production planning, production process, quality control and production control. It ensures the optimum utilization of production facilities to bring down the production cost. The CMAs provide help in decision making related to best product mix decision and optimum level of production. They ensure the efficient use of the key resources to maximize the contribution per unit of key resources. This module helps in creation of master data for production, MRP, production control and costing. It supports the quality control measures, laboratory information system and data analysis.
4. **Financial Accounting Module:** This module records each and every business transaction and posts them into the relevant account on real time basis. It generates the reports on real time basis and provides desired data to the management for taking decisions. The CMAs also collect data from this module to help the managers for taking better decisions. It provides consolidated data and updates the Accounts Receivable, Accounts Payable and Assets with each financial transaction in the system. It supports the International Accounting Standards and GAAPs.
5. **Control Module:** This module is mainly related to control aspect of enterprise. It provides the report regarding the costs incurred on different activities. It can generate the reports in desired formats for better planning and control mechanism. The Management Accountants play a pivotal role in operating this module. They compare the actual results with the standards fixed for Material, Labour & Overheads and find out the deviations. The deviations are then analyzed and corrective actions are suggested by them to eliminate the unfavorable deviations.
6. **Treasury Management Module:** This module mainly relates to the management of finance for operations and investment of idle funds. The CMAs should examine the various policies adopted by the organization in the best interest of organization. They should examine the credit policies, credit terms, cash collection and cash disbursement policies of the organization. The CMA should check the idle cash balance of the organization and try to invest it in efficient manner.
7. **Investment Management Module:** This module is concerned with the project management. It starts from the feasibility study and ends with the execution of project in the most economical and efficient way. It includes the pre investment analysis and depreciation simulation. This kind of decision is very crucial for the life of an organization as the decision once taken either cannot be reverted or can be reverted at a very high cost. Hence, the project should be examined carefully by CMAs' from profitability and adaptability point of view before its execution.
8. **Quality Management Module:** It deals with the quality control aspect of management. It monitors all the processes during the production and inspects the quality of production. The CMAs should keep a close watch on the process and ensure the strict quality control measures as it will directly affect the goodwill of the organization.
9. **Plant Maintenance and Service Management Module:** PM module ensures planning, control of maintenance, inspection, special repair and services of plant as per schedule to ensure smooth running of the plant and machinery installed in the factory.

Drawbacks of ERP

Although ERP has several advantages such as user friendly, integrated database, multifunctional, low operating cost and improved customer response time, etc. yet it has certain disadvantages like heavy investment, huge storage needs, networking requirements and intensive training needs. The scale of Business Process Re-engineering and Customization tasks involved in the software implementation process are the major reasons for ERP dissatisfaction. Bann, People Soft as well as SAP calculate that customers spend between three to seven times more money on ERP implementation and associated services compared to the purchase of the software license (Scheer and Habermann, 2000). This means that the ERP projects are more costly, time consuming, difficult to implement, often resisted by the staff and requires heavy investment (Adam and O'Doherty, 2000). Yen (2002) identified many disadvantages of ERP which includes its high cost that prevents small businesses from setting up an ERP system, the privacy concern within an ERP system and lack of trained people to implement and maintain ERP efficiently.

Conclusion

On the basis of above discussion it can be said that the ERP can play a significant role in bringing efficiency and effectiveness in the working of the organization. The power of ICT can be used for the benefits of the organization. The CMAs' have to contribute in the implementation of ERP to make it successful and beneficial for organizations as they are involved in decision making activities. They are well aware about the needs of the organization and they should get the different modules modified according the needs of the company. The faulty implementation of ERP will cause heavy losses in terms of money as heavy investment is involved in ERP implementation. Further it may cause the wastage of time taken in implementation and also production can be held up due to faulty implementation. Hence, the ERP must be implemented after proper analysis of the needs of the organization. The resistance from the staff may be tackled by proper arrangement of training for them. A well planned implementation of ERP may bring drastic change in the organization. The productivity and profitability will increase and wastage will be minimized with the help of ERP.

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Announcement

The Institute's Convocation and the National Students' Convention will be held on Friday, the 22nd March 2013, at Science City Auditorium, Kolkata. This is for the information of all concerned.

CMAs Role in Activity Based Cost Management through ERP Modules

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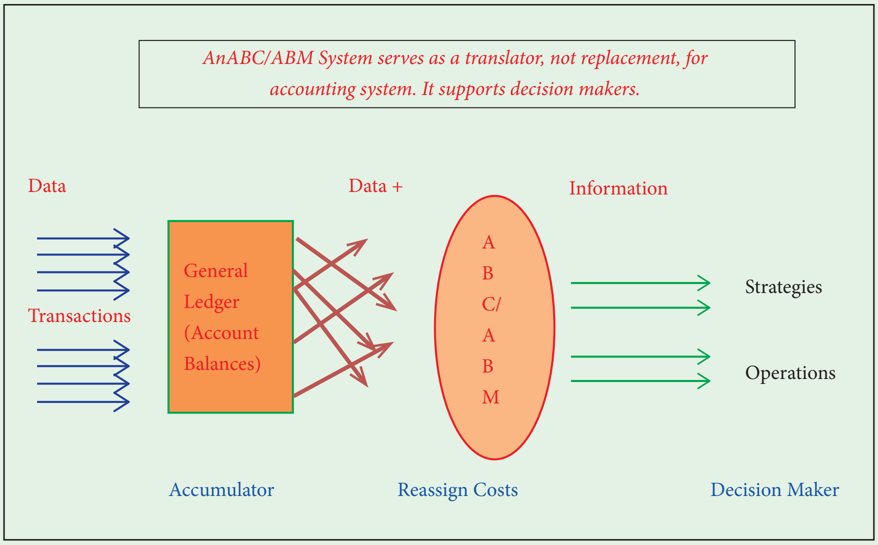
Introduction

Traditional Costing System takes into account though all costs into account while valuing the product or service but the overheads are allocated on products/services on an arbitrarily basis on volumetric measures such as the labour hours or machine hours, space, watts, or tonnage and any other basis as determined by an organization. The allocations assume convenient or arbitrary ways, and are certainly uncorrelated ways, to assign the cots. Further, Traditional Coting system is appropriate when the overhead costs are low in comparison to direct costs. In the present corporate competitive environment of information technology, liberalization and globalization, the product life cycle is shortening day by day. Due to this, rapid changes are occurring in the recent years; companies need to act more responsively to the market and customer demands and therefore required information system which enable them to survive in the highly competitive environment. Due to above reasons the overhead costs have increased manifold. So allocation of such costs to products in an arbitrary manner distorts the final cost of products or services and the organization would not be able to face the competition effectively. In view of this, it is difficult to answer the question – which of the products/ services or customers are profitable and which are not? Activity Based Costing (ABC) solves this problem by tracing major portion of overheads into direct costs through cost drivers. 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

Figure-1: **ABC Systemw**



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."

Further, the traditional costing system was developed in the age of manufacturing and basically uses to arrive at manufacturing cost of a product. However, over a time service sector also came into picture and it constitutes sizeable portion in GDP of India. The costing is now not restricted to only manufacturing sector but extended to service sector like education, telecommunication, hospital & healthcare, insurance, financial services, banking etc.

To tackle the cost information system in such a global competition era, the organizations need, ERP (Enterprise Resources Planning) for their operation and management. The ERP not only provide the cost information but also provides other modules such as Finance & Accounts Module, Sales & Marketing Module, Human Resources Module, and Manufacturing & Production Module. Its successful implementation may improve enterprise performance significantly.

Activity Based Costing

Activity-Based Costing[1] (ABC), a business practice was invented by Dr. Robert Kaplan of Harvard. In this system costs are collected and accounted activity-wise, so that return on investment and improvement effectiveness can be evaluated.

However, implementing ABC requires proper data structures and an adequate data collection and reporting systems (such as ERP) involving all employees in the activity. Recently Dr. Kaplan has simplified and modified ABC into Time-Driven ABC. As mentioned above, initially this system was popular among the manufacturing sector but over a time it is equally applicable in service sector due to advantages attached to this system. A number of research and studies reveal how the ABC system in the service sectors has effectively kept the operational cost at marginal level and still be able to provide better customer service at the same time.

Efficient allocation and use of scarce resources is a problem faced by any organization. In the recent competitive world there has been pressure on every organization to reduce their cost of operations while maintaining the quality. There are a significant number of services or products being provided by an organization using the same organizational support, administration, and overheads. This is a very similar situation to many multi-product manufacturers in the public or private sector and service sector.

According to Cooper (1990) Cooper and Kaplan (1991) the activities performed in an Organization can be classified into:

1. ***Unit-level activities***- A unit level activity is performed on each individual unit of product or service of the firm (e.g., direct materials)
2. ***Batch-level activities*** - A batch-level activity is performed for each batch or group of units of products or services (e.g., setting up machines or placing purchase orders)
3. ***Product-level activities***- A product-level activity supports the production of a specific product or service (e.g., engineering changes to modify parts for a product) support is needed to produce different types.
4. ***Facility-level activities***- A facility-level activity supports operations in general (e.g., property taxes and insurance) which are required for sustaining facilities.

Aggregating Activities

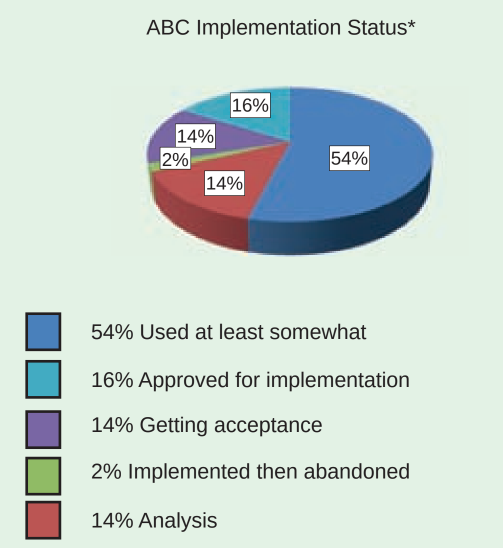
The number of actions performed is typically so vast that it is economically unfeasible to use a different cost driver for each action. Ordinarily therefore, many actions must be aggregated into each activity. A single driver is then used to trace the cost of activities to products treating collection of actions to measure and track the performance of individual actions. The actions are sometimes referred as micro-activities (Turney and Stratton 1992) quoted by Panda (1999). Unfortunately, as more and more actions are aggregated into activity, the ability of a cost driver to trace accurately the resources consumed by products decreases.

ABC Implementation Status

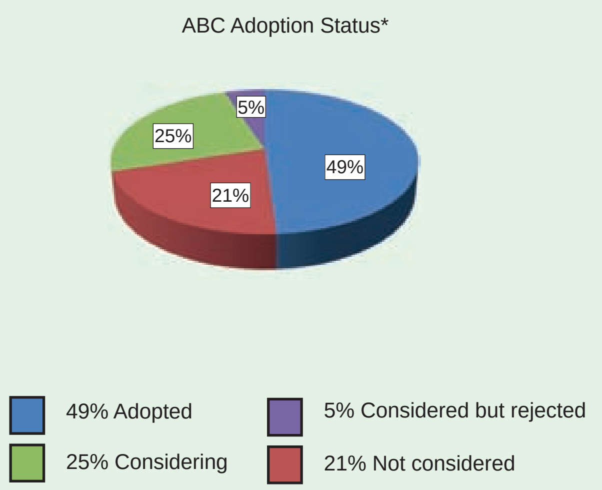
The Activity Based Costing (ABC) method has always been debated as to its use and value within a particular organization. After a survey conducted by the Cost Management Group of the Institute of Management Accountants (IMA) in 1996, Krumwiede was able to come to the following conclusions about ABC. Many of the companies that have implemented ABC found it more difficult to adopt than as first suggested. Additionally, more than half of the responding companies that have tried ABC (54%) stated that they were using it for decision making purposes outside their accounting function. Of the companies that actually use ABC, 89% of them said ABC was worth its implementation costs[2].

[1] *The activity-based costing, also acknowledged as ABC, is a modeling method of cost accounting, which provides a simplification of the accretion of costs from a plurality of types and instances. The tool is used in the cost of indirect service areas such as procurement, marketing, distribution and logistics and enables a stress-related distribution of these overheads.*

[2] *Adapted from the URL dated November, 2012 http://maaw.info/ArticleSummaries/ArtSumKrumwiede98.htm*



* Adapted from Krumwiede, Figure 2,p.33.



* Adapted from Krumwiede, Figure 1,p.32.

Source: Krumwiede, K. R. 1998. ABC: Why it's tried and how it succeeds. Management Accounting (April): 32-34, 36, 38.

Activity Based Cost Management (ABM)

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 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.

Activity, Resource and Cost Drivers

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

- An **activity** is a specific task or action of work done such as Production set-up, number of purchase orders etc. The activities may also be work performed by people, equipment, technologies or facilities. Activities comprises of all operational activities including management and support functions. Activities consist of sub-activities and processes and sub-processes.
- 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(s) which causes the incurrence of cost relating to that activity and helps to attribute the cost as accurate to the activity as far as possible. Cost drivers are the variables that can be used to explain the behavior of activity costs. They reflect the consumption of costs by activities and the consumption of activities by other activities, products, or services. **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.

Examples of cost drivers:

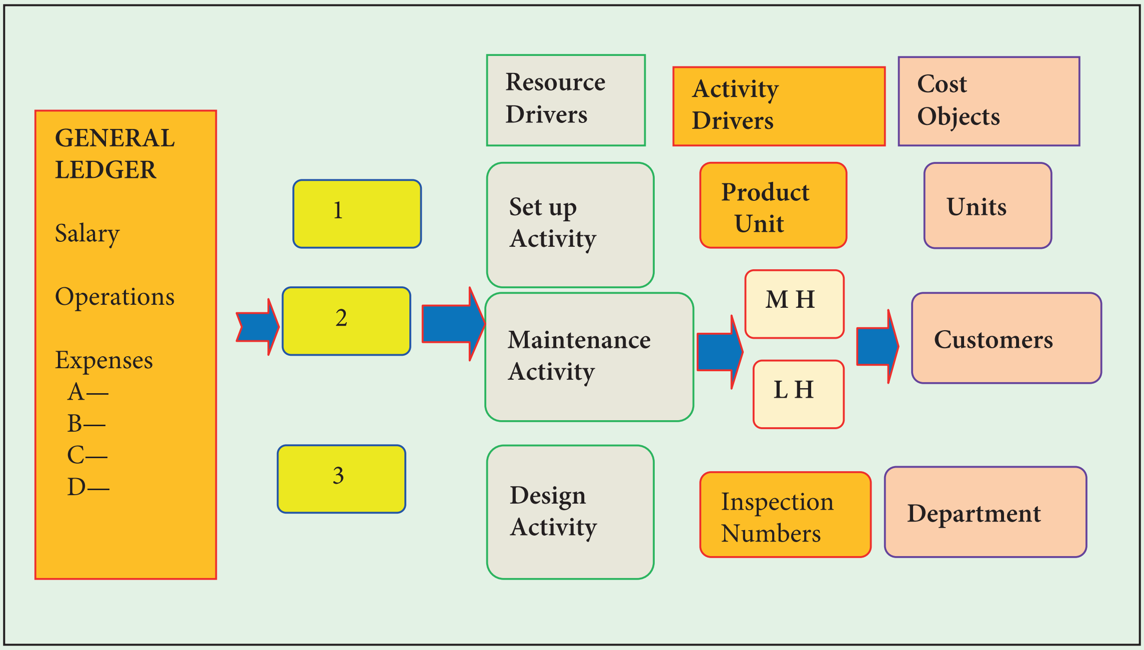
Activity / cost pool	Cost Driver
Production	Machine Hours
Warehousing	Floor Area Occupied
Material Handling	Material Weight (in kg.)
Marketing	Value of goods sold
Machine Depreciation	No. of Machine Hours
Depreciation on building	Floor area occupied by the machine or each Department
Rent Expenses	Area Occupied
Electricity Charges	No. Of units consumed
Travelling Expenses	No. of visits made
Order Processing Charges	No. of Orders
Packing & Shipping Expenses	No. of Shipments
Purchase	Number of Goods Receipt Notes
Manpower	Number of Employees in a department or time spent on a Work Station
Indirect Overheads	Similar way cost drivers for other indirect expenses can be identified.

In ABC system each individual activity is identified as a cost object. ABC system first calculates the cost of individual activities and then assigns these costs to cost objects such as products and services on the basis of the mix of activities needed to produce each product or service.

According to Cooper (1988a), Johnson and Kaplan (1987), ABC is a costing methodology used to trace overhead cost directly to cost objects, i.e. Products, processes, services or customers and help managers to make the right decision regarding product mix and competitive strategies. The ABC system is based on the premise that the products consume activities, activities consume resources and resource consumes cost (Kaplan 1984). The concept of ABC can be summarized as follows:

The concept of activity based costing can be explained by the following diagram:

Figure-2: **Concept of Activity Based Costing**



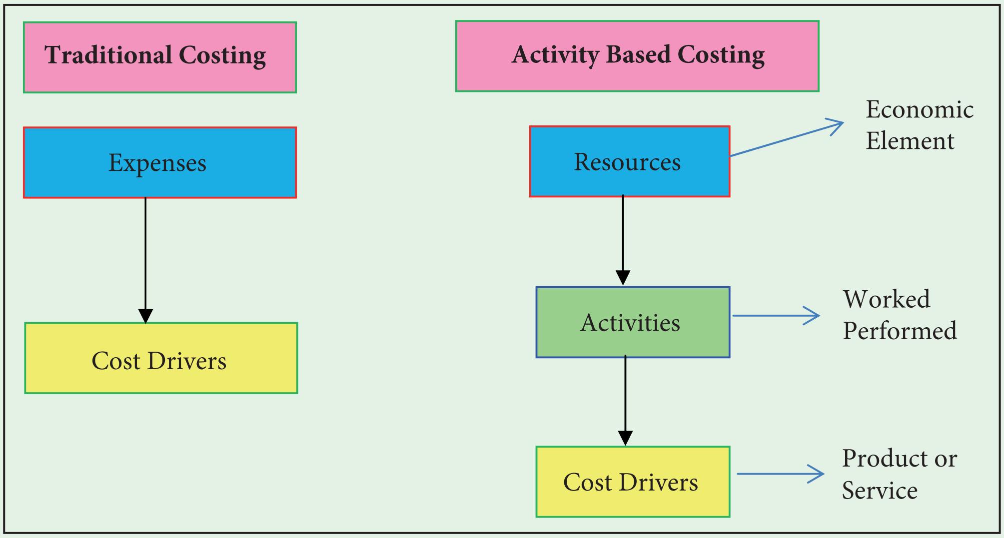
Note: MH = Machine Hours, LH = Labour Hours

Source: Adapted from Ms Lakshmi Deosthalee Study on Activity Based Costing in Ports

Costs to be allocated are traced to cost pools, preferably keeping variable costs and fixed costs in separate pools. Then costs are traced to products and services based on cost drivers that measure the causes of the costs of a particular activity. By using both unit based and non-unit based Activity Drivers, overheads could be more accurately traced to individual products or service activities mostly oriented to customers and products.

Activity Based Cost Management principles consider the following interrelated points:

- Resources drive activities
- Activities consume resources
- Cost objects (products/services) consume activities



Further, the Activity Based Costing vis-à-vis Traditional Costing can be understood by way of example below:

A Company manufactures two Products: A & B as per the following information:

Cost Element	Product A	Product B	Total
Material (Rs)	3,00,000	2,00,000	5,00,000
Labour (Rs)	54,000	36,000	90,000
Total Direct Cost	3,54,000	2,36,000	5,90,000
Total Overheads			2,50,000
Number of Labour Hours	5,400	3,600	9,000
Rate per Hour	10	10	10
Labour Hours consumed by each Product (%)	60%	40%	100%

Unit Cost of Product A & B as per Traditional Costing will be as follows:

Cost Element	Product A	Product B	Total
Material (Rs)	3,00,000	2,00,000	5,00,000
Labour (Rs)	54,000	36,000	90,000
Total Direct Cost	3,54,000	2,36,000	5,90,000
Apportionment of total Overheads in labour hours i.e. 60% and 40%	1,50,000	1,00,000	2,50,000
Total Cost	5,04,000	3,36,000	8,40,000
Number of Units Produced	50,000	25,000	
Cost Per Unit	10.08	13.44	

For applying the Activity Based Costing, the information in respect of activities and cost drivers is as follows:

Activities	Total Cost	Number/ %age for Product A	Number/ %age for Product B
Set Ups	50,000	5 Nos. (25%)	15 Nos. (75%)
Material Receipts	30,000	45%	55%
Inspections	60,000	35%	65%
Maintenance Requests	25,000	25 (50%)	25 (50%)
Common Overheads	85,000		

Cost Element	Product A	Product B	Total
Material (Rs)	3,00,000	2,00,000	5,00,000
Labour (Rs)	54,000	36,000	90,000
Set Ups (25%/75%)	12,500	37,500	50,000
Material Receipts (45%/55%)	13,500	16,500	30,000
Inspections (35%/65%)	21,000	39,000	60,000
Maintenance (50%/50%)	12,500	12,500	25,000
Common Overheads (60%/40%)	51,000	34,000	85,000
Total Cost of Products	4,64,500	3,75,500	8,40,000
Number of Units Produced	50,000	25,000	
Cost Per Unit	9.29	15.02	

From the above small example, it may be noted that the cost per unit as per Traditional Costing System and Activity Based Costing System, varied widely. Why it happens? We know that the Activity Based Costing identified the activities which consume resources directly, accordingly, portion of overheads left were common for all the activities and were allocated based on labour hours. The Organization may allocate the overheads based on some other suitable method as it considers fit for that organization.

Accurate cost information provides a competitive advantage. Activity Based Costing may help the organizations which are facing stiff competition, to develop and execute its strategies by providing accurate information about the cost of its products and services, customers, marketing & distribution.

Applying ABC to Service Sector Companies

As mentioned earlier that initially the Activity Based Costing (ABC) finds it place in manufacturing Sector but now Service Sector companies which are also facing stiff competition may find Activity Based Costing an impressive option to execute their strategies for decision making by use of accurate information relating to cost of services on individual basis and segment-wise. Manufacturing companies place the emphasis on valuing inventories but service sector companies do not have any inventory but have human resources to provide their services. Major portion of expenses in Service Sector companies are relating to salaries payment. The salaries which are directly related to any job or project are directly debited to that job or project but still sizeable overhead costs is left for apportionment. Further, in Technology advanced age when Internet and web based technologies have eliminated international boundaries for businesses and due to competition in domestic and international markets, managing the costs and revenue is a challenge before any organization while focusing on quality, economy and customer oriented approaches, Activity Based Costing may provide the best solution to service sector companies. ABC would provide the real cost of its services, would help in identifying inefficient or non-profitable segments of its services which eat into the profitability of other highly profitable service segments.

Costing system based on ABM would help service sector companies to understand the various activities, resources, cost drivers and value of services being provided by them. Activity Based Costing also helps to eliminate non- valued added activities that consume resources without accrual of any benefits to an organization.

Enterprise Resource Planning (ERP) System

Enterprise Resource Planning (ERP) systems integrate all the activities and functions of an Organization to standardize its data and streamline its business processes. Integration provides better control over the company's operations and make data exchange between cross functional activities possible. ERP system provides a variety of information. It is based on achieving information flow, logistics, capital flow, value flow and business flow of organic integration and increase customer satisfaction as the goal, to plan and control the main line to and information technology as a platform, set of customers, markets, sales, procurement, planning and business process reengineering and other functional modules as a whole, for the supply chain management business management methods.

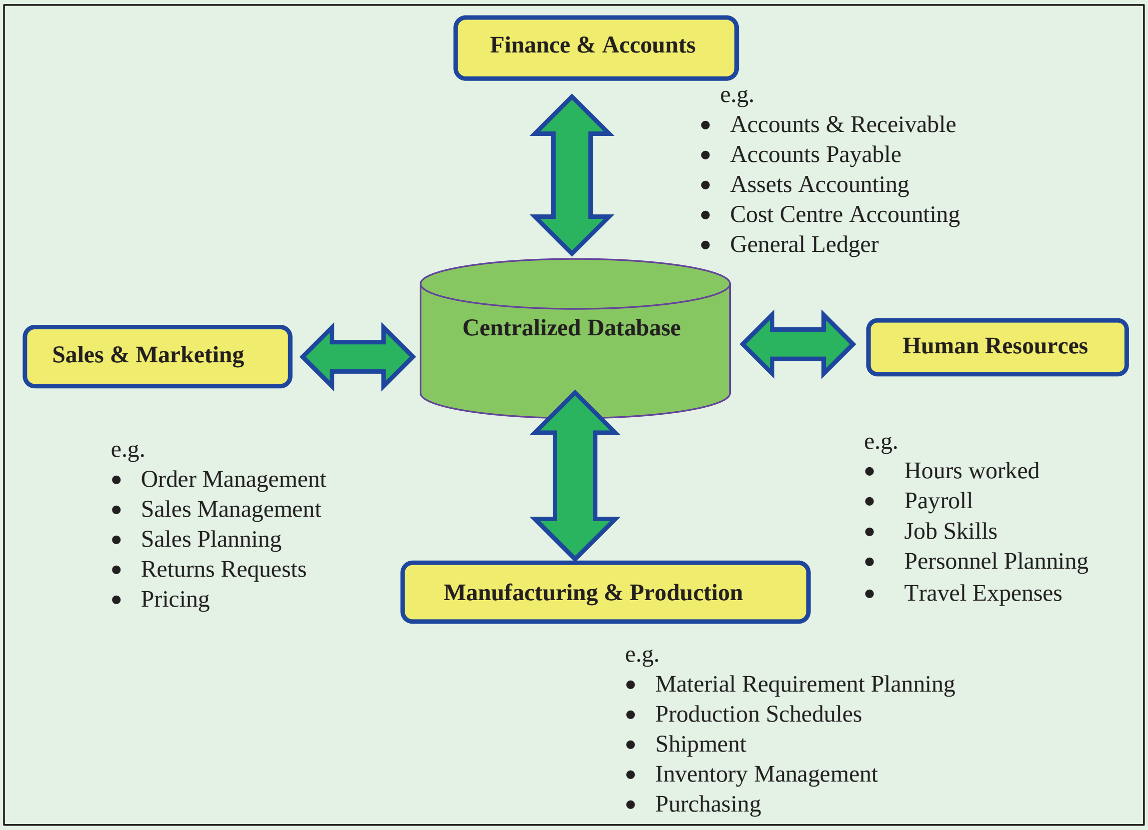
ERP modules used by companies

There are many ERP modules available in the market. Generally these ERP modules are as follows:

i. Finance & Accounts Module
ii. Sales & Marketing Module
iii. Human Resources Module
iv. Manufacturing & Production Module

Since the main objective of an ERP system is to integrate a company's operations by a common database shared by all functional areas, most ERP vendors[3] provide an ERP package that consists of numerous modules closely related to such functional areas. The Educational Institutes may get the modules installed and can implement some of the modules selectively according to its requirements. The above ERP Modules may be depicted as follows:

ERP MODULES



Source: Anatomy of an Enterprise System (Adapted from Laudon and Laudon (2006) and Davenport (1998)

[3] *Major vendors of ERP systems nowadays comprise SAP and Oracle, as well as a numeral of second- and third-tier vendors such as Infor, Lawson Software, IFS, QAD, Epicor, JD Edward, Peoplesoft, SSA, Ramco, BaaN, Consona, Sage, and Best. (Nonetheless Microsoft is much superior than all of these companies, its Dynamics line of ERP systems is in general intended at SMEs businesses.) Albeit a vendor consolidation trend has been in progress for at slightest five years, the number of vendors offering ERP systems at a standstill numbers in the dozens, particularly when intently focused, industry-specific tailor-made solutions are integrated.*

Combining ABC and ERP system will be effective and successful as ERP makes it possible to define the concept of work centre more widely. ABC software easily imports from ERP systems the extensive data on all transactions, which would make it possible to treat indirect resources in the same way as direct resources thereby yielding more accurate product/ service costs. ERP software calculates the product, customer, and regional or branch P&Ls quickly and inexpensively. The software based on ABC can import data from separate systems, viz. monthly general ledger, production scheduling system, customer order file, and can do the cost and profit calculations quickly. Accordingly, this will improve the cost information of the organization, which in turn will enable the organizations to compete with others while maintaining the quality of the services in timely and efficient manner. With the accurate cost and non-value added services, the managers can make the right decisions on sourcing materials, making substitutions, pricing products and services and streamlining operations and logistics.

Role of CMAs in implementation of ABC through ERP

The syllabus of *the Institute of Cost Accountants of India (Institute)* has been framed in accordance with the International Educational Guidelines (IEG) of IFAC which provides balanced and comprehensive knowledge which is evenly distributed among four knowledge pillars: Financial, Management, Strategy and Regulatory functions. The members of the Institute are known as CMAs. The success of each and every organization depends upon a skilled, dedicated and committed workforce. It also depends on the quality of information made available to the management. All such attributes are possessed by the CMAs. CMAs can work in any situation and suggest the right kind of costing systems. In some of the Companies CMAs are occupying the position of Chairman & Managing Director, Senior Government officials and Director (Finance), Board level position, Chief Financial Officer (CFO), Chief General Manager, Chief Internal Auditor, General Manager and other Senior positions. Cost Accountants in practice are also working as consultants in many areas including Techno-economic Study, Systems, Computerization, ERP consultants etc. In this article CMAs include CMAs in employment as well as Cost Accountants in Practice. CMA- in-charge may be Cost Accountant in practice also.

CMAs play the following role:

(i) Selection of Appropriate ERP Package

There are lot many ABC software having the almost same features available in the market to cater to requirement of the organization. But selection is to be made for ERP software which may provide the organization an ability to measure the performance, efficiency, quality, customer and product profitability & analysis, and can eliminate non- value added work. Further, the system should be capable to capture accurate costs for strategic decisions making on product lines, market segments and customer relationship. CMAs may assist the management in making such decision. CMAs may also help the management in evaluating the proposals received by the organization.

(ii) Decision which Processes/Departments need ERP System

Depending upon the size and resources available with the Organization, a decision by a company management is to be taken whether it needs full ERP integration or needs to cover only selected areas/ processes. The CMA may assist the management to take such decisions by attempting the cost benefit analysis through capital budgeting techniques. The company may initially opt for Finance & Accounts Module and HR Module or Manufacturing and Production Module.

(iii) Constitution a Committee for Implementation of ERP

A Committee is to be constituted by the management drawing the experienced officials from the Departments/ processes where ERP system is to be implemented. Since the Committee will be core committee, the representation on the Committee should be from the senior management executives comprising Heads of Department from Finance, Administration, IT and other functional areas where the ERP to be implemented and Senior representative from ERP Vendor. Depending upon the size of implementation, sub-committee(s) may also be formed by the Management.

Since this article is basically focusing on Activity Based Costing, the other ERP Modules are not discussed and the steps given below are related to Activity Based Costing/ Management only.

(iv) Identify Value-added and Non Value added Activities

CMA(s) should analyse the activities segregating them in value added and non-value added services since some of the activities add value to a product or service while some do not. Non-value added activities do not contribute to customer value or organization's need. This is defined as waste. Identification of waste is valuable to management and provides inputs for Management's improvement efforts, pricing, quality and performance.

(v) Identify resource costs and activities

The next step for CMAs is to assist the management to identify the resource costs and analyse the activities which are being performed by the organization and the way in which the activities consume resources and how these activities are measured so as to provide a tool to support business model rather looking as an improved cost accounting or overhead allocation tool. The CMA in-charge should assist ERP Vendor to understand the activities and resources to build in the ERP system. The activities and resources are to be studied from General Ledger/ Chart of Accounts to create cost pools. All expenses of like nature are clubbed together to form a specific cost pool. These are allocated to specific resources/facilities.

(vi) Determine the cost drivers for each activity and assign resource costs associated with each activity

Next step for CMAs is determining the cost drivers for each activity and tracing costs to cost objects to determine why the cost occurred based on ***cause and effect relationship***. ***Cause*** is the process or operation or activity and ***effect*** is the incurrence of cost. Then use resource consumption cost drivers based on cause-and-effect relationships, such as the number of labour hours, machine-hours, number of employees, setups, or square feet to assign resource costs. The CMA in-charge may discuss and fine-tuned cost drivers setting before giving it to ERP vendor for incorporating in ERP system. The assignment is made through either direct tracing or through estimation. The cost is to be defined as the direct and indirect costs that the organization may incur, and also a strategy for assigning these costs to the cost items.

(a) ***Direct Costs:*** Direct cost is that cost which can be traced directly to one output. Direct cost has three components - direct material cost, direct labour cost and direct expenses.

(b) ***Indirect* Cost**– Indirect costs means those costs which cannot be allocated to an individual output and is common some of the activities. The benefit of indirect costs is derived by two or more outputs, but not all outputs. Indirect cost has three components indirect material, indirect labour cost and indirect expenses.

(c) ***General Administration Costs–*** costs that cannot be associated with any product or service. These costs are known as Overhead costs. These costs are likely to remain unchanged at all levels of output. Example: General Administration Overheads, General Selling & Distribution Overheads etc. General Overheads include salaries, wages and benefits of administrative staff such as Finance, Accounts, Personnel & Administration including, security costs, depreciation etc.

(vii) Conduct tests and trial runs, evaluate results and debug

Testing and Trial runs should be conducted by the ERP vendor and CMA in-charge should make sure that the result produced by the ERP system matches with the manual working. If there is a difference then the ERP vendor should be informed and rectify the errors and debug the system. After rectification of errors by the ERP vendor, the result should again be evaluated. The process should be repeated till the ERP result matches with the manual result.

(viii) Arrange initial training

Success of any module depends on proper training to users. CMA in-charge has to facilitate the sufficient training to users for success of ERP module so designed and architected by the vendor the organization.

ABC may also be carried out by following standard ERP system. According to Cooper and Kaplan the requirements for operational control and ABC systems have fundamentally different purposes and a single integrated approach cannot be adequate for both of these. The combination of activity-based costing and ERP management system will not only improve the accuracy of cost calculation of various activities and resources, but also raise the enterprise management level, and enhance the competition power of enterprise in current economic environment.

Activity based costing can also be used for improving operations of the organization by managing activities that incur cost and for making effective decisions on various activities and resources.

In recent times software companies are strategically focusing towards an integrated ABC and ERP system. AG, a German based ERP vendor invested in ABC Technologies Company and strengthened it's know how in ABC (Shaw, 1998, p.56; McMillan, 1998). Many other ERP manufacturers have also applying ABC into their systems.

Numerous articles and cases of implementing ABC have been written. In these cases ABC systems has been created alongside existing ERP systems as a management system (Gunasekaran et al., 1999, pp.286-287).

Benefits from Activity Based Costing (ABC) through ERP

- It would provide the management accurate cost breakdown for their products and services;
- Identification of resources needed to manufacture a product or provision of services is one time exercise unless new resource emerges in future, which can be captured by ERP as when such need arises;
- It would provide accurate cost information and analyses to the organizations facing stiff competition;

- It would allow organizations to develop and execute their strategies for business excellence, for their products and services, customers, marketing & distribution;
- It would provide the opportunity to understand costs in better way to know what to correct and provide the opportunities for product improvement & reengineering which would improve & enhance organizational competitiveness;
- It supports strategic decision making by senior management;
- It helps the management to plan and budget more effectively in terms which are understandable and explainable;
- The system would be able to deliver pre-defined standard reports and support multi-view as well as multi-dimensional reporting with ability to provide these reports on multiple time horizons for example monthly, quarterly and yearly;
- Depending upon the capacity of computer server, it would make large volumes of data more manageable and understandable and would have the ability to filter, search, sort, and categorize the data.
- The companies operated from multi locations may integrate these locations through internet and these locations may be able to access the data/ information as per their requirements. Depending upon the ERP module the system may be able to support web-enabled report creation as well as distribution.
- It assists managers and staff to better understand their actions and decisions by focusing attention on those activities that help them achieve their goals, through a structured and methodical process. Common features in most of the activity based costing systems are ability to measure performance, efficiency, quality, customer and product profitability and elimination of non-value added work
- Booth and Giacobbe (1997) found that the major benefit that adopters of ABC received from the implementation of ABC were more precise profit analysis. More accurate costing is achieved by assigning overhead to activities in accordance with their consumption of the activities that cause costs (Johnson 1991, Drury 1992).

Limitation from Activity Based Costing

- ABC requires more resources to implement / maintain compared to other costing methods;
- Identifying cost drivers to cost objects is difficult preposition as found by Jayson (1994).
- Major change in culture, attitude and method of working is required;
- Adoption of ABC in planning requires significant resources and a very well-constructed model;
- With ABC, there is still a need for management judgment especially to decide on equitable cost allocation rules; and
- ABC may not be "accurate" in the financial accounting sense as the model is highly dependent on availability of accurate data.
- Though the activity-based cost system is superior to traditional costing system but they could fail due to poor implementation process (Ness and Cucuzza (1995), Player and Keys (1995) and Pattison & Arendt (1994).

Conclusion

From the above discussion, it may be concluded that the ABC system of any organization can be integrated with the ERP system to get the effective, efficient and timely results which include timely cost information which are very much needed to face stiff competition not only from local but on global basis. Further, it has been almost two decades since the first true ERP software entered the market. Since then, thousands of companies have implemented these ERP packages, to take the benefits with respect to well-organized transaction processing; equivalence and openness of data; better decision making; and lower IT support costs. ABC combined with ERP will provide the companies an edge over the other companies not following the either ABC or ERP systems. The companies would be more responsive to the market and customer demands and would be able to provide timely and quality services and its products at competitive price since the companies would be in a position to know the accurate cost of their products/ services to customers.

The management motivations for adoption of activity-based costing are significantly different between the manufacturing organizations and service sector who have adopted fully integrated activity based cost management with ERP. ERP and ABC have their own roles in modelling the organisation's functions. One thing is certain i.e. both these systems may improve the cost awareness of the management and in turn decision making. When costs of operations are known, management can develop its processes more efficiently to inform their decision making and strategic planning.

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Invitation for Articles/Technical Papers for National Cost Convention—2013

The 54th National Cost Convention of the Institute of Cost Accountants of India (ICAI) is being held at Gujarat University Convention and Exhibition Center, Ahmedabad during January 18-19, 2013 on the topic "India's Cost Competitiveness—Imperative for CMAs"

Articles/Technical papers are being invited from Members/Corporates/Industry Associations/Academicians/Academic Institutions on the following sub-topics for selection by the Technical Committee of the Institute for publication in the souvenir to be published during the National Cost Convention:

1. Cost Competitiveness – Key to Enterprise Survival and Growth
2. Building Enterprise Competitiveness through Enhancing Professional Skills set
3. Coping with the tardy growth of the Economy - Analyzing concern areas and the role of CMAs
4. Energizing Infrastructure- Strategic options and action agenda
5. Availability of Adequate Power - Sine qua non for Sustained Economic Development
6. Not everything is healthy in the Health Sector - Imperatives for CMAs

The articles/technical papers, accompanied by an abstract, not exceeding about 200 words with 5-6 key words, may kindly be e-mailed to ncc2013@icwai.org to reach on or before 31st December 2012

Demystifying ERP Implementation Failures

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1.0 Introduction

ERP implementations are by nature complex due to the time and cost involved. Business expects maximum benefits in terms of higher automation to reduce labour costs, more internal controls to minimize the risk of frauds, increase revenue by prompt customer service and reduce time –to- market to improve profitability. Every company starts with an objective for a successful implementation, however, in many cases, they were unable to reap the benefits fully and in some cases it even failed to take off. In a few worst instances, ERP implementation was counter productive with disastrous consequences leading to total business failure.

The implementation and maintenance of large-scale Enterprise Resource Planning (ERP) software can require a million-dollar investment. Yet many companies invest in an ERP system without adhering to the same disciplines applied to other business investments. Essential steps such as risk assessment, benefit analysis, performance objectives and cash flows are typically discarded. Huge amounts are spent based on assumptions that ERP system will magically transform a company into a paragon of efficiency. This misguided approach sets up a sequence of events that often leads to a failure of objectives. The resulting conclusion is that the ERP software was a bad investment decision.

1.1 Research findings

Panorama Consulting released a report in 2010, comparing gaps between customer expectations and actual results achieved on Enterprise Resource Planning (ERP) projects. The key research findings are

1. ERP implementations take longer time than expected
2. ERP implementations cost more than expected
3. Most of the ERP implementations under deliver business value
4. Companies do not effectively manage the organisational change.

Another report by a contributor to CIO.com reveals that Enterprise Resource Planning projects have only a 7% chance of coming in on time, under budget, and providing satisfying results. Meaning the other 93% are failures or challenged.

Consistent with patterns established through long-term analysis on ERP failure, new research and statistics confirm that ERP failure is more often implementation project failure rather than ERP system failure. In other words, it's not that the system and software don't work, it's that the project failed to properly select, install and implement the system. That's a key distinction.

My experience as an ERP consultant involved in large scale implementations in india and abroad taught me lot of lessons which are crucial for successful ERP implementations, pitfalls in failed implementations.

In this article, I demystify ERP failures with a different approach i.e rather than analyzing reasons for success.. avoid pitfalls and learn lessons from failed implementations. The article addresses the following areas.

1. Past ERP failure examples
2. Why ERP implementations fail- Reasons. Whom to blame ?
3. Indian scenario … why ERP fails ?
4. Quantitative approach to measure the business value ERP project delivers.
5. Understand the Critical Success factors
6. CMA's role in successful implementation

2.0 Famous ERP failures

You come across several success stories of ERP implementations, but they are short lived. ERP success cannot be measured with short term results alone. It needs a long term approach. You will hardly find any ERP vendor accepting a failure .In an marketing event, ERP vendors showcase only successful case studies on the subject.

It is equally important to focus on failed implementations and analyse reasons for their failure. Immense case studies are available about ERP implementations, their success stories, lessons learnt from failures. I have listed some notorious ERP failures along with reasons for failure in Table-1.

Table 1: List of major ERP implementation failures reported and their analysis

Sr No	Company	ERP	Issue / Problem after ERP implementation	Reason for failure
1	Nike	I2	Operational issues. $100 million in lost sales, a 20 percent stock dip and a collection of class-action lawsuits.	Integration issues and faulty supply chain design. Wrong selection of ERP
2	Hewlett Packard	SAP	Centralization of its disparate North American ERP systems onto one SAP system. The project eventually cost HP $160 million in order backlogs and lost revenue—more than five times the project's estimated cost.	Wrong scope planning and implementation with big bang approach rather than phased approach.
3	University of Massachusetts		More than 27,000 students at the University of Massachusetts & Stanford and Indiana University were forced to do battle with buggy portals and ERP applications that left them at best unable to find their classes and at worst unable to collect their financial aid checks	Integration issues and wrong selection of ERP
4	Waste management company	SAP	Waste Management filed suit and claimed SAP executives participated in a fraudulent sales scheme that resulted in the massive failure.	Wrong selection of ERP
5	UK Govt's NHS		The project was "not fit to provide the modern IT services that the NHS needs."	Wrong scope management. Trying to Impose a centralized solution onto just an enormous geographic and political base..
6	**New York City's CityTime project**		wracked by cost overruns, alleged kickback scheme involving former employees of systems integrator SAIC and a subcontractor, TechnoDyne.	Organisational internal control failures and mismanagement
7	**Ingram Micro'**	SAP	significant dent in its first-quarter profits	Operational issues and later , the SAP project's issues had been largely resolved.
8	**Montclair State University**	Peoplesoft	vendor had completely botched a PeopleSoft project that was supposed to replace the school's aging legacy systems.	Mistrust between ERP vendor and Business
9	ParknPool	Epicor	Nothing seemed to go right once the contract was signed, according to ParknPool. they couldn't even look at a profit-and-loss statement. They couldn't process orders.	Project team 's misunderstanding / wrong mapping of business processes
10	**Marin County**	SAP	Engaged in a pattern of racketeering activity. Implementation partner (Deloitte) did not implement correctly	Mistrust between Business and Partner.
11	Whaley Foodservice	Epicor	The project's implementation topped $1 million, or more than five times the original estimate of $190,000	Improper selection of ERP and cost estimation
12	Idaho state auditor 's report	Unisys	Design defects and other issues led to many payment delays and faulty processing of claims, according to the auditor. The state ended up spending more than $100 million in advance payments to providers while figuring out the problems	ERP technology issues

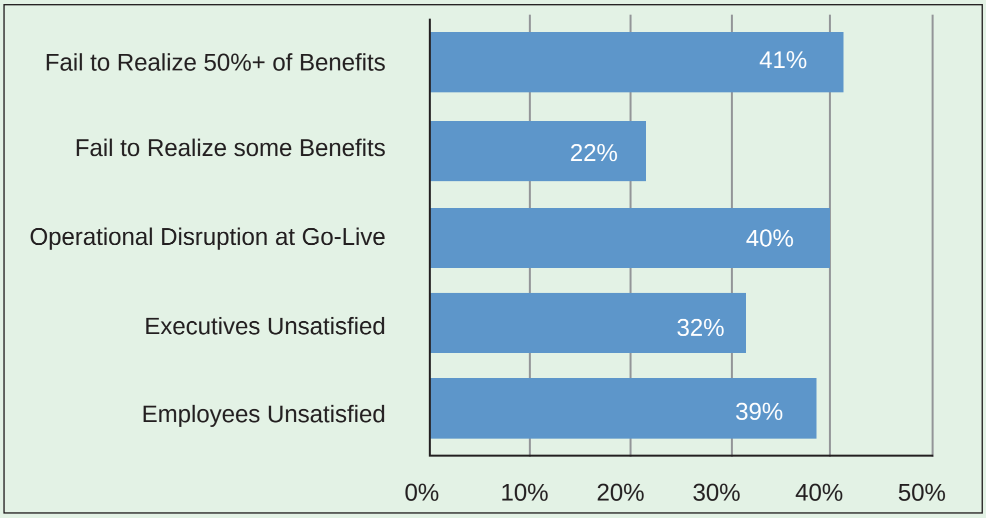
13	CareSource Management Group	Lawson group	ERP system from the company hadn't been able to get beyond the testing phase and wasn't the fully integrated suite Lawson promised	Integration issues with the ERP software and improper planning and testing
14	Nova Scotia	SAP	After the Victorian Order of Nurses flipped the switch on the SAP system in January, some nurses got shortchanged while others got double their expected pay	Inexperienced consultants and weak testing
15	Lumber Liquidators	SAP	The Company estimates that reduced productivity resulted in approximately $12 million to $14 million in unrealized net sales during the third quarter. reductions in warehousing and merchandising productivity reduced productivity in store and warehouse operations,	Poor / in adequate staff training
16	Select comfort	SAP	Serious shareholder pressure to end the $20-million-plus project that was "indicative of extremely poor judgment by management" (charged one shareholder's SEC filing), Select Comfort put the project on hold.	Improper cost and scope management
17	NCC group		Began implementation in January 2012, but in May, NCC announced its decision to suspend the project and revert to its previous software.	Wrong selection of ERP
18	Dorset County in the UK	SAP	Some workers claimed a job which previously only took a minute was now taking an hour. The system still has to shut down a few days each month to allow data to be processed	Wrong mapping of Business processes and Non involvement of users during implementation and less focus on training
19	Ferazzoli Imports of New England	Epicor	Epicor's system never worked as intended or promised. Initially paid: US$184,443.61. To date: US$224,656.42 (included the additional software and services meant to make the system operate properly).	Wrong mapping of Business processes
20	City of San Diego	SAP	The city of San Diego, CA terminated its software implementation contract with services provider, Axon, citing "systematically deficient project management practices" and a project that was running $11 million over budget	Inexperienced project management
21	Public Health Foundation Enterprises	Lawson Software	Failed ERP implementation	Inexperienced implementation Project team
22	Levi Strauss	SAP	The company was forced to take shipping systems at its three massive US distribution centers off line for a full week only to lose business and customer orders.	problem on integration of "legacy systems".
23	City of Portland	SAP	Portland's SAP project, budgeted at $31 million in 2006 for a 2007 go-live date, is now estimated to be nearly $50 million.	Inexperienced Implementation partner. Portland is working directly with SAP services to get the system up and running.
24	Cleveland State University	Peoplesoft	A faulty installation of the company's ERP applications. The lawsuit charges PeopleSoft with breach of contract and negligent misrepresentation, among other counts, and claims PeopleSoft's solutions for managing student applications amounted to little more than "vaporware."	Wrong selection of ERP

25	Dexter Axle Company	Baan USA Inc	Dexter asserted twelve claims: breach of the Software Agreement and the Consulting Agreement, two claims of breach of express warranties, breach of implied warranties, fraudulent inducement of the Software Agreement and the Consulting Agreement, fraud, negligence, constructive fraud, statutory deception, and unjust enrichment	Wrong selection of ERP
26	British Sky Broadcasting	EDS	Sky has alleged that EDS dishonestly exaggerated its abilities and resources when bidding for the contract, resulting in late delivery of the project and lost benefits that make up the the £709m in damages it is claiming	Wrong selection of ERP
27	FoxMeyer Corp	SAP	The company claimed that a botched SAP R/3 implementation in the mid-1990s ruined the company, driven the company to bankruptcy.	Wrong selection of ERP. In experienced consulting team
28	Tri Valley Growers	Oracle	Alleging fraud, negligent misrepresentation, malpractice, and breach of contract. TVG claimed that the database giant failed to fulfill its contract to modernize the company's production and management systems using its ERP applications	Wrong selection of ERP
29	Evans Industries Inc.	J.D. Edwards	Alleged that OneWorld was "defective and failed to operate and function as promised by the defendants." Failed and refused to fulfill its obligations under its agreements" and with IBM failed to install the OneWorld software "such that it is operational.	Wrong selection of ERP & in experienced consulting team
30	Hershey's	SAP	supply chain has ground to a halt. Business process and systems issues caused operational paralysis	Improper System testing. Reduced project time lines. Big bang approach. Mistakes in cutover data. Later upgraded to mySAP successfully.

2.1 Reasons for ERP failures

According to a survey carried out by Panorama consulting in 2010, 41% of companies surveyed fail to realize at least half of the business benefits they expected from their ERP systems, and 22% of implementations fail to deliver at least some measurable business benefits from their ERP solutions. In addition, over one in three companies surveyed (40%) realized major operational disruptions after implementation go-live, such as the inability to ship products or to close the books. Figure-3 below is a graphical representation of the results

Figure 3: **ERP results to realise expected business benefits**



The study also reports that 57% of ERP implementations take longer than expected . This challenge is partly attributed to unrealistic expectations regarding timeframes and/or ignorance of key project activities in the implementation planning processes. If implementation lasts too long, it is like a child growing up, the decisions made at the beginning are no longer applicable. Figure 4 below depicts the cost and time over-run

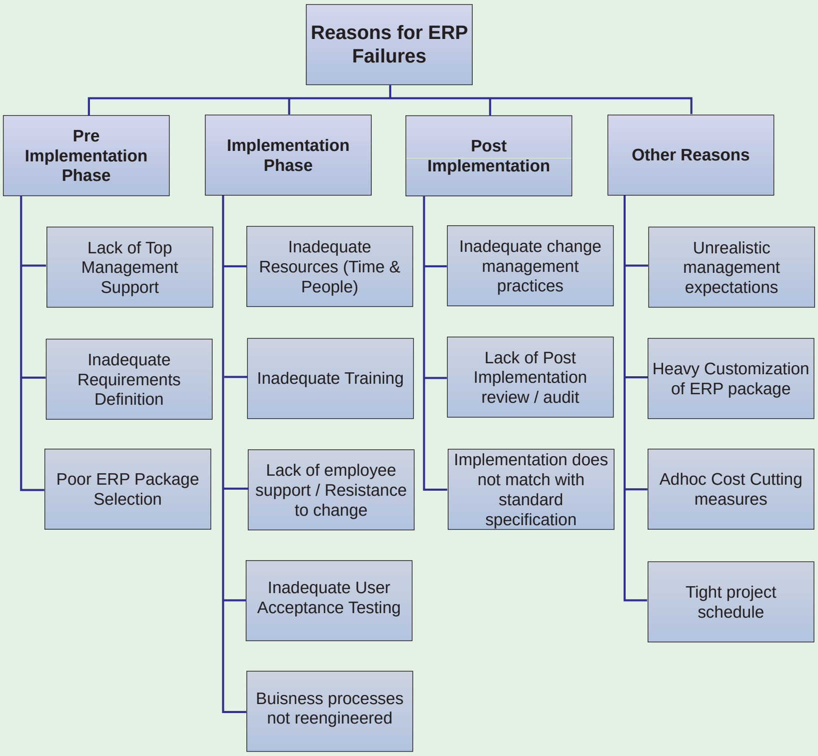
Above study also points out that in 54% of ERP implementations go over budget. Figure 4 graphically represents the picture. The finding is attributed to the fact that many organizations in the study failed to identify and budget implementation costs such as project management, organizational change management, hardware upgrades etc.

Figure 4: **ERP results with reference to Time and cost over run**

METRIC	AVERAGE
Take Longer Than Expected	57%
Implementation Duration	18.4 months
Total Implementation Cost (S)	S6.2M
Total Implementation Cost (% of Revenue)	6.9%
Total Implementation Cost Exceeds Budget	54%

The figure-5 below depicts various common reasons for failures at different phase in the ERP implementation.

Figure 5: **Reasons for ERP failures**



3.0 ERP failures & Indian context

Apart from the above factors, India has few specific reasons for ERP failures. In India, ERP implementations fail mainly due to complicated legal & tax requirements and their frequent changes . For example, the direct and indirect tax laws, the tax structure, rules , procedures , forms make the process of mapping to ERP software more complex. Frequent changes to these laws make the process more complicated. Therefore, it is easy to implement ERP for companies situated in countries with no taxes (Eg : Gulf countries) or countries with less complex tax structure .

Another major reason is that Indian companies prefer short term gains to long term prospects. Due to the over-cost conscious approach, ERP is implemented with few modules. For example, a MNC manufacturing company decided to use SAP controlling module alone without implementing Production module. This defeats the purpose of the project. When they realize the ERP is not giving sufficient returns, they blame the ERP . Actually it is their failure to fully utilize the ERP functionality. ERP implementation is a business project and implementation should be carried out taking into consideration the best features of the ERP. For example, SAP is well known for its integration across several modules. If SAP is implemented with only FI/CO module, without support from other logistics components (Materials, Sales, Production for example), the project is bound to fail. Instead of choosing SAP, the company should have saved huge amounts by using Tally or some other packaged software specialized in Finance.

Also, due to lower margins in Indian market, Implementation partner companies may not deploy skilled and experienced professionals in the project. This will affect the project delivery quality badly.

4.0 How to prevent Failures?

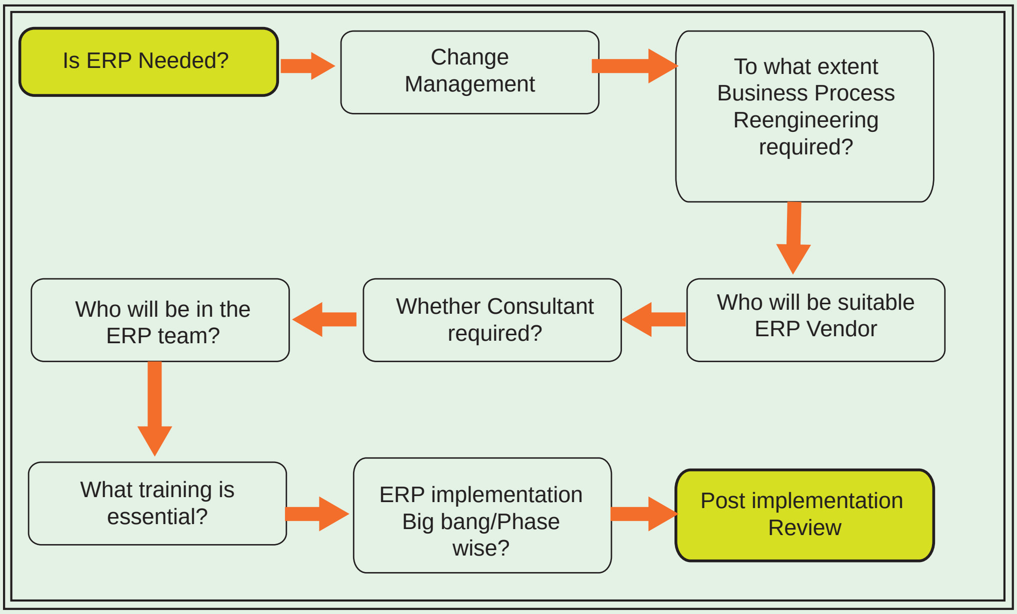
An overwhelming number of ERP system failures are caused by lack of attention to the critical management issues. Even the "right" software will fail under similar circumstances. Blaming or changing your ERP system is simply a way to divert attention from the execution mistakes made as a result of human – rather than technology – error.

To rescue a failing ERP project, start by taking corrective action. Before throwing out your current system , evaluate what steps were followed (or not followed) to bring you to your present situation. Use the key points in this article to make sure you understand why the system is failing. And be prepared to do whatever it takes to reverse the current course of action.

Companies regularly use ERP systems to improve competitive advantages; raise customer service levels; increase productivity and plant utilization; and reduce inventories. With the right implementation strategy, yours can too.

Figure 6 below depicts the conceptual model for ERP implementation and crucial decisions to be made in ERP implementation life cycle.

Figure 6: **Conceptual model for ERP implementation approach and key decisions**



Having understood the major reasons for failure of ERP implementations, I tried to build a quantitative model to detect the success of the ERP implementation in terms of delivering business value.

4.1 Quantitative approach to measure the business value ERP project delivers

1. Identify all the major modules applicable for the implementation
2. Identify the processes applicable for each module (Table-2)
3. Classify the processes into 3 categories as Critical, Sub-Critical , Non-Critical (Table-2)
4. Monitor the % of business processes agreed , tested and trained for each category (Table-3)
5. Ensure that at the end of the project, the bench mark % is met (Table -3)

Table 2: Illustrative list of major modules , its processes and classification

Module	Processes Examples	Category (Critical / Sub-Critical , Non-Critical)
Marketing and sales	1. Credit check 2. Pre sales management 3. Sales order management 4. Rebate processing	
Customer Relations management	1. Customer order processing 2. Customer interaction through Net	
Purchase	1. Purchase orders approval 2. Incoming Inventory quality check 3. Invoice verification	
Production management	1. Material requirement planning 2. Capacity planning	
Finance and controlling	1. Payment to vendors 2. Audit trial 3. Product costing 4. Profitability analysis	

Table 3: Quantification of the % of processes delivered , tested and trained

Modules		Critical	Sub-Critical	Non critical
Marketing and sales	Total processes			
	Processes delivered tested & trained %			
Customer Relations management	Total processes			
	Processes delivered tested & trained %			
Purchase	Total processes			
	Processes delivered tested & trained %			
Production management	Total processes			
	Processes delivered tested & trained %			
Finance and controlling	Total processes			
	Processes delivered tested & trained %			
	Bench mark %	100%	90-100 %	80-90 %

4.2 Critical Success factors

According to a study published in Journal of Industrial engineering and Management, based on the literature review certain issues and factors leading to successful ERP implementation have been identified .On the basis of frequency of citations made by authors in ERP implementation issues in context to small scale enterprises of similar developing countries like India 25 issues have been identified. Some of the prominent issues and its % of contribution were given in the below table

Table 4: Issues identified for ERP success during a study.

Issues mentioned in the literature	% contribution of each issue
Education & training	13.82%
Top management support	12.76%
Properly defined goals & objectives	11.70%
Competent project team	11.70%
Project management	10.63%
Change management	10.63%
Proper package selection	5.31%
Effective communication	3.19%

Based on the above discussion and analysis, I have listed the critical success factors (under 3 categories i.e Strategic,Tactical and Operational) for a successful ERP project.

4.2.1 Strategic factors

a) **Top management support:** The commitment from top management is one of the most crucial issues in successful implementation of ERP. The approval of the project must be received from top management. The primary responsibility of top management is to provide financial support and adequate resource that would lead to successful implementation of the system

b) Properly defined Project deliverables and objectives: Goals should be measurable and objective should be in line with industry best practice for the implementation process. The organization must carefully define what the need of such system is and find out what are the crucial business process the system will address.

The business should be able to realise the maximum business benefits. The suggested approach outlined in 4.1 above ensures that the critical business processes are listed, monitored and are realised (if they exceed the bench mark %) before project go live.

Business should be clear about what is feasible & achievable in ERP and should set the expectations clearly. They should freeze the scope of ERP project and adhere to it. In my experience, clients frequently change the scope, adversely affecting the project prospects. Some clients unreasonably insist to map all business processes projected for the next 15-20 years. Due to this , the short and medium term focus is completely lost. Advanced components such as CRM, SCM, SEM etc should be deployed only after stabilisation of ERP software.

c) Proper selection of ERP software: Existence of many ERP's (SAP, Oracle, BaaN, etc) in the market make the decision more complex as each ERP has its advantages and disadvantages. Some ERP's are suitable for large enterprises, whereas some are suitable for small and medium scale businesses. The pros and cons of each ERP software should be weighed very carefully.

Prefer ERP's which support multi-languages, multi-currency, multi-countries , scalable for future expansion and adaptable to changing business requirements. Number of interfaces with the ERP should be kept minimum, so that the integration benefit of ERP is fully taken care of. Less customization (maximum 30%) to ERP is the key to success.

In case of complicated legal requirements, business can choose to employ a specialised 3rd party software. For example, in USA, Vertex is a specialised software for taxation. In India, OptiSuite is a SAP certified add-on product, to meet Country-India specific functionalities and statutory documentations not handled in SAP. OptiSuite comprises of ten modules, namely Imports, Exports, Excise, Forms Tracking, Insurance, VAT, EOU, ProActivate, EFM and IFM.

4.2.2 Tactical Factors

a) The Project Team : Choose the implementation team (from both business and consulting partner) with sufficient experience and expertise in the respective field preferably in a related industry. Ensure that the same implementation team continues throughout project. It is a good idea to evaluate the project team for their technical and business skills before inducting them in the ERP project.

b) Best Business Practices: ERP packages are tailored to suit a particular industry segment. So choose the software best suited for your business. For example, SAP is best suited for manufacturing companies whereas for Banks & insurance verticals it may not.

Leading ERP vendors (Ex:SAP) have introduced best industry practices after careful study of the business processes across various countries. It is advisable to adopt the best practices (country wise) as they are already time tested and used by many similar businesses successfully. This reduces the need for heavy customisation and adoption of the industry best practices. That's why ERP projects also call for Business process restructuring (BPR). I suggest to restrict the customisation to 20-30% depending upon business requirements.

c) Implementation Budget: Allocate sufficient budget for the implementation, software cost, implementation, training etc. A fixed price project is a better option compared to Time & material. Make the Implementation partner accountable for adhering to the budget. Cost overruns in many projects are mainly due to the scope change. As mentioned in 4.2.1 (b) above, stick to the scope initially freezed.

d) Project Schedule: Slippages in project schedule are mainly due to the Major scope changes and rework due to poor testing. Allow employees to cope up with the change to ERP. Factor enough time forany major contingencies. Monitor the project cost and duration against initial project plan.

4.2.3 Operational factors

a) Dedicated Core team: The business should have a 100 % dedicated Core team for each module separately to interact with the Implementation team , so that the team can understand business requirements and the core team can focus on knowledge transfer and training. Core team plays a crucial role in understanding ERP for fitment to their business, knowledge transfer from consulting partner to the business and training end users. Retain core team in the business till ERP is stabilized.

b) Training and Education: It plays a major role as the team has to finally run the business in the new ERP system and implementation team leaves the project after Go-Live and warranty period. Keep the training documents and end user manuals ready. End users find it difficult to cope up with the changes without these documents. I have experienced that end user training & documentation are usually given lesser importance.

c) Thorough testing of the ERP system: Various testing of the scenarios (Unit, Integration, scenario) need to be carried out with proper test scripts both by the business and the implementation partner with real life situations for processes identified as per table 2.

d) Pilot go live: It is a good idea to try a pilot go live in the Quality system with the real data at least for 1-2 weeks before Go live. Ensure that the end users try the critical transactions in the pilot system with actual data. This brings out most of the master data and data conversion issues and deficiencies in training, if any, well before the go live. Resolution of these issue will give comfort to the business that Go live will be successful.

5.1 CMA'S Role

CMA's as specialists in Financial, Cost & Management accounting with strategic focus on performance Management can steer ERP projects towards success. They can act a subject matter expert to the Project team members who will help Functional consultants team to understand the client's requirements more clearly. CMA's with their industry specific knowledge ((Eg : Oil & Gas, Aviation, Construction etc) can help bring in Industry best practices to the project thereby increasing project ROI.

For example, In SAP ERP, Controlling being a complicated module, CMA's are well equipped to interact with top management to address their specific reporting and internal control needs such as planning and budgeting. SAP's Controlling module components viz Overhead Management (CO-OM), Product costing (CO-PC) and Profitability Analysis (CO-PA) are best suited for CMA professionals than any other professional.

From the business perspective, CMA's can help in effective project cost management by avoiding cost over-runs. CMA's in-depth expertise related to Production, costing, finance processes can help business realise the benefits intended. Post-implementation, CMA's can be employed as System auditors to evaluate ERP project's success.

It is therefore highly advisable to employ a CMA both from business perspective and implementation partner for the project to be successful. Implementation partners and businesses can use the CMA's services at various stages of the ERP implementation from the selection of ERP till ERP deployment and stabilisation.

6.0 Conclusion

ERP failures are by nature not technology failures. It is either a business failure to understand ERP or implementation partner's failure to understand client's Business processes. Business has to carefully select ERP software, plan implementation carefully, implement with right mix of business processes, manage the change and improvements thereafter. CMA's role is crucial to bridge the knowledge gap between the business & the implementation partner by improving the effectiveness of ERP projects. CMA's with their industry specific knowledge & project cost management skills can act as a catalyst by maximising business benefits and improve Project ROI.

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ERP System: The New Challenge for Management Accountants

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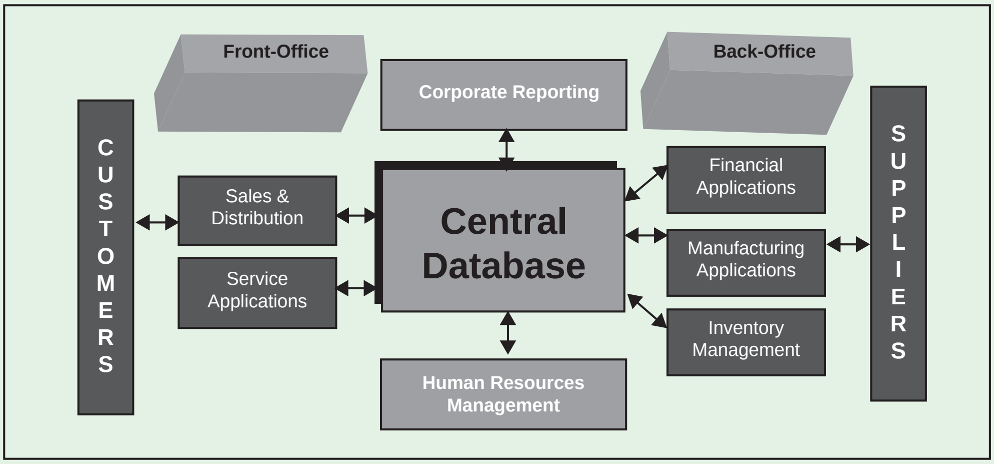
1. Introduction

In a rapid changing world of business environment the corporate sectors seek to revitalize, reinvent and resize in an effort to position themselves for success in the corresponding business field. The ability to respond to new customer needs and seize market opportunities as and when they arise is crucial. Corporations whether public or private, manufacturing or non-manufacturing (service), tend to look for the total solution. Enterprises are constantly trying to readjusting themselves to the changing needs whether in relation to areas of quality or of market, customer satisfaction, profitability or performance. With the unprecedented growth of the concept of globalisation, enterprises are subjected to accept and adopt the global outlook and led to unprecedented growth of information and communication technology accordingly. In order to survive in the ever changing business environment where the life cycle of the product is limited, global competition is huge, enterprises are forced to readjust their business policies, strategies and information systems as well as cope up with the customer's needs, changing along with it. Markets today are flexible, quality driven; cost effective and the survival of the enterprises depends on the ability to compete in these dimensions of the market. To day the entire enterprise must be managed within a more global, tightly integrated, closed-loop solution. This expanded functionality may be called Enterprise Resource Planning. "ERP comprises of a commercial software package that promises the seamless integration of all the information flowing through the company–financial, accounting, human resources, supply chain and customer information" (Davenport, 1998). "Enterprise Resource Planning (ERP) systems are software packages composed of several modules, such as human resources, sales, finance and production, providing cross organization integration of data through embedded business processes. These software packages can be customized to cater for the specific needs of an organization." (Esteves and Pastor, 2001). As per the words of the American Production and Inventory Control Society (2001) ERP is visualized as "a method for the effective planning and controlling of all the resources needed to take, make, ship and account for customer orders in a manufacturing, distribution or service company."

Fig 1: **An Overview of ERP System**



Source: "The Evolution of ERP Systems: A Historical Perspective" Rashid, Hossain, Ptrick

2. Evolution of ERP

The evolution of ERP came through a long journey way back in 1960's. The traditional ERP system packages have come up with the help packages for inventory control mechanism. These earlier day's packages were all non-integrated and hence less effective. The stage of automation was the beginning to realize the concept of ERP. However, in 1960's, organisations started to develop and implement centralized computing system where the major portion was devoted to automating the inventory control system. Gradually the need was felt to integrate various segments of the enterprise under one umbrella. Manufacturing concerns at the very early phase realized the utility of automation and hence they have been using computers for the activities like production, sales or distribution since 1970's. It was the ERP which gradually developed, improvised and transformed from a mere inventory control package to Material Resource Planning (MRP) and Manufacturing Resource Planning (MRP II). During 1980's the concept of MRP II was developed with the idea of optimizing the manufacturing process by contemporizing the various materials related with the production units. As compared to MRP, MRP II was comprehensively included the various areas of management such as distribution, project, finance, human resource and engineering. A major purpose of MRPII is to integrate primary functions (i.e. production, marketing and finance) and other functions such as personnel, engineering and purchasing into the planning process to improve the efficiency of the manufacturing enterprise (Chen, 2001; Chung and Snyder, 2000; Mabert et al., 2001).

While MRP and MRP II packages primarily emphasized the requirements of manufacturing set up ERP (introduced/developed in 1990's) focused the information requirements for the entire enterprise. Following up the MRP II, ERP system integrates the finance, accounts, distribution, manufacturing, business process re-engineering, project management,

Fig 2: **Evolution of ERP**

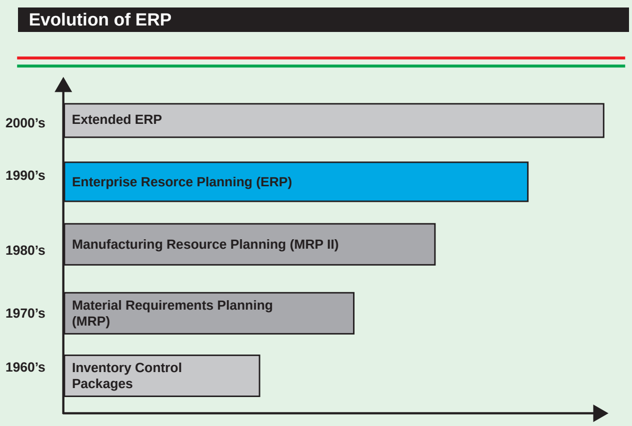
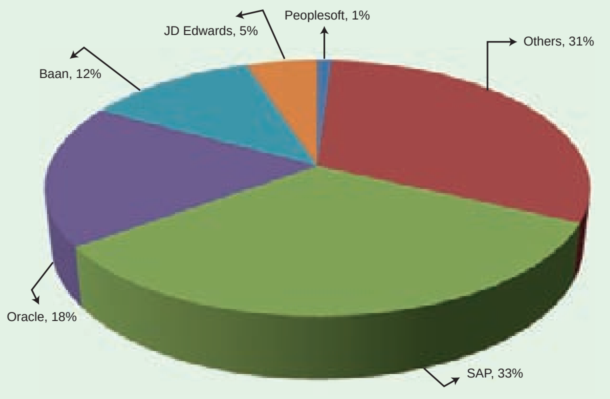


Fig 3: **Overview of the Market Share of ERP Packages**



Source: Shehab, Sharp, Supramaniam, Spedding (2004) "Enterprise resource planning- An Integrative review" Business Process Management Journal Vol. 10 No. 4, 2004 pp. 359-386

transportation, inventory management, service and maintenance and also provides the accessibility all over the enterprise. The stress of ERP is not merely to address the current requirement of the enterprise but also to provide the opportunity for rigorous improvements and business refining process. ERP reached its maturity stage in the mid 1990s. The transformation from the mere concept of inventory control mechanism to '*front/back office*' and in recent years the extended ERP has broadened its scope to the entire value chain of an enterprise. Being promoted by The Baan Company the extended ERP sought to develop and implement tools to facilitate the rapid, flexible enterprise-wise software that can provide ERP solution with minimum consultancy. At present most of the ERP systems are using the Client-Server solution model and business engineering blueprint. SAP solution model R/3 is a client-server solution model. These technologies in general have allowed the users to architect the system in such a way that installation, customization and extensions are possible in shorter timeframes (Rao, 2000). The present days different popular software uses of ERP technology is shown in the following diagram

3. ERP Implementation Methodology

Implementing an ERP for any organization will bring about cost advantage and therefore a company can just relax after implementing such system. The system requires close monitoring or observation methodology in order to obtain the maximum benefits or competitive advantage out of its uses. In order to gain the maximum gain implementation methodology should be perfect. The methodology in short is depicted as follows:

Identification of the Need

The very first step of implementation of ERP is to identify the requirements or reasons and whether introduction of it will generate additional profit in the business. Therefore, the first condition comes in the mind is the profitability. The next to follow is the cost-time effective, i.e, whether this will reduce the delivery time or cost of the product.

Evaluation of Existing Business

The secondary step is to evaluate the existing business infrastructure/process thoroughly in order to get a clear picture whether the software packages like ERP can be installed and accommodated within the existing resources of the organization. Various business functions such as procurements, sales, distributions etc must be illustrated and Process Map should be prepared. Process Map will deliver the information about the number of departments and their locations, number of decision points, time required to complete a business process, number of reporting points etc.

Fixing the Desired Target and Re-Engineering the Business

This step requires the business to be well acquainted with the desired areas which it wishes to achieve. Generally the desired target is compared with the industry standards and encompasses the areas such as cost, lead time, quality etc. Other areas to look out is to match up the existing business process with the newly accommodated business process and if there is any mismatch between them re-engineering of the business is laid down fill up the gap of the same.

Evaluation of ERP Packages

ERP software packages is be evaluated under different terms, such as, the global as well as local market acceptance, whether further improvements or updates are available in future, adoptability in the targeted areas of operations, price, cost and ease of implementation and post implementation support. Continuous improvements in the R&D areas of the packages are one of such a crucial condition since the business world as well as its operations is always subject to change.

Selection and Installation of the ERP Packages:

After going through all the above mentioned criteria ERP package is selected and finalized for implementation. A matrix may be created between the business-functioning/process areas vis-à-vis the ERP package features. The package which is fit best for the required criteria is selected. Before installation of ERP package one must keep in mind that the required hardware and network must have been installed properly in order to avoid delays in implementation.

Finally Implementation of ERP Packages

At the final stage ERP package is implemented after certified by the Consultant who has adequate industry-specific work experience. However, the key factors in this stage are (1) Selecting the Implementation Team Members (2) Set Up Implementation Plan (3) Business-Process Mapping (4) Customizing the System (5) Upload Data from the Existing Source (6) Run the Test (7) System Configuration (8) Train the Professionals (9) Running the Existing and New System Simultaneously (10) Preparation of Documents (11) Monitoring the System and (12) Post-implementation Follow Up.

However, it is worth mentioning that the above mentioned steps can only provide a mere guideline for implementation of ERP. The steps may differ as per industry-specific requirements. For example, ERP implementation methodology for a manufacturing concern may differ from the methodology adopted in Software or IT industry since IT industry projects are highly integrated and technology oriented. Therefore, choosing the correct implementation methodology for ERP solution quite often determines the real gain out of it.

4. Case Study: Colgate-Palmolive Co.

Colgate-Palmolive Co. with its US $9 billion global consumer has a very powerful strategic advantage so far as financial success is concerned. The company's business consists of and expanded over five regional divisions, namely, South America, Asia-Pacific, North America, Europe and South Africa. The company's operation is spread over 200 countries and on an average of 70% (approx) sales comes from the foreign market. It has 37000 employee 80% of which are the people working outside the U.S.A. the company implemented SAP R/3 system in 1993 which had assisted in providing cost advantage by reducing its finished inventory by 50% and cutting order receipt-to-delivery time for its 50 top customers from 12 days to five. The rapid change in the global manufacturing and distribution model had necessitated the company to cope up with the same. Ed Toben, VP, Global Information Technology says, "Our manufacturing and distribution model is changing. We're doing more regional and even global manufacturing. What was very important to us is the integration". The use of Advanced Planning and Optimizer (APO) enhanced the company's profitability as well as strategic advantage over the Supply Chain Management (SCM). John Giroux, Colgate's Director of Global IT Strategic Planning, says "The capabilities of SAP APO are critical to enabling Colgate to take the next logical steps in enhancing global supply chain performance." "SAP APO delivers solutions on three key fronts: We gain visibility to global logistics data, optimize our operations through use of advanced mathematical planning functions, and provide a platform for collaboration with customers and partners. By making use of SAP APO, our worldwide operations are truly progressing toward excellence in supply chain planning" he added. Colgate identified three major supply chain strategies to achieve the company's goals:

1. Roll out a vendor-managed inventory (VMI) program with key accounts to drive significant channel inventory and cycle time improvements;
2. Implement Cross-Border Sourcing (CBS), a global planning initiative to enable Colgate to move from a regional to a global sourcing model, thereby driving forecast improvements and safety stock reductions, enabling consolidation of assets, and taking advantage of economies of scale on a worldwide basis;
3. Implement collaborative planning, thus enabling development of a closed-loop process to manage promotional demand and synchronize activities throughout the supply chain (www.sap.com)

Colgate-Palmolive has implemented APO's supply network planning, transportation load builder, forecasting, and vendor-managed inventory (VMI) modules on a limited basis. The supply network planning system, for example, is installed at a Kansas City, Mo., plant that makes soap, while the VMI software, which lets Colgate-Palmolive manage its inventory at customer sites, has been installed in about a dozen Kmart Corp. distribution facilities. Colgate-Palmolive intends to implement these modules in all of its North American manufacturing and distribution facilities and to have the VMI software installed in nearly 70 customer facilities, which account for half of the company's sales volume (Whiting, R, 1999). The company realized that the outcome of the use of the ERP packages resulted in the financial gain and hence went for further development with a healthy digit growth rate.

5. Case Study: Essar Steel

Essar Group is one of the largest business power houses in India with the accumulated asset base of more than US $ 5 billion invested in core industries like Steel, Shipping, Finance, Telecommunication, Oil and Gas and Power. It started its journey in Iron & Steel industry by setting up a plant Essar Gujarat, in the Gujarat region near Rajasthan, latter renamed as Essar Steel Ltd, to produce Hot Briquette Iron (HBI). The company took the opportunity of liberal Indian economy in 1991 and begun to expand its operation. The company now produces high quality steel using the best ingredients and therefore necessitating the crucial product mix. Dr P Bhattacharya, Chief Operations Officer, says: "We deal with complex products, sizes, 10 grades. The wrong slab in the wrong furnace could create havoc. We needed a system to manage all this. We also had to track everything from raw material to production and finally its shipment. The transportation by road of say, 250 tonnes of steel a day, is dependent on a powerful information system". Essar implemented SAP R/3 with an investment of Rs. 20 crore and it has also made agreements with SAP for 1000 user license. Since Essar Steel production was not integrated and highly dependent on finance it was need to implement such ERP packages for the success in the long run. Anil Kastuar, C.I.O. Steel Business explains, "It was not linked to Production Planning, Materials Management or Sales & Distribution Management. This is not an era when decisions can be taken based on stand alone solutions. They must be based on inputs from other business areas. We needed a solution and we looked at SAP R/3, which fulfilled our objective". Essar Steel also implemented a Payroll/administration and management system (PAMS) which is also linked with SAP. With such an ERP implementation Essar had been able to reduce its lead time for delivery and procurement of material and products and therefore cutting down the inventory carrying cost. Any transactions that took place in the Essar Steel is quickly and immediately updated in the books of accounts and that had ensued the transparency and accuracy of data at almost 100 percent.

6. Role of CMAs

It is understandable that the use of ERP technology will definitely provide any the enterprise a competitive advantage in the market and the cutting edge software packages ensure the transparency and accuracy in data uploading or updating for the transactions that take place in different functional or operation areas of the business process. The successful ERP implementations lead to reduce lead time in delivery vis-à-vis client's query and therefore profiting the business. Since ERP packages offer some distinct features and organisations across the globe are adopting the technology management accountants must be well equipped with the use of such system. The role of CMAs in the enterprise to day has become much more significant since ERP packages tend to lower the cost of the product or services. There are several tools, for example, in SAP R/3, included that can be very helpful for the management accountants while making decisions. A brief description of it is given below:

1. Overhead Cost Controlling:

Overhead cost includes summation of all indirect costs that are not directly attributable to the production or service. Organisations often find significant rise in these costs. With the use of overhead cost controlling mechanism management accountants can be able to observe and monitor the allocation of these costs in different parts of the business process.

2. Cost Center Accounting (CCA):

CCA analyses the overhead costs incurred in different cost center of the enterprise. Costs that are associated or attributable to particular cost center or sub-areas are assigned. SAP R/3 provides a wide range of methods in allocating the costs and if a manager the costs involved in particular cost center or department he can get an instant answer.

3. Internal Orders (IO):

This module offers the comparison mechanism in between the budgeted costs and the actual costs that are incurred for a particular project or plant and the manager may follow up and bring in control if necessary.

4. Product Cost Controlling (CO-PC):

This module (CO-PC) was developed in order to identify the costs arising out manufacturing of a product or service such as estimated commercial cost, tax cost, expected costs, standard costs etc. This information will be very helpful in warehouse stock control, production planning and control, revenue measurement and also for capital budgeting decisions.

5. Activity Based Costing (CO-OM-ABC):

Since the need for monitoring device has become one of the prime necessity for any project to be successful Activity Based Costing emerges. SAP R/3 automatically identifies the use of business processes based on different cost drivers such as customers, products and others areas and also integrate them in accounting system.

6. Profit Center Accounting (CO-PCA):

This module determines how to assign planned and actual revenues, costs and selected balance sheet account balances to areas of profit and/or investment responsibility within an organization. The module is flexible in determining profit centers, which may be associated with any geographical regions, business operations, or product groups.

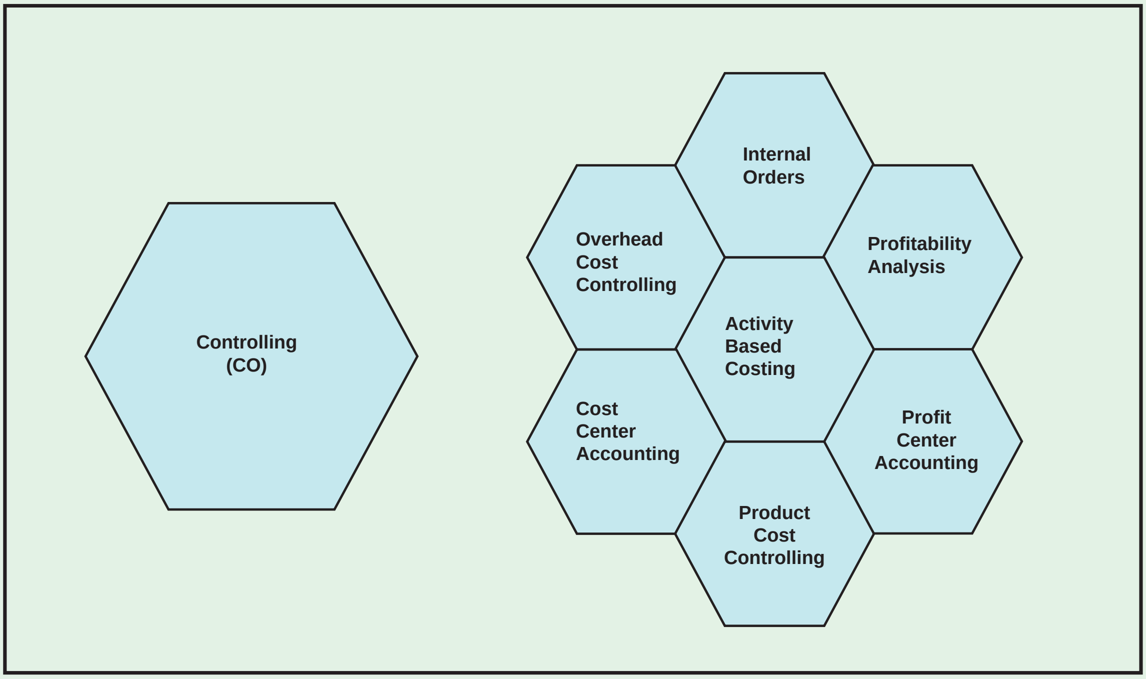
7. Profitability Analysis (CO-PA):

This module examines the sources or revenues or returns. This is the last stage of sales control in cost-based settlement where according to the different market segments revenues are matched with the costs assigned. The wide variety of market segments includes customers, sales people, sales groups, sales territory etc. Revenues generated and actual or panned costs associated with these segments are analysed to make future decisions.

The significant change in the adoption of technology by the enterprise and growing complexity in day to day operations of business process compelled the management accountants to understand their new role and how they can comply with. Attention is being given more on analysis rather than spending time in collection of data. The new role for CMAs in the ERP environment envisages the following aspects:

1. ERP helped the management accountants to spent less time in data collection and lot in data analysis;
2. ERP enables the CMAs in capital budgeting decisions and therefore their role as a decision maker had been enhanced;
3. With the implementation of ERP CMAs now can devote their time in forward looking analysis rather than spending time on historical report. ERP system

Fig 4: **Tools for Management Accountants in SAP R/3**



can easily track down any historical information from the past records and therefore time and money can be saved and CMAs need not to involve doing that kind of task.

4. Effective use of ERP system will provide cost control and measurements pertaining to different activity of the enterprise. CMAs can therefore quickly make their internal reports and can spend a lot of time in the external environment analysis.
5. Cross-functional analysis of data can now be effectively done by CMAs since ERP provides updated data for all the transactions that take place in different segments of the business process.

7. Conclusion

The use ERP software packages are growing in the international as well as domestic market. The utility of the package like SAP (mostly used world over) is well understood across the globe. However, one must remember that effective utilization of the package will ensure better productivity while resistance to change will make the concern less productive. Therefore, in order to sustain the maximum benefit the first thing required is to understand and define the business model and identifying various segments that drive the same. Most of the ERP packages are equipped with flow chart of various processes (viz. SAP uses Event-Driven-Process-Chain- EPC). If the business model is accurate then all tasks, events, users etc can easily be integrated and comparison with the desired target can be quickly made. Management accountants must understand the model and using Cost-Control module they can monitor and, if necessary, can provide checks on the operation of some activities generating losses. To be able to cope up and get acquainted with the newly implemented system management accountants must be well versed about its use and operation and they must literate themselves as and when up-gradation of the software takes place. Grabski, Leech and Sangster, in their research in CIMA about the impact of ERP system on the work of the management accountants added that "The more active the role played by the management accountants, the higher the level of perceived success for the ERP implementation. This was consistent across all organisations visited. If the management accountants were actively involved in the ERP implementation from the beginning, and acted as a change agent, the system was a success. If the management accountants had resisted the changes, the new system would still have been successful but to a lesser degree" (Grabski, Leech and Sangster, 2008).

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Role of Cost & Management Accountant in ERP

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In any organization, the core competence of the Finance Department depends on the effectiveness of Financial Accountancy and Management Accountancy information. In contrast to financial accountancy information, management accountancy information is primarily forward looking with an objective of decision making, instead of historical facts and figures. It is confidential, mainly used by managers and not by shareholders, creditors and public regulators. The activities of Cost and Management Accountants include development of new product costing, operations research, business driver matrices, sales management score carding, product profitability analysis apart from reporting to organisation's finance departments. Thus it has dual accountability to both finance and business team.

To take care of the complex methodology of management accounting, organizations developed stand-alone PC based systems or Oracle based system with limited connectivity with manual intervention at different stages. The manual intervention hindered any real time analysis which is a must for effective decision making. At this junction, Enterprise Resource Planning (ERP) came as a tool in the hands of management accountants. ERP system integrates internal and external management information across the entire organisation, encompassing all the functions like production, materials management, finance, sales and service etc. ERP systems automate this activity with an integrated software application. For any organization, the ultimate objective is to maximize shareholders wealth. In line of this, ERP facilitates the flow of information between all internal business functions and manage the connection to outside stakeholders.

The main characteristics of ERP system is that it is an integrated system operating in real time basis supported by a common database. In case of Direct Integration System, the connectivity is with Shop Floor equipment . The Shop Floor System deposits the necessary information into the database. The ERP system reads the information where the connectivity is supported by the system integrator.

ERP was made 'Go-live' in Durgapur Steel Plant with effect from 01.10.2009. As an integrated Steel plant, DSP has several functions like production, Finance, purchase, stores, maintenance, sales etc. Under the production departments there are several shops like Raw material Handling Complex, Coke Ovens, Sinter plant, Blast Furnaces, Steel Melting Shops, Bloom Caster, billet Caster, Ingot Route and Rolling mills of different products where each shop is basically a factory having complex operations. Each shop has a operation, mechanical maintenance, electrical maintenance section having separate activities. While operation is mainly a process, maintenance activities are job based. Besides these production shops, there are service department like central maintenance, power plant, oxygen plant, water management, rail traffic, Plant garage, Energy management, Foundry, Refractories, Quality control. Air conditioning Department etc. The supporting departments like finance, purchase and Stores deals with the transactions related to activities of different shops. ERP was implemented integrating all the activities of the production, maintenance, service and overhead departments.

The benefit of ERP was significant in the following areas:

i. Real time Budgetary Control : Shop-wise budget was fixed at the beginning of the year . At any point of time, balance budget department-wise, item-group-wise is available in the system thus facilitating fund centre budgetary control. Purchase order status, dues-in-quantity, consumption details are readily available. Any blockage of capital in shop-floor stock, stores and spares stock, excess consumption for a particular item for a particular shop or activity can be ascertained. Business intelligence reports give an idea of monthwise, itemwise, shopwise consumption which acts as a very effective tool in the hands of Management Accountant.

ii. Cost of a product: The cost of a particular manufactured item can be ascertained in PQD level (product, quality and dimension level). This becomes very helpful in not only for pricing mechanism but also in decision making in selection of production plan among a variety of saleable products to maximize contribution. It has also the feature of breaking down cost into elementary items upto the raw material level so that cost control becomes easier. E.g. In case of a steel bar, not only the specific consumption of billet (input item for bar) is available, but also the specific consumption of coal (category-wise), limestone, iron ore fines, iron ore lumps, ferro-alloys, scrap etc are obtained along with respective prices at a click of a mouse. Cost thus exhibited has also the feature of variable or fixed by which management decisions can be taken easily. Similarly, the details of cost components of an activity can also be ascertained.

Thus, ERP can greatly improve the quality and efficiency of a business. Management accounting in the ERP environment improves the internal efficiency which gives the organization competitive advantage. It has an eco-friendly nature in a way that instead of generating paper, the real-time information is at the computer desk-top. The huge quantity of data ERP can handle and store reduces the manpower requirement of any organization. Any activity entered into the system automatically generates corresponding journal vouchers in the financial system and thus reduces the financial accounting job. ERP makes the company more flexible and less rigidly structured in an effort to allow the different parts of an organization to become more cohesive, in turn, enhancing the business both internally and externally. It is the job of Management Accountants to utilise the potential of this modern system for the benefit of the organisation and to further develop the subject of Management Accountancy in the new automated platform of ERP.

Obituary

The Institute deeply mourns the sudden demise of CMA Radhanath Mishra who passed away on 30th October 2012 at 3.00 P.M at the age of 83 at his residence at Cuttack. He was the first Cost Accountant in Odisha and has also qualified as a Cost & Management Accountant from ICMA, London. He was the Founder Member of the Cuttack-Bhubaneswar Chapter of Cost Accountants and was associated with various developmental activities of the Chapter and profession. We extend our heartfelt condolence to CMA Radhanath Mishra 's family and friends.

May his soul rest in eternal peace.

'Give and Take' Policy: Conflicts of Consistency in CENVAT Credit Rules

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The CENVAT Credit Rules represent an important arena of tax Law in the Central Excise and Service Tax Systems. The Rules cover certain Customs Duties also and hence the Cenvat credit symbolizes a confluence of Customs, Excise and Service Taxation. The CENVAT Credit System is at the heart of the Value Added Tax philosophy which is the underpinning of the Central Excise Duty and the Service Tax. Given the importance of these Rules and the tax credits which they govern, it is surprising that such a significant area of Tax policy is conspicuous by its absence in the Central Excise Act as well as the Finance Act, 1994. This is no small lapse in the law. How Parliament has allowed this to happen and persist for a quarter century and more is not easy to explain. Compare this sorry state of affairs with what the States have done with reference to VAT law. Every state Vat Law has ensured that the input tax credit principles are embedded in the Acts and only small procedures are left to the opaque vagaries of the subordinate rules. The omission of Tax policy relating to the grant of Tax Credits in the Union Indirect Tax Acts has always remained a cause of concern. The Cenvat credit regime unguided by an Act of parliament leaves too much room for executive discretion and fosters by default an attitude of administrative inconsistency and has unwittingly contributed to judicial confusion of its interpretation. Another result is that since the CENVAT Credit System is to be found only in CENVAT Credit Rules, which is a measure of subordinate legislation as distinguished from an Act of Parliament, there has been this inexorable confusion and uncertainty among tax scholars and judicial forums alike as to whether the CENVAT Credit Rules as it stands implicated by their nomenclature represent a 'substantive' law or a 'procedural law'. The resolution of this interpretative uncertainty has been a pressing need given the fact that interpretative principles relating to substantive law and procedural law are altogether different. To compound the above confusion, the CENVAT Credit Rules bristle with inconsistency and prolixity in its manifold provisions. Measures relating to basic credit policy and their procedural requirements are found jumbled even in the same paragraphs. Thus, separating the Mandatory Provisions from the Directive Provisions in the CENVAT Credit Rules has never been a pleasant exercise right from 1986 when the Rules were first introduced. In this Article, we will look at some of its provisions that conflict with each other as well as other inconsistencies making reform of CENVAT Credit Rules a matter of urgent priority of the first order in the Union Indirect taxation in the coming budget for 2013-14.

1. Providing for input service tax credit in one provision and effectively denying the same in another provision

Rule 2(l) of CENVAT Credit Rules defines an Input Service which will be eligible for CENVAT Credit. The relevant part of the Statutory Definition is extracted as follows:-

1. "Input service" means any service,-
   i. used by a provider of taxable service for providing an output service; or
   ii. used by a manufacturer, whether directly or indirectly, in or in relation to the manufacture of final products and clearance of final products upto the place of removal.

and includes **services used in relation to modernization, renovation or repairs of a factory, premises** of providers of output service or an office relating to such factory or premises, advertisement or sales promotion, market research, storage upto the place of removal, procurement of inputs, accounting, auditing, financing, recruitment and quality control, coaching and training, computer networking, credit rating, share registry, security, business exhibition, legal services, inward transportation of inputs or capital goods and outward transportation upto the place of removal; but excludes services.- …… .

As can be seen from the above definition, the provision clearly permits CENVAT Credit of service tax paid on any Service in relation to modernization, renovation or repairs of *inter alia* of the premises of the Service Provider or a manufacturer. The main part of the definition, vide Rule 2(l)(i) also permits CENVAT Credit on any input credit used by a Service Provider. It is similarly broad for a manufacturer too. It has been a settled proposition that such input services may pertain to any office or premises of the Service Provider or the manufacturer. This liberal provision for CENVAT Credit representing Input Services that may be received, say at an office of the Service Provider (or the office relating to the factory of a manufacturer) which may be a branch of the said Service Provider or a registered office or an administrative office of the same person, has been curtailed by a newly introduced provision in the same Rules providing for the manner of distribution of Credit by an input service distributor. The input service distributor is somewhat similar to a first stage dealer or a second stage dealer in Central Excise credit passing system. Unlike such dealers, the input service distributor can only distribute Service Tax Credits among the different branches / units of the same Company. When the input services are received and billed at an office or unit other than a registered factory or the registered tax office of a service provider and when such input services are used for providing the taxable service or used in relation to the manufacture of excisable products, the input service distributor mechanism has to be followed for availing the tax credits involved.

Rule 7, which governs this mechanism, was transformed with effect from 1.4.2012. Prior to its change, the procedure was a veritable business facilitator. The Registered Service Providers receiving input services at their offices and branches located away from their main tax registered office could, by obtaining registration as input service distributors, distribute the Credits to their tax-paying units in any proportion as they wished, subject only to the twin conditions that the cumulative credit so distributed should not exceed the actual amount of tax and that credit should not be distributed to a unit exclusively engaged in providing exempted services or products. The input service distributor facility was also applicable to manufacturers covering all their premises including the factory, whether registered or otherwise. The replaced Rule 7 now provides that in addition to the above two conditions, the distribution of Credits should only be in proportion to the turnover of each unit transferred and ***that credit of Service Tax attributable to Service used wholly in a unit shall be distributed only to that unit***. The unwelcome implication of this new provision is that Credit of Service Tax attributable to, say, a Corporate Office or a Marketing Office or even a Depot which are obviously not in the nature of tax-paying units will not be available for distribution to any other tax-paying branch/unit of the manufacturer or the Service Provider. Thus, this new Rule 7 clearly scuttles the availment of CENVAT Credit granted under the above noted provisions of Rule 2(l). This conflict between Rule 7 and Rule 2 is bound to lead to litigation. This is a way of raising revenue for the department. The less the tax credit, the less is its share in tax payment and consequently the tax revenues increase in outgo.

2. Newly introduced restrictions on certain input services, such as insurance and travel

The amended Rule 2(l) excludes specifically the following Services:-

(C) ***such as those provided in relation to outdoor catering, beauty treatment, health services, cosmetic and plastic surgery, membership of a club, health and fitness centre, life insurance, health insurance and travel benefits extended to employees on vacation such as Leave or Home Travel Concession, when such services are used primarily for personal use or consumption of any employee.***

It can be seen from the slew of restrictions that what it outlawed are a range of input services related to the personal use or consumption of an employee and the examples given in the list of restriction are obviously in the nature of personal benefits extended by enlightened managements. However, the restrictions do not extend to the provision of business travel and business food. The Services of transportation bringing employees to the Company premises and back and of providing food to business visitors are clearly not in the restricted list. Despite the legal position, the field formations of the Department continue to deny CENVAT Credit of the service tax paid on business travel and business food. This requires executive clarification in favor of the tax payers.

3. Refund of cenvat credit of unutilized reverse service tax

The Government introduced reverse tax liability in respect of nearly a dozen Services and to allay the sense of bitterness in the minds of persons burdened with such reverse tax introduced a new Rule 5B in the Cenvat Credit Rules which promises that such persons may take cenvat credit thereof and that they will be allowed refund of such Credits if these were unutilized in their hands. The measure was to be facilitated by a procedure to be made in this behalf. Despite the passage of five months, no procedure for granting refund of such credit has been issued. The rule remains an empty mollification of the aggrieved reverse-tax payers.

4. Penalty for inadvertent availment of cenvat credit reversed before utilization

Rule 14 of CENVAT Credit Rules was an object of hatred amongst assessees for containing a provision that effectively penalized even a mere book entry relating to Tax Credit. The atonement that purported 'wrong' credit was reversed before being utilized thus causing no kind of damage to the Exchequer was not considered in the Rule even as it stood like this for a long time. Interest at an usurious 18% per annum was extracted for mere accounting errors of cenvat credit that caused no loss to the exchequer whatsoever. The Government amended the anomaly and the new provision ensures that where CENVAT Credit is taken incorrectly, there will not be any levy of interest if the wrong credit is reversed without being utilized. However, the Rules still provide for penalty for such availment of credit reversed before utilization. The budget-time circular of the department gleefully pointed this up. When interest itself is not leviable and when the Exchequer has not suffered anything at all as a result of the book entry reversed, the retention of penalties is a manifestation of policy which cannot be justified under any standard.

Conclusion

The CENVAT Credit System requires a thorough review and a comprehensive reform. The CENVAT Credit Rules are an unpleasant jumble of policy and procedure without any dividing lines. The basic principles of the Cenvat Credit system requires to be formulated and entrenched in the Central Excise Act and the Finance Act, 1994 respectively. Ratios from the leading judgments of the Supreme Court have to be taken into account. Purely procedural things relating to Forms and administrative permissions may be dovetailed into a separate set of Rules. Such a salutary demarcation will bring much needed clarity to the CENVAT Credit Law and reduce litigation considerably. The Government also needs to look at conflicts of statutory provisions in the current CENVAT Credit Rules and resolve the same. Without such an overhaul of the CENVAT Credit Law, the proposed Goods and Services Tax will be a hobbled bird that won't fly the height expected of it. The Indian economy deserves a better deal with the cenvat credit system

At the Helm

Our hearty congratulations to CMA Prabal Basu, Associate Member of the Institute for taking over the charge of Director (Finance) of Balmer Lawrie & Company Limited (A Mini-Ratna Category– I Govt. of India Enterprise under the Ministry of Petroleum & Natural Gas) . CMA Basu is also an Associate member of the Institute of Chartered Accountants of India and of the Institute of Company Secretaries of India. He joined Balmer Lawrie & Co. Ltd. in April 1988 as Assistant Manager (A&F) and was subsequently elevated to the post of General Manager (Finance) in November 2010. CMA Basu has now been appointed as Director (Finance) w.e.f 1st December, 2012.

We wish CMA Prabal Basu the very best in all his future endeavours.

Tax Titbits

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Kelkar Committee on economic reforms

It is the season for expert committee reports at the instance of Finance Ministry in the context of unrest created by the Finance Act, 2012. A report on GAAR and a draft report on Indirect Transfers from Shome Committee has been the subject matter of these columns last month. Kelkar Committee has also now a report on economic reform with direct and indirect taxes forming part of it. As regards indirect taxes, it has recommended reduction in service tax to 8%, while it has suggested hastening of the constitutional amendment on Goods and Services Tax (GST). Rather strangely, it felt that negative list for service tax needs to be pruned. Service tax exemption for non-profit organizations is one of the items in the negative list recommended for removal.

As regards direct taxes, it felt that there will be revenue loss, if Direct Taxes Code Bill, 2010 is implemented. In the light of this inference, that it will give rise to unacceptable losses on a continuing basis has demanded a comprehensive review before its implementation, a right conclusion, though for a wrong reason. It needs investigation machinery to be strengthened and to penalise non-compliance, while requiring quality taxpayer service to promote voluntary compliance. It had laid great store on computerization and wider application of Permanent Account Number for high value transactions. A National Portal enabling applications for rectification of wrong demands and for giving appeal effects has been suggested, a recommendation, which has come not a day sooner.

Constitutionality of retrospective legislation

The Finance Act, 2012 had made many retrospective amendments to the Income Tax Act, 1961. The review of these amendments to the extent they are retrospective, hangs fire. They may well be diluted on the recommendations of Shome Committee and representations of trade and industry. Prime Minister has gone on record promising review of retrospective amendments.

Meanwhile, a retrospective amendment by Taxation Laws (Amendment) Act, 2005 with retrospective effect from 1.4.1995 to deny export benefit under section 80HHC for income from Duty Entitlement Passbook Scheme and Duty Free Replenishment Certificate for exporters with turnover above Rs. 10 crores was challenged on the ground, that this amendment is making an arbitrary distinction between two classes of exporters with reference to turnovers. The Gujarat High Court in an elaborate judgement in Avani Exports v. CIT (2012) 348 ITR 391 (Guj), while upholding the amendment to the extent that it is prospective, struck down the retrospectivity on the ground, that such retrospective amendments are only meant to remove defects in the language of section, but not to create liability, where none existed before. Laxity permitted for economic legislations does not extend to imposition of liability retrospectively. The rationale of this decision, though rendered in the limited context of relief under section 80HHC, should be all the more applicable in respect of a number of amendments made "for removal of doubts" on matters of law settled at the level of apex court or by preponderant view of the High Courts. In the light of the constitutional limitations, it is hoped that the occasion for contesting retrospectivity of these amendments may not arise on the basis of expected review of these amendments. Some of these amendments even prospectively would be ineffective unless Double Taxation Avoidance Agreements are also brought in line.

Bad debt versus business loss

An interesting decision by the Supreme Court in CIT v. SMIFS Securities Ltd. (2012) 348 ITR 302 (SC) points out to the distinction between bad debt and business loss. What may not be admissible as bad debt under section

36(1)(vii) may well be allowed as business loss. Though tax audit report had taken the view, that it is not admissible as a deduction on the ground, that it had been booked as liability on capital account, the Supreme Court approved the decision of the High Court, that the deduction has to be allowed on merits as business loss, when it cannot be considered as a bad debt.

New light on reassessment jurisdiction

Reassessment notices have become routine. Jurisdiction for reassessment has become subject matter of review before the Full Bench of the Delhi High Court in CIT v. Usha International Ltd. (2012) 348 ITR 485 (Del)[FB]. The Supreme Court in CIT v. Kelvinator of India Ltd. (2010) 320 ITR 561 (SC) had endorsed the decision of the Full Bench of the Delhi High Court (2002) 256 ITR 1. It was held therein, that since all official acts are presumed to be done properly, after due consideration, reassessment notice can only be construed as prompted by mere change of opinion, so that there can be no jurisdiction, when there is some fresh material, which was not disclosed. This law should apply even for cases covered by the four year time limit. Revenue required the decision of Delhi High Court to be reconsidered. The High Court has laid down the following prepositions:

1. Where there has been only an intimation under section 143(1) and not a scrutiny assessment after issue of notice under section 143(2), jurisdiction cannot be lightly questioned as no inference of change of opinion is possible. Where there is no assessment, there could be no opinion.
2. The unanimous view was that the decision of the High Court in Kelvinator of India Ltd.'s case (supra) did not warrant review. But majority view was that the presumption of proper assessment, where an assessment has been made, can arise with reference to facts, but not from other presumptions. Since presumptions are always rebuttable, there could be instances where there could be jurisdiction within four year time limit.

The minority judgement however had taken the view that there could be no jurisdiction even for the four year time limit, where the assessee has disclosed all the relevant facts. Though the minority view has been reflected in a separate judgement, it cannot be construed to be different from the leading judgement in this case as jurisdiction within the four year time limit is barred only "so long as the assessee has furnished full and true particulars at the time of original assessment."

Law on penalty gets settled

The Supreme Court in Price Waterhouse Coopers Pvt. Ltd. v. CIT (2012) 348 ITR 306 (SC) had occasion to review the law on concealment penalty in respect of "inadvertent errors". A penalty of Rs.27.37 lakhs was levied on the assessee for failure to disallow of Rs.24.42 crores being the provision for gratuity, the deduction of which is barred under section 40A(7). The reasoning was that assessee's explanation could not be accepted as it was a "high calibre and competent organisation" being a well-known and reputed firm of Chartered Accountants and Tax Consultants, so that it may not be expected to make a mistake. It is in this view, that the High Court upheld penalty. The Supreme Court decided that concealment penalty is regulated by the Explanation to section 271(1)(c), which spares penalty, where an explanation is offered and such explanation is *bona fide* with assessee not withholding any particulars. In assessee's case, the amount was exhibited in its accounts and reported in tax audit report as inadmissible, so that the omission was inadvertent. It found that merely because *mens rea* is not necessary, it does not mean that penalty has necessarily to follow every addition. This law restores the decision of the Supreme Court in Hindustan Steel Ltd. v. State of Orissa (1972) 83 ITR 26 (SC) that an omission to merit penalty should be deliberate or contumacious in conscious disregard of one's obligation and not where the breach is only technical or venial. In the light of the complexity of our laws, this decision should help the taxpayers in respect of innocent omissions or defaults.

Issues in Stock Valuation

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How Relevant is Stock Valuation in the Determination of profits in a trading account? How is stock-in-trade to be valued for ascertainment of true profits? Can valuation of closing stock give rise to profit? Can the method of valuing stock be altered? Can stock be valued at cost? Is valuation at cost or market whichever is less absolutely sacrosanct? These and several other issues in valuation of closing stock continue to agitate courts of law long after the ruling in the celebrated case of Chainrup Sampathram vs. CIT 24 ITR 481 (SC) 1953.

Excise Duty in closing stock

Is it necessary that excise duty should be included in valuing closing stock? This issue was decided by the Supreme Court in August 2012.

Dynavision Ltd., carried on business in manufacture and sale of Television sets. The Company did not include the element of excise duty while valuing closing stock. The Assessing Officer thought he will make good the omission by adding a sum of Rs.16,39,000 to the income of the company on the ground of under valuation of closing stock. The question that arose was whether the Department was right in alleging that the closing stock is under valued to the extent of Rs.16,39,000/-. It was agreed that the company was following consistently the method of valuing closing stock on the basis of cost or market price whichever is less. Under the Central Excise Act, 1944, the levy of excise duty is on the manufacture of the finish product. It is quantified and collected on the value of the selling price. Valuation of unsold stock at the close of the accounting period was a necessary part of the process of determining the trading results of the period. The Supreme Court pointed out in CIT vs. Dynavision Ltd., 348 ITR 380 that stock valuation cannot be a source of profits. A true purpose of crediting the value of unsold stock is to balance the cost of the goods entered on the other side of the account at the time of the purchase, so that on canceling out of the entries relating to the sales stock from both sides of the account would leave only the transactions in which actual sales in the course of the year have taken place. This process will show a profit or lose actually realized on the year's trading. The Assessing Officer had not made any adjustments in the opening stock. The Supreme Court Ruled that the addition of Rs.16,39,000/- to the income on the ground of under valuation of closing stock was wrong and dismissed the Revenue appeal. In this case, the company was following a consistent method of valuing closing stock at cost or market whichever was less, without making any adjustment for excise duty. It may also be noted that if the market value is higher than the cost, it will not justify valuation of closing stock at the higher figure because that will result in taxing unrealized notional profits. ALA firm vs. CIT 189 ITR 285 (SC). Bonafide change in method of valuation of stock should always be permitted.

Incidentally it may be noted that the Madras High Court has held that customs duty cannot be included in value of closing stock. It may also be mentioned that Modvat Credit cannot result in addition to the closing stock CIT vs. Indo Nippon Chemicals Ltd., 130 Taxman 179 (SC).

The Case of Hindustan Zinc Company Ltd., 291 ITR 391 (SC).

This Government Company was in the business of producing Zinc Concentrate used in its captive plant. It was not possible to consume the entire production. It obtained permission from the Government to export part of its stock. It found that the London Metallic Exchange Price on 31st March 1996 was lower than the weighted average cost by Rs.27.08 crores. The Company wrote down the inventory of zinc concentrate below the cost price by estimating its realizable value at the LME price and not the higher domestic price. International prices of zinc concentrates were lower than domestic prices. The practice of the company was to value the stock at net realizable value at the domestic price. The Auditors in their report pointed out that if the net realizable value stood estimated in accordance with the past accounting policy of taking the domestic prices, the companies profit would have been higher by Rs.27.08 crores. On these facts, the Supreme Court held that the company was not right in writing down the inventory below the cost price by estimating its net realizable value at the London Metallic Exchange Price and not at the domestic price. The Supreme Court observed: "Ordinarily, therefore, the goods should not be written down below the cost price except where there is an actual or anticipated loss. On the other hand, if the fall in the price is only such as would reduce merely the prospective profit, there would be no justification to discard the initial valuation at cost". The question arises on these facts whether the company did depart from the practice of valuing closing stock at cost. The Statutory Auditors had reservations about stock valuation.

The Supreme Court sought support from its Ruling in British Paint case 188 ITR 44.

Obsolete Stock

How is obsolete stock to be valued? Alfa Laval (India) Ltd., valued its obsolete stock at 10% of its cost and the valuation was supported by audit report. Subsequently it was found that the obsolete stock was sold at less than that price. The Bombay High Court held that there was no under valuation of obsolete stock in this case. The Supreme Court however dismissed the departmental appeal leaving the question open, 295 ITR 451.

It is an accepted principle that obsolete stock will require to be valued at Nil or discounted value, only then there will be a realistic valuation. It may not correct to insist that stock valuation should rigidly follow the method of valuation adopted. Adjustments are bound to be in order.

The Rajasthan High Court had held that the company will be justified in writing off obsolete stores on the basis of the Accounting Standard issued by the Institute of Chartered Accountants of India with the approval of the Central Board of Direct Taxes. Strangely, before the Rajasthan High Court, Revenue took the stand that revised Accountant Standard II issued by the ICAI is not mandatory for the department though it was mandatory for the Chartered Accountants. The argument did not cut ice before the High Court. The High Court followed Alfa Laval Case and dismissed the departmental case. If the company was following a recognized method, it cannot be rejected on the ground that the net realizable value has been determined on the basis of estimate 315 ITR 211 (Raj) following Alfa Laval India Ltd., 266 ITR 418 affirmed by the Supreme Court in CIT vs. Alfa Laval (India) Ltd., 295 ITR 451 (SC).

Conclusion

The law regarding valuation of stock continues to engage attention of Court even after the enactment of Section 145 A in the Income Tax Act. Finance (No.2) Act 2009 deals with this issue in some detail. It is necessary for the Central Board of Direct Taxes to issue proper guidelines in this regard to avoid litigation.

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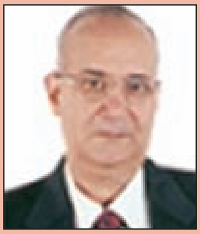
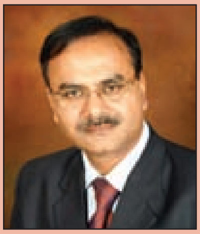
This will help us to help you better.

NET WORTH AS A MEASURE OF DEFAULT RISK





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I Introduction

The business for any company comprises three types of risks: - market risk, credit risk and operational risk. While management of market risk was the prime concern for corporates until recently, there has been a shift in focus to credit risk. Credit risk is said to arise when there is erosion in the underlying credit quality of an issuer of debt instrument. It is vital in the valuation and risk management of financial assets and has emerged as an important area in finance because of its diverse functions. Banks are also increasingly placing more emphasis in measuring and managing credit risks. The Basle Committee on Banking Supervision, in its report on credit risk modeling, identified credit model validation as one of the most challenging issues in quantitative credit modeling development (Basle1999). The Basel Committee on Banking Supervision also proposed a regulatory setup in which banks are allowed to base the capital requirement on their own internal rating systems and to use external rating systems as well (BIS, 2006). Since the estimation of regulatory capital and economic capital warrants predicting the probability of default of borrowers, banks are developing their own internal rating-based models (IRBs) for credit risk management. Default risk lies at the centre of credit risk which arises due to the inability of the issuer company to service the debt obligations.

Measuring default risk

Several tools and techniques have been developed for measuring default risk. These include

1. Credit Rating Agencies: Credit Rating is one of the most important indicators of credit risk in corporate debt instruments. Rating is a tool that enables the investor to differentiate between debt instruments on the basis of their underlying credit quality. Though they have been the predominant source of measuring default, they are ordinal in nature. The categories of ratings and their symbols offer limited information. Ratings are not quantifiable and often are unable to capture sudden changes.
2. Accounting-based models: These models are based on the information provided in the financial statements of the borrower/ issuer. These models generate scores to classify firms and solvent and insolvent. However, these models rely on the financial data of firms and thus for those firms where the financial data is not in public domain, it may be difficult to implement these models.
3. Market-based structural models: These models estimate the probability of default based on market data on the assumption that the market data captures point in time probability of default. However, market information by itself may not be sufficient statistic to assess the default risk.
4. Credit Metrics has been set up by JP Morgan and is a tool for assessing portfolio risk. It integrates with Value-at-risk (VAR) in addition to the expected losses. These changes include not only by possible default events, but also by upgrades and downgrades in credit quality.
5. Among the statistical models, Logit and Probit models are the common models applied. Treacy and Carey (1998) have stated that although statistical models are not enough to evaluate the overall risk profile of a borrower, they validate the qualitative judgments of experts, bringing more credence to the system.

Despite numerous credit risk models being explored and developed by academicians and practitioners internationally, limited attempts have been made in developing economies like India. As researchers we feel that this is on account of two reasons. One is the absence of uniformity in the definition of default. While rating agencies assign default status to companies when a payment towards interest or principal is missed, accounting models compute scores which segregate the companies as being solvent, or bankrupt. The second limiting factor could be non availability of information on default data for companies which has led to limited empirical analysis being done.

II Review of Literature

The literature on credit risk models is in two parts: one based on accounting based models and the second on market based structural models.

Accounting models: The first set of accounting models were developed by Beaver (1966, 1968) and Altman (1968). Beaver (1966), applied a univariate statistical analysis for the prediction of corporate failure. Altman's (1968) Z-score model uses the Linear Discriminant Analysis (LDA) to identify 5 key ratios (Table 1) that can predict bankruptcy for public and private companies. Altman original Z score was used to segregate defaulting firms from surviving firms. Altman et al (1977) developed another model called ZETA which was an improvement in features over the original approach. (Altman, 1993) developed model for predicting bankruptcy of private firms, and a model for emerging markets (Altman, Hartzell and Peck 1995). Altman and Narayanan (1997) conducted a review on international studies in 22 countries. Statistical models also developed alongside Z score model. Martin (1977) established the superiority of logistic regression model for twenty three bankrupt banks. Ohlson's O-score model (1980) is a residual income model as it expresses a firm's value as a function of the book value of net assets and the present value of expected residual earnings on those net assets. Zmijewski's (1984) model is also known as probit analysis where the constant and each parameter of the model must be multiplied by 1.8138 and then multiplied by the financial measure. Altman (2002b) pointed out that credit scoring models are the backbone of the most advanced credit value at risk models.

Structural market-based models: The first market-based model was introduced by Merton. Merton (1973, 1974) applied the option pricing methodology developed by (Black and Scholes 1973) to the valuation of a leveraged firm. In BS model, all debts mature on the same day, and the firm defaults when its value is lower than the payment due. The firm's equity can be seen as a European call option on the firm's assets with a strike price equal to the book value of the firm's liabilities. Merton model is based on the assumption that all liabilities are due on the same date, namely at the maturity of the option, if the market value of the firm's assets is greater than the book value of liabilities at maturity, the shareholders exercise their option on the assets. KMV, a subsidiary of Moody's rating agency modified this model and mapped the output directly to real default probabilities. The model set the exogenous default barrier at total short debt plus 50% of long-term debt. KMV (2003) modified this approach slightly and developed a proprietary model for estimating probability of default (PD) called expected default frequency (EDF). Black and Cox (1976) advocated in their research that default event can happen not only at the debt's maturity, but can also be prior to that date, as long as the firm's asset value falls to the "pre-specified barrier" (that is, default trigger value). Longstaff and Schwartz (1995) treat the short-term risk-free interest rate as a stochastic process which converges to long-term risk-free interest rate and is negatively correlated to asset value process, so that the effect of monetary policy to macro economy are considered. Shumway (2001) criticized the static nature of one-period logit or probit models and recommended use of duration model and a combination of accounting-based and market-driven variables to improve forecasting performance. Duan et al. (2003) followed the maximum likelihood approach introduced by Duan (1994). Brockman and Turtle (2003) proposed to bankrupt the firm as soon as the value of its assets reaches the barrier i.e. at any time before, or at, the debt's maturity.

Problem Statement

The literature review stated reveals the following gaps:

1. Though there has been considerable research on accounting models and they have worked successfully, they suffer from limitations. These models vary across countries and thus we need to suitably modify the model with the Indian condition. Further, Z score model only gives prediction about the qualitative differentiation of counterparties, and not quantifiable probabilities of default. MDA is best suited for short term predictions and assumes a linear relationship between variables, each discriminant function is assumed to be normally distributed in the group. The main criticism of Merton's structural model is that it does not factor in the possibility that the firm may default before the debt matures. Moreover, market-based models can only be applied in the case of listed companies.

Statistical Model used for our study with net worth as a measure of default risk

The traditional statistical models are based on the accounting information presented in the financial statements of a company which is used for determining the credit worthiness of a firm. The 'intrinsic value' of a firm has a significant role to play in its valuations, investing and financing decisions. The intrinsic value can be determined by taking the present value of all estimated future cash flows. An important component of the intrinsic value is the value of equity or the net worth of a company. The net worth reflects the underlying fundamental credit quality, and thus a high net worth is a sign of strong fundamentals for a firm. However, when the total value of the firm is less than the debt, the equity of the firm has no value. Thus, we assume that at such a state, the **net-worth** becomes zero or negative. At this point, the claimants can exercise their rights towards the claims due to them and the firm can become bankrupt or insolvent. As an extension to this approach, we have identified NW/TA as the ratio which can distinguish defaulting firms from non-defaulting. This ratio can be used as an indicator of default status irrespective of the size of the company.

Research Objectives

It is against this background that this paper attempts to test the predictive power of the Logit model with net worth as the key explanatory variable defining default risk. We test the predictive power of our model with predictors with the basic model with only the constant. By running logistic regression, we can determine the key predictors for each sector. More specifically, the present study has been undertaken with the following objectives:

1. To determine the predicted probability of default by taking NW/TA as the explanatory variable. We assume firms default when NW/TA<.10 and not default when NW/TA>.10. For the purpose of the analysis, NW/TA<.10 is coded as 1 and 0 otherwise.
2. To identify the accounting ratios which impact the default risk. We have taken 24 ratios in all which factor in the liquidity, profitability, solvency and productivity of the companies, in addition to the Altman ratios. These are the independent variables.
3. We have applied binary logistic regression to test the predictive ability of our model.

To achieve the above objectives, the paper is organized into five sections. The first section described the need for study and the objectives. In the second section, we have reviewed the literature available on principal credit risk models. Section III of the paper describes the methodology and the database for the two models used by us in our study. In section IV, results and discussion have been presented and. The conclusions and recommendations are given in section V of the paper.

III Methodology and Data Description

Logit Model

Logistic regression is a type of regression analysis used for predicting the outcome of a categorical criterion variable based on one or more predictor variables. Logistic regression can be binomial or multinomial. In Binomial or binary logistic, the observed outcome can have only two possible types 0 and 1 and thus the outcome is coded as "0" and "1". Lo gistic regression model is flexible and simple, and the results are relatively objective. The model's greatest strength is that it solves the problem for discontinuous variables, especially for classification variable. The logistic model is based on the cumulative logistic probability function. It does not assume a linear relationship between the dependent and the independent variables, the dependent variable need not be normally distributed, there is no homogeneity of variance assumption, i.e. variances need not be the same within categories and it does not require independents be interval

Database Source

To conduct our analysis, we require three types of data, the first on the Companies Net worth and Total Assets as on 31st March 2011, the second set of data on the accounting ratios and the third set of data is on the ratings assigned to the companies. We have obtained the data on companies from the Prowess Centre for Monitoring Indian Economy (CMIE). The companies have been classified into different sectors based on the classification as given by Prowess CMIE. These sectors are Auto, Non-metals, Metals, Textiles, Machinery, Chemicals and Manufacturing.

Table1: Financial Ratios Selection

LIQUIDITY	PROFITABILITY	SOLVENCY	PRODUCTIVITY	ALTMAN RATIOS
Current Ratio(CR)	Net profit margin (PAT/SALES)	Debt/Equity(D/E)	Cash/Cost of sales (CASH/COS)	NWC/TA
Quick Ratio(QR)	Operating profit margin (PBIT/Sales)	Interest coverage (INTCOV)	Raw material Cycle (RMCYCLE)	RE/TA
Cash profits	Profit before interest, dep (PBDITA/Sales)		Work-in progress cycle(WIPCYCLE)	PBIT/TA
Cash/current liabilities(CASH/CL)	PAT/Capital employed (PAT/CE)		Finished Goods Cycle(FGCYCLE)	Sales/TA
Cash flow from operations/ Debt (CFO/DEBT)			NWC Cycle(NWCCYCLE)	MVE/BVD
NWC/Sales (NWC/SALES)			Debtor Days	
			Creditor Days	

Selection of financial parameters

When we evaluate the financial health of a firm, we analyze the firm for its liquidity, profitability, and solvency position by computing financial ratios. Since our research focuses on manufacturing companies, we have added productivity ratios also. In addition to these four parameters, we have also taken the original Altman ratios for the purpose of our analysis. These ratios are presented in Table 1. Our choice of ratios was based on those which had been used in prior empirical research on similar works and which best measured the financial risk. Financial risk encompasses the firm's accounting procedures, profitability, capital structure, cash flow adequacy, and financial flexibility. Though business risk also plays an important role in assessing the creditworthiness of a firm, we have only considered financial risk for our model. Since our model is based on secondary data, we have included only financial ratios for our research. Our null and alternate hypothesis is Null Hypothesis H_0 as the model with only the constant and no variables, with all the coefficients in the equation taking the value 0 and the Alternate Hypothesis H_1 as our model with predictors currently under consideration is accurate and differs significantly from the null of zero, i.e. gives significantly better than the prediction level of the null hypothesis. (When predictors are added to the model, the model performance is significantly better). We have thus tested the predictive ability of our model by factoring the statistical tests of good fit as presented in the next section.

IV Empirical Findings and Discussion

In the present study, binary logistic regression is applied to our model. We observe from the table given below that adding the predictor variable to the model has significantly increased our ability to predict the decisions made by us. A test of the full model as against a constant-only model was statistically significant, indicating that the predictors do impact the default risk. The likelihood ratio is based on the –2LL ratio and is a test of the significance of the difference between the likelihood ratio (–2LL) for the model with predictors (called model chi square) minus the likelihood ratio for baseline model with only a constant in it. It measures the improvement in fit that the explanatory variables make compared to the null model. Since the -2LL is decreasing as we add predictors, it makes our model with predictors robust. The Hosmer-Lemeshow (H-L) goodness of fit test if is not statistically significant, that is >.05, implies that our model is a good fit. Nagelkerke R Square indicates the strength of association between the predictors and the explanatory variable and is robust. The sensitivity of prediction is reflected in the classification table. The overall percentage gives the overall percent of cases that are correctly predicted by the model. We observe that the prediction has improved from the null hypothesis to the full model proposed with indicators. The key variables (p-value<.05) are also presented in Table 2 and vary across sectors.

Table 2: Empirical Findings of Logit model

Sectors/Parameters	–2LL	H-L Test	Classification Table	Key Variables	Nagelkerke Test
Auto	14.372 9.502 3.868	1.00	97% 100&	NWC/TA (.028) PBIT/TA (.001) D/E (.000)	.811
Non-metals	5.890 0.00	1.00	88.2% 100%	D/E (.038)	1.00
Metals	7.022 0.00	1.00	97.1 100%	D/E (.036)	1.00
Textiles	18.261 13.247	1.00	91.8% 100%	RE/TA (.008) CFO/DEBT (.050)	1.00
Machinery	7.917 0.00	1.00	98.6% 100%	PAT/CE (.014) WIP CYCLE (.042)	1.00
Manufacturing	8.079 0.00	1.00	91.3% 100%	RE/TA (.034)	1.00
Chemicals	38.011 26.078	.996	97% 100%	RE/TA (.006)	.451

V Conclusions and Recommendations

Logit model directly predicts the probability of default. Conclusions are based on the observation that the model with predictors has significant predictive ability over the model with constant only. This is evident by various tests of goodness fit discussed in the section on empirical findings. The model also depicted high predictive power in terms of its ability to identify key financial ratios. When using statistical models, Logit models are often preferred to Probit models. When we consider large sample size for some extreme situations where firms may be classified as very healthy firms or extremely insolvent firms, logistic regression may be more appropriate. The logistic model has the flexibility to incorporate both the financial as well as non-financial factors in predicting default. It is a useful tool in examining credit risk, and provides another indicator to a broad spectrum of qualitative and quantitative tools that identify risk factors that are emerging and/or difficult to quantify. The differences and research gaps that are observed by our model can provide scope for future research through other credit risk models. The scope of research can be extended by identifying other measures of default risk as credit spread.

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Performance Measurement in NGOs

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Introduction

Non-government organizations are important institutional players in non-formal interventions including health, education, tertiary and primary care including aged, policy and institutional building, governance awareness, etc. In a developing country like India, their role and participation is crucial to extensively cover and deliver quality services. According to recent statistics, India annually raises anywhere in between 400-800 billion INR. Many of these organizations are run under state trust acts or as societies or companies act. There are several stake-holders involved in functioning and growth of the NGO. The board and management are focused on raising funds and deploying them to meet the objectives of the NGO. The donors are interested in channelizing their contributions through NGO to meet social interventions deemed appropriate. Government and regulatory machinery are concerned about the sources of funds, utilization and management of funds so that inappropriate activities do not happen. An NGO faces difficulty in the areas of accountability, transparency, internal control mechanisms and financial management (Edwards, 1994). For the organisation to be accountable, it must explain how it has used its resources and what it has achieved as a result to all stakeholders. Every person in the organisation has a moral responsibility to follow the policies and procedures. Transparency can be achieved only through maintaining complete records and disclosing them without any window dressing or hidden information. Being a voluntary organisation an NGO has to have members who work with integrity and aim towards achieving the objectives. Internal control becomes essential for any organisation to monitor and measure the integrity of individuals and also keep a check on the smooth functioning of the activities. Finally, NGOs need guidelines to increase trust and awareness about the organisation (Fowler, 1995).

Performance measurement

In order to align the activities with their objectives and to meet the donor accountability NGO's need to measure and monitor performances of various groups. An NGO's performance can be measured by how well it achieves the goals it has set itself and at what efficiencies. The two principal functions of performance measurement systems are, firstly, to ensure that organisations are held accountable for their performance and actions; and secondly, to facilitate learning and improve performance. Performance measures for an NGO could be both financial and non-financial measures. Such an integrated view would offer a comprehensive link between several units within an NGO (right from resource generation unit to program management unit). Such a comprehensive framework is highly recommended. (Epstein and McFarlan, 2011)

Financial measures of performance

A vital measure to evaluate the quantitative parameters is the financial statements of organisations. (Lewis, 2009) These statements provide the stakeholders with an insight on the financial situation of the organisation and facilitate better planning and monitoring of activities. With soliciting and using the donor funds comes the responsibility of being able to justify and provide clarity on the usage of funds and also plan for effective utilization of the limited resources. Therefore transparency is an essential condition for accountability. NGOs are striving to gain the confidence of their donors and internally create a committed organisation. Many NGOs are proactively deciding what more can they inform their stakeholders. The disclosures in the financial statements are better and if any person from anywhere in the world is able to understand the financial statements then the objective of transparency is achieved.

Many NGOs are adopting the IFRS (International Finance Reporting Standards) system of reporting to increase the quality of information. These financial statements prepared using common accounting standards across the globe would help the donors and other stakeholders better understand and analyse the financial condition of the organisation.

Financial statement analysis offers insights into: (Lewis, 2009)

- Where has the money come from? For any organisation to smoothly function and sustain would require funds. The source of funds for NGOs could be primarily donations, interests, rents or dividends.
- For what purpose has it been received? It is essential to define the objective of the organisation and the purpose for which the funds are generated. For any other company the objective would be profit but for an NGO the objective would be to serve the society and expand its reach in uplifting the weaker sections of the society.
- How has it been spent? To know and summarise at the end of each financial year what has been the application of funds.
- What are the outcomes of the operation? To provide information internally as well as externally about the projects funded, intangible benefits to the project beneficiaries and the impact that the organisation could create with the activities.

Understanding the purpose of objective measures to meet the needs of each stakeholder paves the path for defining and institutionalizing them.

Resource Generation Staff: They would need financial statements to analyse the cost incurred for the revenue generated. Their basis would be to evaluate the worth of the expenses in generating funds.

Finance Staff: The finance staff would be interested in the complete financial statements as they would evaluate the current financial condition and financial sustainability of the organisation. To ensure and effective and efficient utilization of resources to achieve the organization's objectives.

Board of Trustees: To keep an eye on how resources are being used to achieve the NGO's objectives.

Donors: Donors are the lifeline of any NGO. The donors would look at the statements to understand how their funds are being utilised and whether to consider supporting that organisation in the future.

Project Beneficiaries: They would be concerned to understand what it actually costs the NGO to provide them the services and how much is it benefitting their community.

The aim in analysing and interpreting financial results is to assess the financial health of the organisation, compare the performance over the years or with other organisations, effective decision making and better planning for the future. Financial statement is also an important source of assessing the risk in the organisation and taking appropriate measures to mitigate them. The risks associated with an NGO could be that of fraud, theft, volatility in costs, exchange risk etc. These risks could be mitigated through appropriate internal checks, constant review of the financial records and updated information and timely action. The financial measures present three dimensions of the NGO: (Lewis, 2009)

Financial Sustainability: Financial sustainability for an NGO would mean the long term support that these organisations provide to their beneficiaries. Hence, to support these activities the NGO must have sufficient funds to function and service not just today but also in the future. This financial sustainability would be a result of good financial management which would include planning to foresee and predict, organising to work as per the plan, monitoring the activities to compare and match to the original plans and reviewing the activities performed.

Efficiency: The efficiency of an organisation is assessed by measuring the organisations capability to serve as many people as possible with is resources at the lowest cost and good service.

Effectiveness: The capability of an organisation to achieve desired results by managing the limited resources and consistent performance.

The most common financial measures NGOs could use are, (Lewis, 2009)

Ratio Analysis: A quantitative analysis of information in the financial statements to evaluate relationships among financial items. These ratios are used to analyse over time, individually or in comparison to similar organisations.

Some of the ratios to understand the Financial Sustainability of the organisation could be:

- **Donor Dependency Ratio: Donor Income/Total Income:**

  This ratio is a measure of the organisation's donor income to the total income generated during the year. The usual norm followed is that if the ratio is high then the donor dependency would be high and if the ratio is less, the organisation is independent and there is less reliance on the donors to generate income. Accordingly there is another view point to this. Considering the donor income it becomes very essential to analyse the number of donors contributing to that income. The donor mix is an indicator of the concentration of donations through limited donors which poses a risk to the organisation. To de risk the organisation it becomes important to dilute the donor income or have a dispersed donor mix which reduces the risk of dependency on limited donors. This would be a true indicator of donor dependency and a measure to increase donors.

- **Survival Ratio: (General Reserves/Total Income)*52 or 365**

  This is a hypothetical ratio which is an indicator of how long can the organisation survive if all its funds are dried up and there are no donations received during the year. In simple terms it would mean if with the total income generated the organisation can survive for 52 weeks or 365 days assuming all activities constant and income generated is spent then how many weeks or days would the organisation sustain with its reserves. The General reserves here would mean the unrestricted funds/ reserves.

- **Corpus Fund to Earmarked Funds Ratio:** This ratio provides a comparison between the corpus fund and the restricted funds of the NGO. The ratio should not be unduly lopsided on either side. A very high corpus would imply that the NGO is comparatively dormant and a very low corpus would denote insecurity about its future.

- **Current Ratio: Current Assets/ Current Liabilities**

  This ratio in profit making companies indicates the liquidity position of the company. In NGOs too it determines the ability of the organisation to pay off its immediate debts (within 12 months).A ratio of 2:1 is considered satisfactory. This ratio signifies the effective management of resources by the organisation.

- **Income Utilization Ratio: Total Expenditure/Total Income**

  This ratio is basically to understand how much has the organisation incurred in expenditure as a percentage of total income generated. This ratio can be further broken down into sub ratios such as the ratio between Programme expenses to Total Income or Administration Expenses to Total Income. These ratios help the organisation to ascertain the efficiency to handle expenses with the generated income and prioritise expenses on the basis of need and original plans.

  Resource Generation Ratio: Resource Generation Expenditure/Resource Generation Income:

  This ratio emphasises on the efficient utilization of the available funds to generate more funds. It is an indicator of the real value of the income generated and the outflow to generate that income. If the expenditure to generate the income is high then there would be very little margin that could be used in the future.

Trend analysis of the key financial measures would help us know how the organisation is performing when compared to last period. What has been the growth, the increase in projects and the expansion through the years? By comparing it may be possible to detect trends and use this information to forecast future trends or set targets. The trend analysis becomes more meaningful if combined with the ratio analysis.

Non Financial Performance Measurement:

In recent years the concern for quality has created a greater demand for more performance measurement strategies. The NGOs are under pressure to invest more in evaluating the work and measuring its implications both financially and non financially. A measure of non-financial performance is essential to provide a balanced view of organizational performance. The scarcity of resources and increased competition from other organizations for funds has elevated the need for the NGOs to measure and proactively manage organization performance. The NGOs are accountable to their stakeholders most importantly to their donors and beneficiaries. The analysis of financial statement is usually a post hoc measure detailing the result of the performance whereas on the other hand the non financial parameter elevates the measurement for strategic re-organizing and continuous improvement to better the performance.

NGOS should consistently measure the impact of the activities and efforts on the society and individuals and the progress made towards achieving the set objectives. To determine the ability of an organisation to constantly grow and improve, the NGOs need to keep a track of the changes within and outside the organisation. Necessary skills and tools in employees are essential to drive the strategic goals and align with organizational objectives.

Another measure of performance in NGOs could be the level of relationship maintained and built through the years. The number of new donors added during the year or the repeatability of donors through the years. The jobs created during the year are also an indicator of the organisation's development each year. (Epstein and McFarlan, 2011)

The main objective of these measurements is to:

- Align the resources, processes and financials to meet the organization's objectives.
- Transform goals set to goals achieved.

- Take proactive measures to determine what has to be accomplished from time to time.
- Enunciate and strive for a sustainable and efficient organisation.

Conclusion

The NGO sector as a whole has traditionally been dawdling in measuring and improving its organisational performance. This partially is because employees often see their aims as somewhat less visible and quantifiable than the profitability and stock market measures that the business sector concentrates on. Performance measurement gives an overview of organizational deficiencies and thereby there is a greater chance to discover the relevant areas where improvements are needed and where rationalizations are most urgent. A performance measurement system involves creation of an information feedback system by which management identifies, monitors and takes action to improve selected key performance indicators that tracks the organisation's primary performance areas.

Performance measurement as a tool demonstrates and improves efficiency in both the financial and non financial aspects of the organisation. A fully integrated approach to performance measurement is a prerequisite. The organization has to strike a balance between the optimal utilization of the financial resources combined with the efficient and effective non financial resources. Such measures give an organisation a more informed view of their performance and better understanding of the impact they are able to create on the communities they serve. Good performance is a criterion whereby an organization can determine its capability to achieve its objectives and prevail.

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Equity Research in FMCG Sector (F & B) in India: A Study of KRBL Limited and Britannia Industries

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I. Introduction

India is among the world's youngest nations, with a median age of 25 years as compared to 43 in Japan and 36 in the US. This, coupled with a large population and rapidly evolving consumer preferences, has translated into a large market opportunity for FMCG players. Improved infrastructure facilities are expected to support the enhanced supply chain management. The Government of India has increased it's spend on infrastructure, including the construction of roads. By 2025, India is poised to become the world's fifth-largest consuming country from the twelfth position in 2010. Real estate development in the country, such as the construction of shopping malls and hypermarkets, are opening up new business channels for FMCG companies. Indian cities are expected to add 379 million people to the consumer base for FMCG companies, as the urbanisation rate is expected to increase from the current 30 to 45 per cent in the next 40 years according to recent industry estimates, household income in the top 20 boom cities in India is projected to grow at 10 per cent annually by 2018. Further, the top 100 cities in India contribute between 50–60 per cent of the overall consumption spends.

Graph 1: **FMCG Sector in India**

The Indian FMCG sector is the fourth largest sector in the economy. It has a strong MNC presence and is characterized by a well established distribution network, intense competition between the organized and unorganized segments and low operational cost. Availability of key raw materials, cheaper labour costs and presence across the entire value chain gives India a competitive advantage. The FMCG market is set to treble from $11.6 billion in 2003 to $33.4 billion in 2015. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash etc in India is low indicating the untapped market potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products.

We can notice that Food and Beverages comprise 43% (forty three percent) of the sector. It is therefore, majorly spiraling sales of food and beverages that is responsible for the growth of the sector. Hence, our research and project focused primarily on food products. Some of the factors responsible for the growth of the sector are:

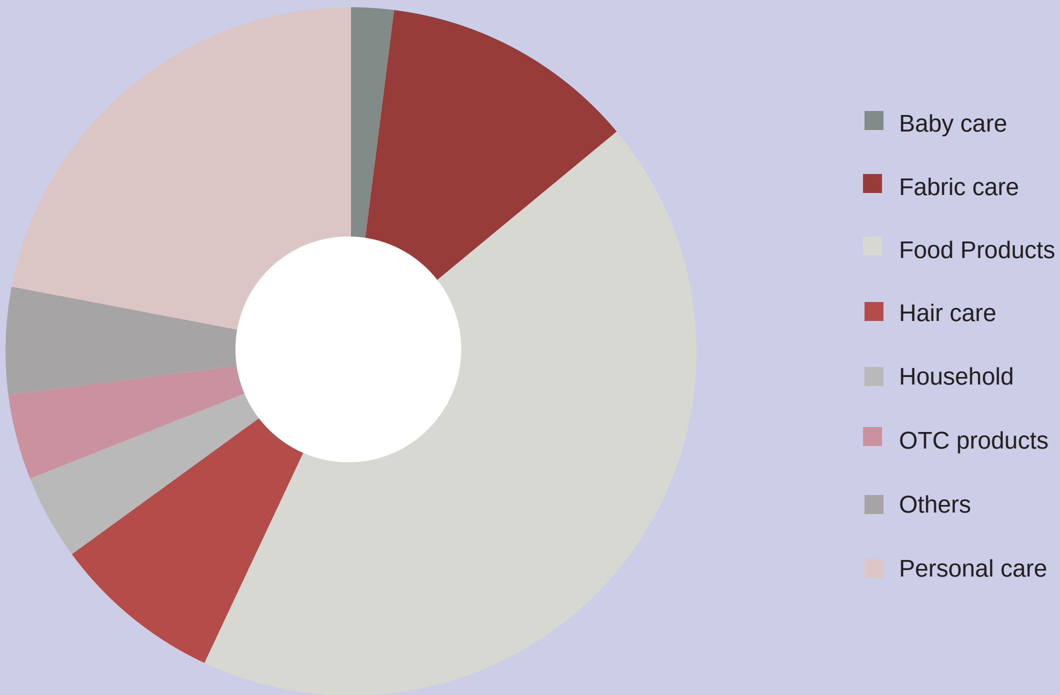
- Increasing Urbanization
- Rising Urban Penetration
- Lifestyle changes
- Gradual shift towards branded and organized food packages.

II. Relevant Literature Reviewed:

- Richard A. Cohn and John J.Pringle (October,1971), in their "Some Implications of Imperfections In International Financial Market" concluded that if restrictions on international capital flows were to be removed, returns on internationally diversified portfolios would decline toward the risk-free rate of interest.
- A.P.Budd and H.M.Treasury (November, 1971), observed that the relevant measure of riskiness for an investment is its non-diversifiable standard deviation.
- William S. Comanor and Thomas A. Wilson (November 1971) suggested that advertising depends on technological factors and prices, which determine the variability of total cost with output in the short run.
- A. P. Budd and Robert H. Lichtenberger (1971) analyzed that the comparative static response of risk asset prices and the firm's cost of capital to changes in money supply.
- Amitesh Kapoor (2012), observed that fast moving consumer goods (BSE-FMCG), consumer durable (BSE-CD), health care (BSE-HC), and automobile (BSE-AUTO) sectors have outperformed the benchmark as well as other sectors and have provided positive alpha.

III. Objectives:

1. To accomplish the reasons behind the rationale of investment in this sector and also the reasons behind the good returns it has so far given.



Graph 2: **Indian FMCG Market Segment (www.ibef.org----report on Fast Moving Consumer Goods under the Food Industry heading)**

2. To finding out the reasons behind Food and Beverages Segment leading the growth of the sector.
3. To value the stocks of the certain FMCG companies to arrive at a conclusion whether the stock is undervalued or overvalued or fairly priced.
4. To give recommendations to prospective clients and investors about investment on this stock.

IV. Data Source & Methodology:

The data we have collected from the following:

- Annual Reports of Companies
- Company Corporate Presentations
- Industry Reports
- Past and Existing Equity Research Reports of Companies

The purpose is to predict future performance of companies and accordingly inform prospective investors. For this purpose, fundamental analysis has been done to see analyse companies' future performance based on current trends and future predictions. Fundamental Analysis is done to see how the companies' assets are valued and have an opportunity to grow. An industry analysis is also done to understand the working of the industry.

The data collected for the purpose of analysis was secondary in nature. The data for the above analysis like the track records of various companies, market capitalization, GDP, Price/Earnings Ratio of companies were taken from relevant websites on the basis of which, analysis has been done.

For the purpose of Valuation, we have also analyzed companies which may not be regarded to be very big now, but may grow up to great heights in future.

The methodology included the fundamental analysis of companies. It was as follows:

- Studying reports on the sector.
- Identifying the Macroeconomic Factors influencing the sector.
- Analyzing certain companies' current performance (related to the sector) and their annual reports.
- Carrying out valuations of the companies using financial models.
- Giving suggestions in the report.

V. Analysis of Data:

Fundamental analysis of a business involves analyzing its financial statements and health, its management and competitive advantages, and its competitors and markets. When applied to futures and forex, it focuses on the overall state of the economy, interest rates, production, earnings, and management. When analyzing a stock, futures contract, or currency using fundamental analysis there are two basic approaches one can use; bottom up analysis and top down analysis. The term is used to distinguish such analysis from other types of investment analysis, such as quantitative analysis and technical analysis.

Fundamental analysis maintains that markets may misprice a security in the short run but that the "correct" price will eventually be reached. Profits can be made by purchasing the mispriced security and then waiting for the market to recognize its "mistake" and re price the security.

The biggest part of fundamental analysis involves delving into the financial statements. Also known as quantitative analysis, this involves looking at revenue, expenses, assets, liabilities and all the other financial aspects of a company. On the basis of this analysis the intrinsic value of the shares are determined. This is considered as the true value of the share. If the intrinsic value is higher than the market price it is recommended to buy the share. If it is equal to market price hold the share and if it is less than the market price sell the shares

To a fundamentalist, the market price of a stock tends to move towards its "real value" or "intrinsic value". If the "intrinsic/real value" of a stock is above the current market price, the investor would purchase the stock because he knows that the stock price would rise and move towards its "intrinsic or real value"

If the intrinsic value of a stock was below the market price, the investor would sell the stock because he knows that the stock price is going to fall and come closer to its intrinsic value.

Fundamental Analysis of the Companies:

We start analyzing the financials of certain companies in the FMCG (food & beverages) segment. These included companies like KRBL and Britannia Industries.

These comprised of Financial Modeling, Ratio calculations, Valuations using Discounted Cash Flow Model (DCFF). In this method we used the estimated or forecasted growth rate and also the cost of capital or inflation to discount Future Cash Flows. This method helped us to arrive at a valuation for the companies and their stocks under consideration.

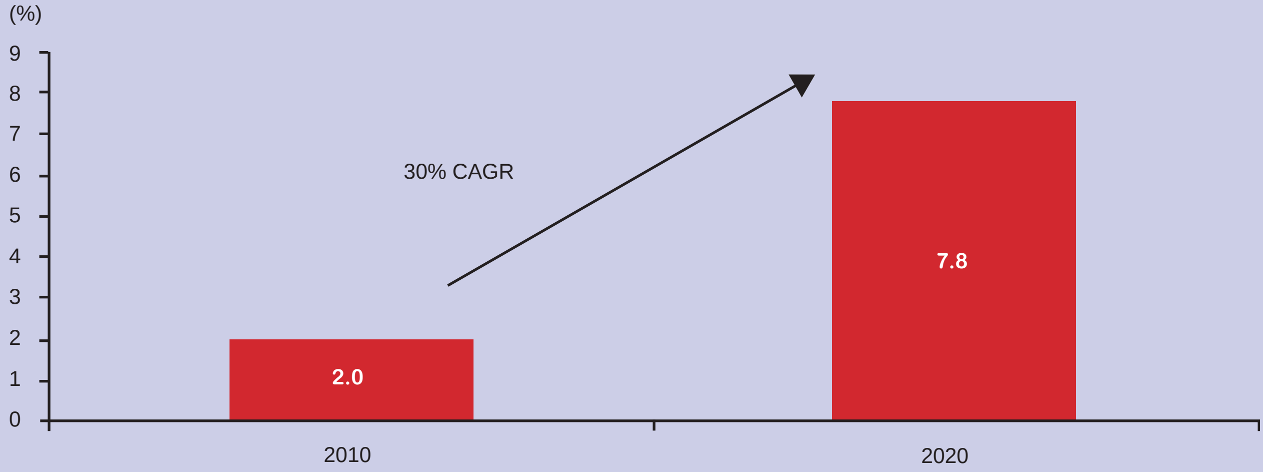
F&B segment to lead the way

The food sector accounted for ~37% of India's total FMCG market in 2010, according

to AC Nielsen. It is believed that over the next decade, this is likely to grow to ~46%.Currently the share of modern retail in India is between 2.5 % to 3 % but the penetration of modern retail in the F&B space is likely to touch 8% over the next 10 years

Consumer wallet still dominated by Food & Beverage

Despite the growing importance of other categories such as clothing, footwear, accessories, jewellery, etc, the share of food and beverages continues to dominate the share of a consumer wallet. According to Images India Retail, the retail F&B share is still ~60%, which means it remains the most important part of the overall retail trade. While this part of the trade has been dominated by traditional retail over the years, recent growth of modern retail has meant that the share of modern retail has improved. However,



Graph 3: **The percentage of sales accounted by Modern Retail**[1]

there is still a long way to go before modern retail accounts for a sizeable Proportion of overall retail trade, especially in the F&B space.

Private labels – a modern retail phenomenon

As modern retail started to grow in India, private labels started to make an entry into The FMCG market. The steady rise of private labels has been a consistent Phenomenon across the globe now. Globally, private label market penetration as a Percentage of retailers' overall sales is significant: the global average is ~17, Europe: 23% and US: 16%. Emerging markets, however, are still behind in terms of private Label penetration, at ~6%. In India, the overall share of private labels within organized Retail is ~5%, which makes it one of the lowest in the world (Images India Retail 2009). However, there lies an opportunity for Indian retailers, with retailers increasingly realizing those private labels can be a significant success if the product offering presents Value to the consumer. This is especially true for a country like India where consumers' perception of 'value' is extremely important.

Modern retail to help convert non-users to users

One of the opportunities across FMCG is to convert non users to come into the categories, even at the lowest part of the value chain. This has the potential to significantly shift the growth trajectory across categories upwards, as there is still a large majority of consumers in India who are non users of many of the products across the FMCG industry. This is especially true for the food category, where the penetration level in many categories is still very low compared to (Home and Personal Care) HPCs. Modern retail has taken the lead in this regard across the FMCG categories by luring more and more consumers into the category by way of different promotions and strategies.

[1] *Nomura Research Report on FMCG Sector 2010*

In several categories such as oats and instant noodles, modern retailers have launched their private label brands which are expected to grow significantly. This has aided the growth rates of the categories. India remains a huge unbranded market and therein lies an opportunity for retailers. Future FMCG group is looking at opportunities across categories, which include cosmetics, for which the value of brands is seen as key to success. However, in that sense, we see India as a distinctive market which provides an opportunity to migrate non users into the category. This is where modern retail has a big advantage over established brands in luring consumers

Modern Retail's role in developing the supply chain

The importance of supply chain in the development of modern retail cannot be stressed more. Having an efficient supply chain system will not only ensure that product availability is enhanced, but also helps in putting controls in place on costs. One of the key concerns for the FMCG industry has been the low fill rates that are prevalent in the country. The fill rate is defined at the percentage of time that the product which the consumer is willing to buy is actually available in the store. According to Images India Retail 2009, the industry average fill rate is close to 65-70%, this means about 30% of the time, the consumer is not able to find the product that he/she is looking for. This is direct cost to the retailer and the manufacturer, as non-availability of the product leads to loss of revenues. Modern retail has invested heavily behind developing an efficient supply chain. One of the benefits of having an efficient supply chain is that many of the inefficiencies in the form of additional costs get taken out of the system. This would result in cost to the consumer coming down, which also leads to improved consumer off take and an increase in per capita consumption.

This is especially relevant given the recent sharp rise in food prices, a result of inefficiencies in the supply chain. Many of this relates to traditional retail including wholesalers, local retailers, etc. A recent presentation from Bharti Wal-Mart cash and carry business suggests that with direct procurement, proper storage and distribution, prices can be kept under control.

Food & Beverages

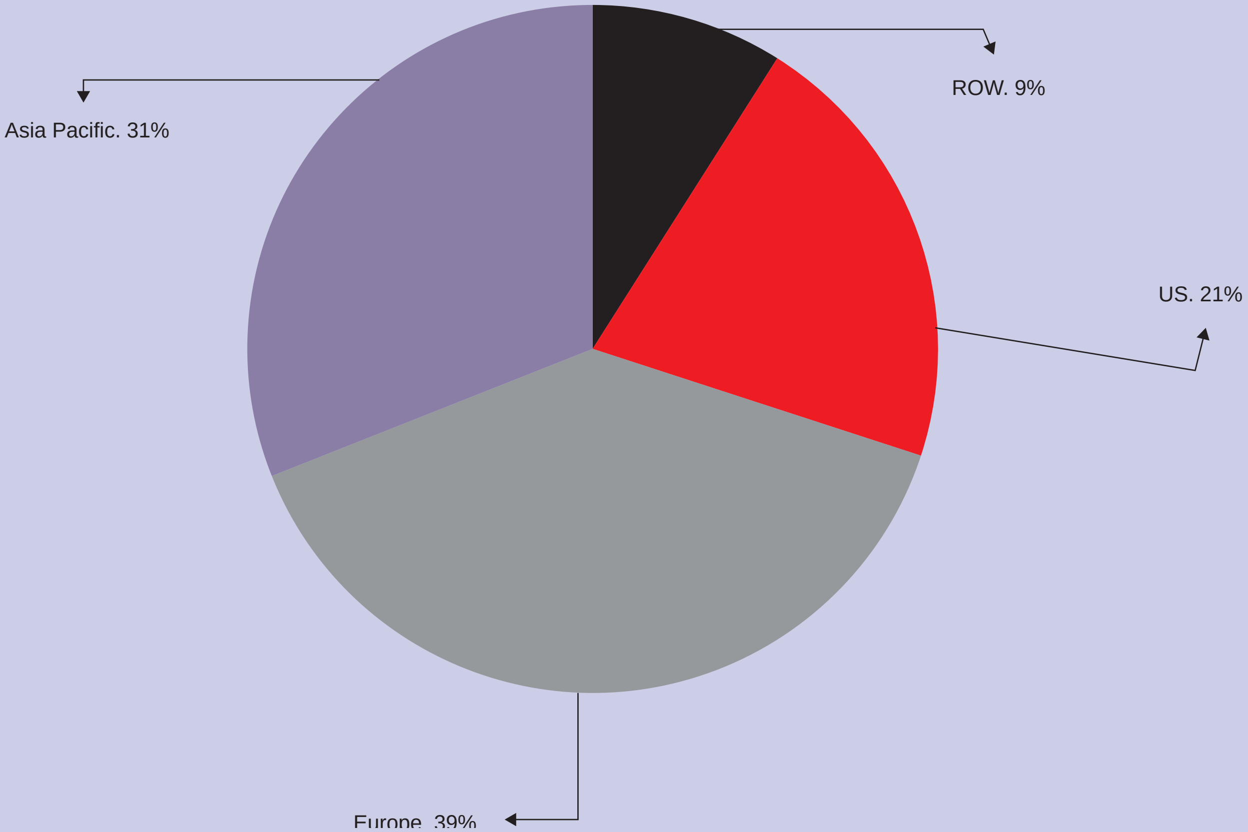
- **Food**
  According to the Ministry of Food Processing, the size of Indian food processing is around US$ 65.6 billion including US$ 20.6 billion of value added products. Of this, the health beverages industry is valued at US$ 230 billion, bread & biscuits at US$ 1.7 billion, chocolates at US$ 73 million and ice-creams at US$ 188 million. The size of the semi-processed/ready to eat food segment is over US$ 1.1 billion. The food category has also seen innovations like softies in ice creams, ready to eat rice by HUL and pizzas by both GCMMF and Godrej Pillsbury.
- **Tea**
  This is perhaps the only industry where India has retained its leadership over the past 150 years. With a turnover of more than Rs. 9,000 crore, the major share of tea market is dominated by unorganized players. More than 50% of the market share is captured by the unorganized players. Leading branded tea players are HUL and Tata Tea.
- **Coffee**
  The Indian beverage industry faces oversupply in segments like coffee and tea. However, more than 50% of the market share is in unpacked or loose form. The major players in this segment are Nestlé, HUL and Tata Tea

KRBL

Good long term prospects for company

Basmati rice industry is attractive, primarily due to the following factors:

- **Global trade flows**: India and Pakistan are the major producers of basmati rice. India exports ~2.0 million tonnes per annum of basmati rice compared to Pakistan's ~0.9 million tonnes per annum. Also, as per our industry sources, India's main basmati variety, PUSA 1121, is better than Pakistan's 'Super' variety. This is a structural advantage that India continues to enjoy.
- **Premium pricing**: Basmati rice is premium long-grain fine-texture rice and one of the most expensive varieties of rice available in the world.



Graph 4: **Global Processed Food Industry**

- **Lower regulations**: Due to its premium nature, basmati rice is not subject to strict regulations as faced by normal rice, which is the common man's food.
- **Strong export growth**: Exports of Indian basmati rice in volumes has grown at a CAGR of ~12% between FY00 and FY11, while in value terms it has grown at 18% CAGR to Rs 106 bn from Rs 17 bn in the same period.
- **Lifestyle changes**: With the increasing Indian middle-class population, organized retail and growth in hotels and restaurants, domestic demand for basmati is on the rise.

It can be observed that the above points indicate good growth for the industry. Therefore, if the company is able to perform better than its peers then it may benefit in the long run.

Business Model of KRBL:

Strong Distribution Network

Distributor/Dealer Network in India	450
Retail Outlets in India	4,00,000
Presence in Domestic Retail Chain	14
Distribution Network	28 States
Purchase Centre	182 centres in 5 states
Overseas Registrations	45
Export Countries	27

Contract Farming is one of the main reasons behind the success of KRBL

Contract Farming

Contract farming is agricultural production carried out according to an agreement between a buyer and farmers, which establishes conditions for the production and marketing of a farm product or products. Typically, the farmer agrees to provide established quantities of a specific agricultural product, meeting the quality standards and delivery schedule set by the purchaser. In turn, the buyer commits to purchase the product, often at a pre-determined price

Benefits to Farmers

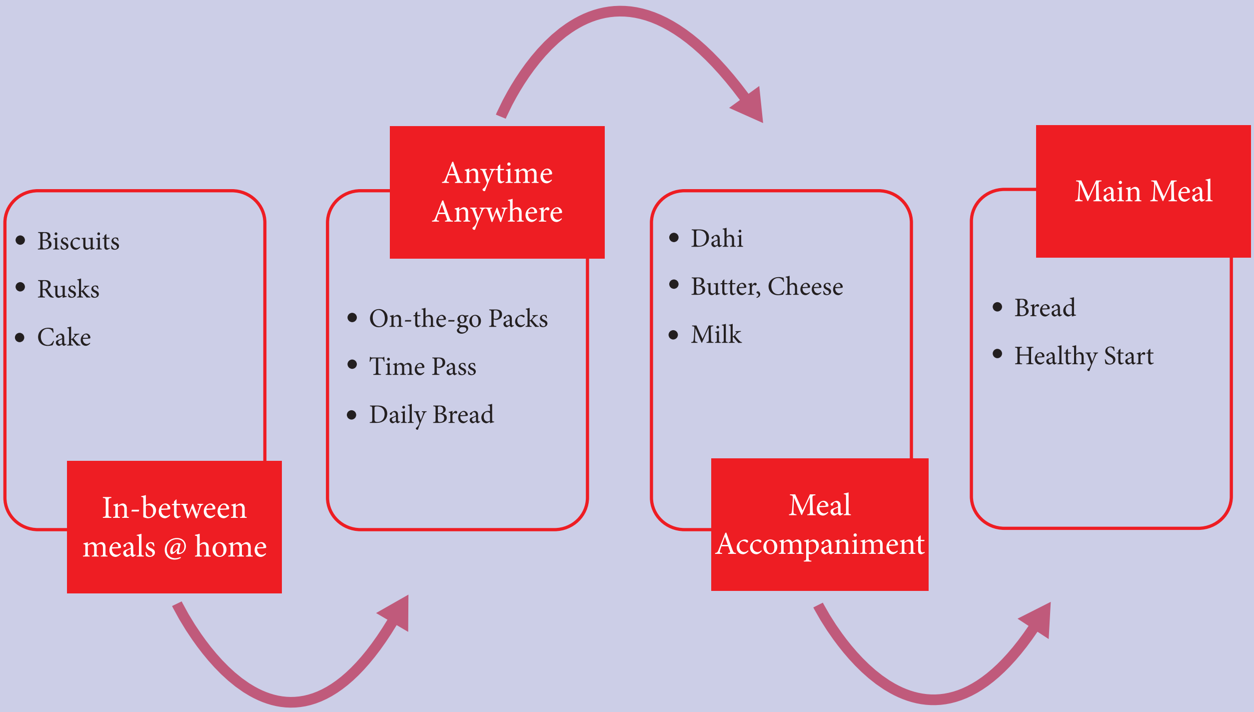
- Access to competitive and modern technologies
- Significant reduction in risk and uncertainty of markets
- Enhanced Earning potential due to improved crop quality and productivity
- Crop switching- Leading to Enhanced realization
- Good value of paddy without involving intermediaries

Benefits to KRBL

- Adequate availability of paddy
- Ensures quality of procured paddy
- Significant savings in transportation and Mandi tax
- Building lasting, mutually beneficial relationship with the farmers
- Insulation from fluctuations in paddy prices
- Enhanced realizations

Britannia Industries

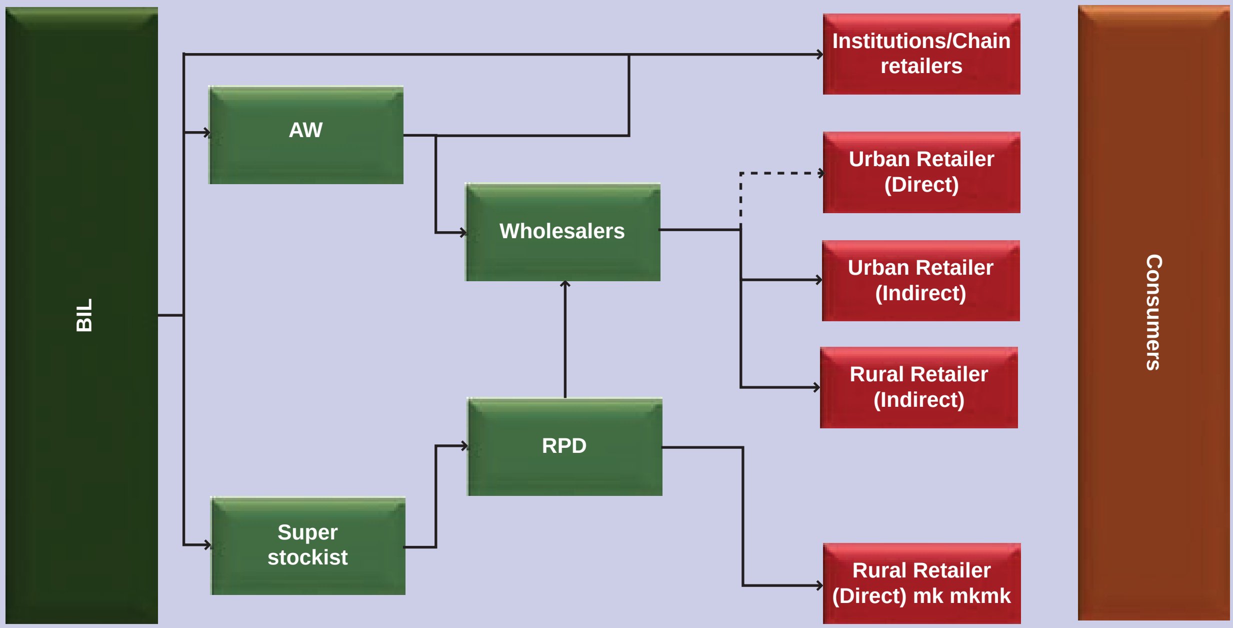
Product Portfolio of Britannia Industries[2]



[2] *Britannia Industries Presentation to investors ---February 2012*

Britannia Supply Chain

The conventional Distribution infrastructure delivers to 35 Lakhs outlets, 8.5 Lakhs outlets are serviced directly [3]



Ratio Analysis:

	KRBL Limited			Britannia Industries		
Current Ratio	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
	0.76	0.87	0.84	1.18	1.16	1.1

Current Ratio measures the company's ability to meet its short term liabilities. A higher ratio indicates that the company is more capable of paying off its short term liabilities. A ratio of 2:1 was considered to be ideal. However, many analysts now believe that the ideal ratio should differ for different industries and should also vary as per the size of the firm. A ratio of below 1 can be a cause for worry for KRBL. On the other hand; Britannia has been maintaining little more current assets than liabilities to finance its assets. It is managing its short term liabilities well.

	KRBL Limited			Britannia Industries		
Debt Equity Ratio	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
	1.42	1.13	1.39	0.37	2.32	1.9

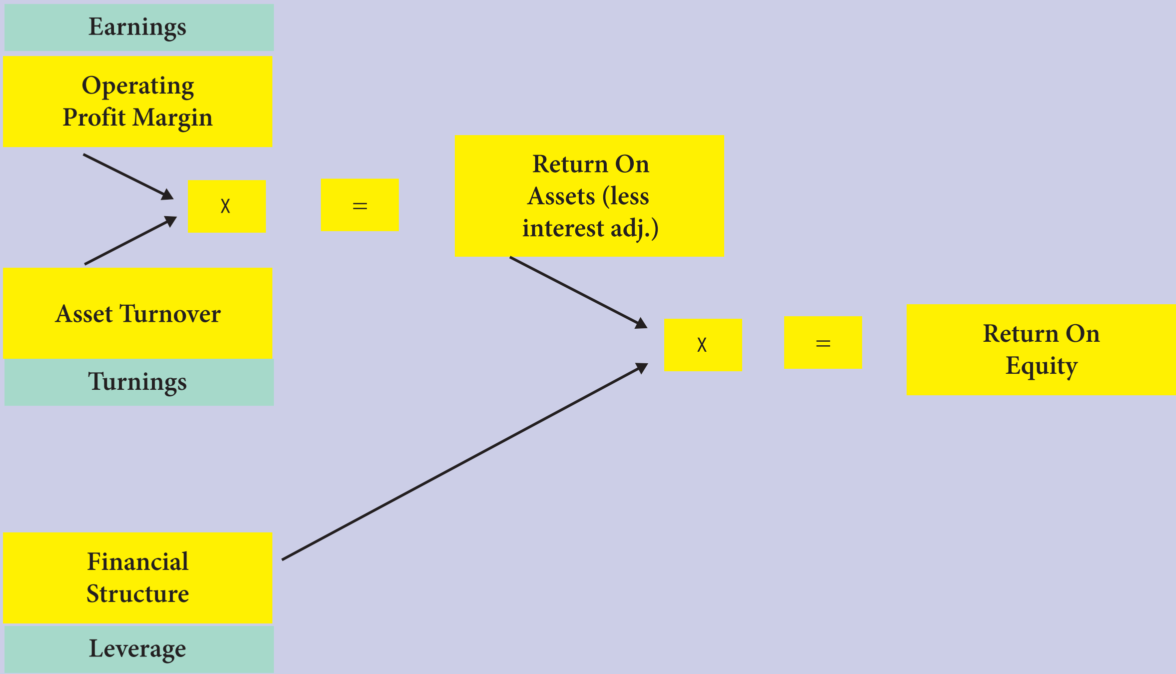
It measures the proportion of Debt to Equity. Britannia has taken more debt in the recent past and hence, its Debt Equity Ratio has peaked up. In case of KRBL, however, it has been steadily maintaining a ratio over 1.

KRBL Limited						
Net Profit Margin	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
	4.93	7.78	7.66	4.39	2.7	2.89

It measures the profitability of the company or firm after clearing all dues. This is a low margin business. However; KRBL has been able to maintain a higher net profit margin. In case of Britannia, the margin is just below 3 per cent.

[3] *Britannia Industries Presentation to investors ---February 2012*

Du Pont Analysis



DuPont analysis tells us that ROE is affected by three things:

- Operating efficiency, which is measured by profit margin
- Asset use efficiency, which is measured by total asset turnover
- Financial leverage, which is measured by the equity multiplier[4]

[4] *ROE = Profit Margin (Profit/Sales) * Total Asset Turnover (Sales/Assets) * Equity Multiplier (Assets/Equity)*

KRBL

KRBL Limited

Return on Equity

Values in %	2008	2009	2010	2011	FY 12 E	FY 13 E	FY 14 E
PAT/Net Sales	5.46	4.99	7.89	7.76	4.15	6.85	7.28
Net Sales/Net total Assets	88.81	128.22	138.54	100.24	113.23	114.89	117.49
Net Total Assets/Av Equity	337.19	261.24	238.02	261.80	209.12	198.87	176.95
ROE	16.35	16.70	26.01	20.36	9.84	15.66	15.13
NOPAT=EBIT(1-t)	109.90	131.73	159.67	156.06	157.10	171.95	180.55

Return on Capital

Values in %	2008	2009	2010	2011	FY 12 E	FY 13 E	FY 14 E
NOPAT/Net Sales	10.92	10.04	10.11	10.06	9.79	9.84	9.84
Net Sales/Capital	88.81	128.22	138.54	100.24	113.23	114.89	117.49
ROC	9.70	12.88	14.01	10.08	11.08	11.31	11.56

Non Cash Working Capital

Particulars	2008	2009	2010	2011	FY 12 E	FY 13 E	FY 14 E
Current assets	1096.4	924.9	998.3	1461.0	1393.4	1516.5	1592.3

Cash	28.9	11.2	42.1	5.3	0.0	0.0	0.0
Current Liabilities	198.4	153.1	212.2	327.7	326.0	354.8	372.5
Non Cash Working Capital	869.1	760.6	743.9	1128.0	1067.5	1161.7	1219.8
Net Increase in WC	356.25	-108.51	-16.68	384.07	-60.56	94.28	58.09

Free Cash Flows

Particulars	2008	2009	2010	2011	FY 12 E	FY 13 E	FY 14 E
EBIT(1-t)	109.90	131.73	159.67	156.06	157.10	171.95	180.55
Add: Depreciation	24.10	23.55	27.58	35.95	43.88	47.17	49.53
Less: Changes in Non Cash Working Capital	356.25	-108.51	-16.68	384.07	-60.56	94.28	58.09
Less: Capital Expenditure	37.36	11.43	127.80	103.05	-16.79	47.64	29.35
FCFF	-259.61	252.36	76.13	-295.11	278.33	77.20	142.64

Britannia Industries

Return on Equity

Value in %	2008	2009	2010	2011	FY 12 E	FY 13 E	FY 14 E
PAT/Net Sales	6.36	4.13	2.70	2.87	3.05	3.14	3.25
Net Sales/Net total Assets	284.70	348.66	405.40	493.24	494.91	516.50	540.93
Net Total Assets/Av Equity	154.19	140.83	187.60	311.08	298.98	266.95	237.09
ROE	27.92	20.27	20.53	44.08	45.06	43.29	41.71
NOPAT=EBIT(1-t)	176.14	147.69	119.50	158.44	187.11	204.70	226.57

Return on Capital

Value in %	2008	2009	2010	2011	FY 12 E	FY 13 E	FY 14 E
NOPAT/Net Sales	6.35	4.26	3.13	3.39	3.57	3.55	3.57
Net Sales/Capital	287.60	345.00	401.45	487.57	487.44	508.70	532.77
ROC	18.26	14.68	12.56	16.54	17.40	18.05	19.01

Non Cash Working Capital

Particulars	2008	2009	2010	2011	FY 12 E	FY 13 E	FY 14 E
Current assets	626.11	626.15	639.61	754.74	798.75	881.12	970.49
Cash	51.89	56.80	33.45	70.62	0.00	0.00	0.00
Current Liabilities	424.43	511.90	575.29	714.57	748.97	824.34	907.25
Non Cash Working Capital	149.79	57.45	30.87	-30.45	49.77	56.78	63.23
Net Inc in WC	138.38	-92.34	-26.58	-61.32	80.22	7.01	6.46

Free Cash Flows of a Firm

Particulars	2008	2009	2010	2011	FY 12 E	FY 13 E	FY 14 E
EBIT(1-t)	176.14	147.69	119.50	158.44	187.11	204.70	226.57
Add: Depreciation	39.36	65.91	58.23	64.86	66.57	74.82	80.66
Less: Changes in Non Cash WC	138.38	-92.34	-26.58	-61.32	80.22	7.01	6.46
Less: Capital Expenditure	78.25	161.39	88.89	44.07	129.14	119.12	131.03
FCFF	-1.13	144.55	115.42	240.55	44.31	153.39	169.75

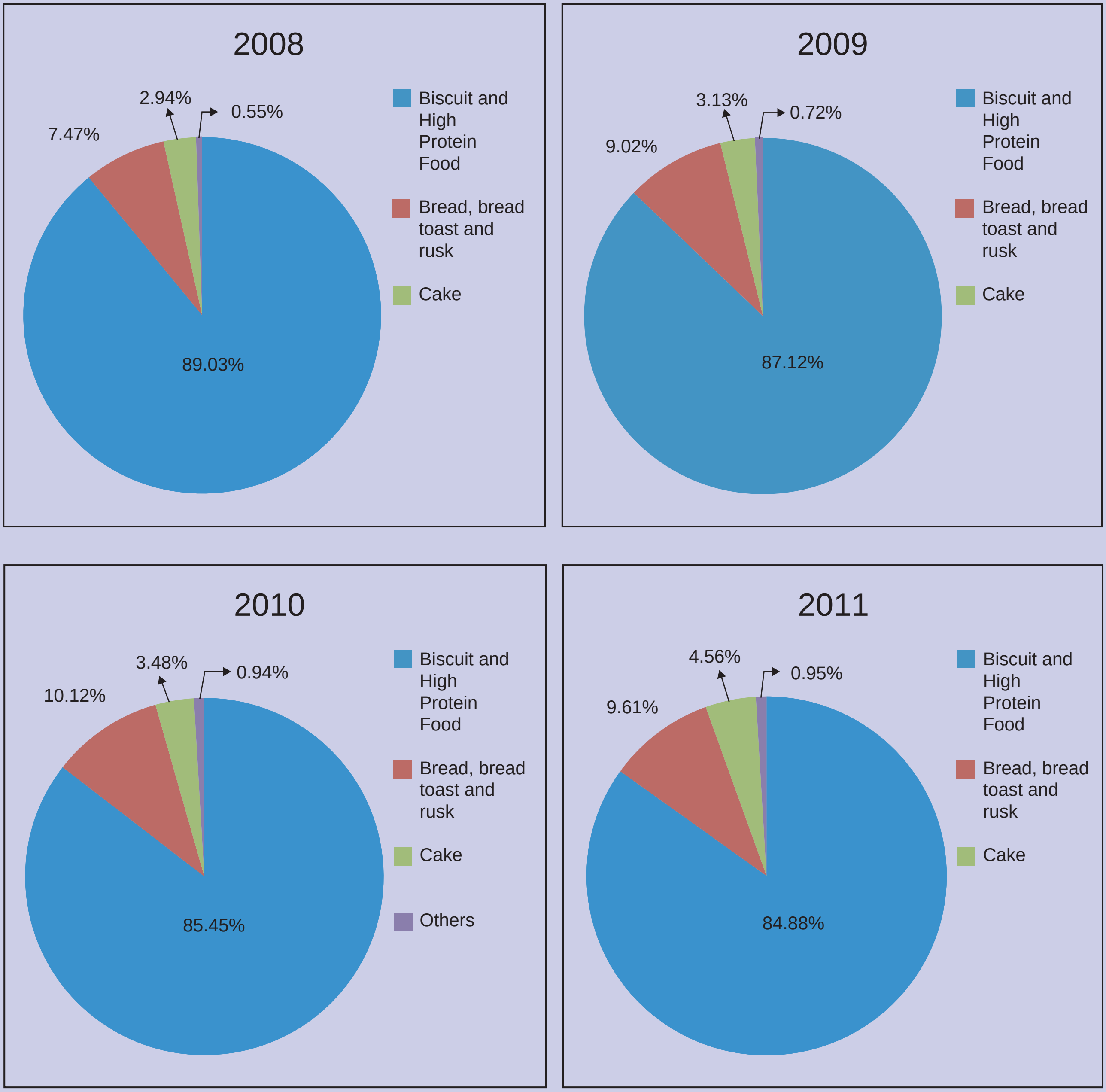
Both KRBL and Britannia Industries are predicted to give positive returns to their shareholders. However, we see the returns declining for KRBL. In case of Britannia though, the percentage seems to be steady over 40.They are providing a better return to their equity owners.

Return on Capital is also higher for Britannia Industries. This means that Britannia Industries has been providing a better return on its capital. Return on Capital is higher for Britannia and is estimated to be around 19% in 2014.It is estimated to be around 11% for KRBL.

It can be seen that rice contributes a major proportion of KRBL's sales. While it contributed around 91% in year ending 2008; the proportion has risen and contributed around 95% in the years ahead. This is attributed to larger volumes of exports to the Middle East countries, where rice is a popular culinary.

Based on the above the proportion of rice to the contribution of sales is pegged at 95% for the subsequent years.

Graph 5: **Revenue mapping of KRBL**



Graph 6: **Revenue mapping of Britannia Industries**

The contribution of Biscuits and High Protein Food to the sales of Britannia Industries is much higher than the other segments. However; the percentage contribution has been declining over the years. This is because Britannia Industries has been increasing its product portfolio and constantly diversifying into other food segments.

PEG Ratio:

A lower PEG means that the stock is undervalued more. The PEG ratio of 1 is sometimes said to represent a fair trade-off between the values of cost and the values of growth, indicating that a stock is reasonably valued given the expected growth. A company having a PEG Ratio between 0 and 1 is believed to provide higher returns. A ratio above 1 may indicate that the stock is undervalued.

PEG Ratio	KRBL	Britannia
Mar 31-2011Closing Price	26.7	370.55
EPS as on	4.94	11.23
Annual EPS Growth	-44.59%	19.01%
P/E	5.4049	32.9964
PEG Ratio	-0.1212	1.7353

It is observed that KRBL has a PEG Ratio which is negative. This is because of a decrease in EPS in 2011 over the previous year. While, this is not a good sign for an investor, the company generating positive Free Cash Flows means that the investors can expect better results from the company in future and expect higher returns.

Britannia, on the other hand has a PEG Ratio just over 1.73.While its stock, may still not have reached its fair value, it can be said that the investors need to take a cautious approach if they have to go long on Britannia shares. A high PEG Ratio can also be attributed to a high Return on Equity for Britannia. This is because the Indian markets run high on sentiments and one or two bad news for the company or industry may cause a sharp decline in its share prices.1

VI. Limitations of the study

1. While the project would help to calculate the current valuation of stocks of the company and predict future performance, it did not involve much of technical analysis using technical indicators to help one take short term decisions and profit in the short term.
2. Also, the markets are known to run on sentiments and the research would be restricted to India.

BSE[5]

Index	Open	Close	% Change
Sensex	17,039	16,026	-5.95%
MIDCAP	6170.24	5854.18	-5.12%
Smallcap	6459.04	6274.69	-2.85%
AUTO	9768.15	9202.5	-5.79%
BANKEX	11355.63	10678.79	-5.96%
CD	6214.64	6428.93	3.45%
CG	9887.35	8780.95	-11.19%
FMCG	4459.03	4601.48	3.19%
Healthcare	6447.59	6602.37	2.40%
IT	5976.93	5471.24	-8.46%
METAL	10899.51	9933.71	-8.86%
OIL & GAS	7810.52	7462.24	-4.46%
POWER	2047.46	1777.5	-13.19%
PSU	7100.41	6616.05	-6.82%
REALTY	1696.02	1566.66	-7.63%
TECK	3501.37	3175.89	-9.30%

[5] *Niveshak Magazine of IIM Shillong, May 2012 Edition*

In today's globalized world, where trade is interconnected, the performance of stock exchanges in the United States of America and Europe also have an impact on the stock performances the world over, including India. Such eventualities cannot be predicted in advance.

VII. Findings

- After carrying out fundamental analysis and analyzing the macroeconomic factors, it can be concluded that inflation is good for the economy only if it is below the growth rate.
- We could observe that the major cost for the companies was the prices of raw materials. Raw materials account for a major portion of the Companies' expenses in the FMCG Sector. The prime reason for the increase in the companies' expenses has been the cost of raw materials.
- We also noticed that due to increase in power tariffs, companies are now resorting to generate their own power for captive use.
- Modern Retail has helped spur sales in this sector. The percentage sales contribution of organised retail has been growing every year.
- Changing lifestyle of people and independent families has led to an increase in the consumption of packaged food.
- Despite, economic slowdown there still has been growth in this sector. One of the main reasons is because some essential commodities form a part of this sector and even an increase in prices does not force people to curtail expenditure on those goods.

KRBL

Fair Price of the Share	30.33

Britannia Industries

Fair Price of a Share	591.37

VII. Conclusion

Returns in Different Sector Index in the April 2012 (see page xxx).

We can observe that while most sectors have been giving negative returns, FMCG has given positive returns and is second highest in terms of returns.

After carrying out fundamental analysis, we can therefore conclude that this sector is likely to give positive returns in the near future, even if there is a little slowdown in the economy or high inflation. It is one of the better sectors for the investors to put their money into.

Even companies like KRBL and Britannia Industries look to be undervalued at the moment and are likely to give positive returns to the shareholders in the next one year.

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Debt Crisis: The Serial Effect on Greece

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Considering the pattern of Greece debt crisis one can rightfully proclaim that the political mismanagement, corruption, populist practices of the government has led it to this state of bankruptcy. Sanctions inflicted on it by the troika (IMF, EC and ECB) were somewhat expected if not justified. However as no man is a born criminal one also needs to understand the circumstances that led it to this conduit. Hence we need to determine how Greece could get to a figure of debt of more than 150% of its GDP? Who are the one's which kept financing this extravagance and now want to be relieved from the burden? Why was the debt allowed to snowball and why wasn't the alarm bell rung earlier? If there is more to this turmoil than what meets the eye?

The explanation for the debt crisis has two parts to it one is structural functioning of European monetary union and the other is that of international monetary system, which gives us a somewhat bigger picture. For any European country to enter into the union it needs to sign a stability and growth pact (SGP) whereby public debt cannot be more than 60% of GDP and annual budget deficits -3% of GDP. However, the figures released by Greece for the year 2009 were doctored at-5% of GDP which were later rectified by Greece government as-7.7% when the actual was around -13%. The pact was widely not adhered to and not just Greece but a lot of other countries in the union got borrowings far exceeding these limits. The primary reason behind it was global liquidity where investors in a lookout for yields had been particularly underpricing risk and sovereign debt ratings of euro area countries were chiefly ignored. Next, the question arises who was financing Greece even when it was knee deep in debt and its ratings were further deteriorating. The answer lies in the post financial crisis of 2007 when the federal reserve and ECB in a bid to create liquidity in the Eurozone was lending to the private banks at the advantageous rate of as less as 1%. These banks in turn gave out these loans to Greece at 4-5% for reasons of default risk associated with the economy. The private banks essentially involved in this activity were the Western European banks (esp. Germany and France). When a default by Greece became inevitable and the banks started reducing their exposure in the Greek economy the fears of contagion effect and loss of faith in Eurozone made many European countries take pledges on the Greece debt. The ECB and IMF came to its rescue with an austerity package which had all the blessings of taking the country into a deeper recession, curtailing any scope of economic recovery and thereby further making the debt non recoverable.

However this explanation again is only a partial answer to Greece crisis. There are further discussions doing rounds in the international circles on the way monetary system works across countries, dominance of US dollar and how it has contributed to the global financial crisis. US dollar being a reserve currency is held not only by the emerging market economies but also developed countries. It has been generally seen that the amount of reserves held far exceed the optimum required. Thereby creating a situation where excess money is chasing few safer heavens (US debt) and lowering of yields in US. The situation becomes unsustainable as there is overconsumption by the former and over saving by the later. Creating a bubble which when bursts causes turmoil for the world economy for all those who are directly, indirectly and unrelated to the crisis. An economy like Greece which did not have exposure to the toxic debt has become a victim to this cycle. The markets under normal circumstances follow nontoxic avenues but in an environment of slump to stimulate investment where excess liquidity is created it starts taking risky ventures. The resultant being another crisis situation in the form of sovereign debt crisis across euro zone which lead to overpricing of risk by the investors shrinking the markets and weakening them further.

Draft CAAS—103

Cost Audit and Assurance Standard on
Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

The following is the Exposure Draft of **Cost Audit and Assurance Standard** (CAAS 103) on **"Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Standards on Auditing".** In this Standard, the standard portions have been set in bold italic type. This Standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

This Standard on Auditing deals with the overall objectives of the independent cost auditor, the nature and scope of a Cost audit the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with CAASs.It also explains the scope, authority and structure of the CAASs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the CAASs.

The independent auditor is referred to as "the Cost auditor" hereafter

2. Objectives

The objective of issuing this Standard is to lay down the general principles and broad guidelines governing the Audit of Cost Statements.

The objective of an audit of Cost Statements is to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with an applicable Cost reporting framework and give a true and fair view of the Cost of a product, activity or service. In the case of a Cost Audit under the Cost Audit Report Rules in India, the objective is to express an opinion on whether the Cost Statements subject to audit represent a true and fair view of the Cost of production, cost of sales and margin of products covered by the Cost Audit.

It is the responsibility of the management and where required of the governing body e.g.Board of Directors to maintain the cost records, prepare the cost statements and the abridged Cost Statement and other information contained in the Annexure to the Cost Audit Report prescribed by law in India. The Cost Auditor expresses an opinion on them. The CAASs do not in any way alter this responsibility of the management or the governing body.

As part of their responsibility for the preparation and presentation of the cost statements, management and, where appropriate, those charged with governance are responsible for:

- The identification of the applicable cost reporting framework, in the context of any relevant laws or regulations.
- The preparation and presentation of the cost statements in accordance with that framework.
- An adequate description of that framework in the cost statements.

To be in a position to express an opinion, the Cost auditor 's objectives are:

1. to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and
2. to report on the cost statements in the form required by law or by the CAAS.in accordance with the auditor's findings.

Where reasonable assurance cannot be obtained, the cost Auditor should qualify the opinion and in extreme cases disclaim an opinion.

The objective may extend to making observations and suggestions where required by regulations e.g.Cost Audit Report Rules.

3. Scope

This Standard should be applied while undertaking audit of Cost Statements that require attestation. It also describes management responsibility for the preparation and presentation of the Cost Statement, to identify the Cost Reporting framework and to lay down Cost Accounting policies

The cost reporting framework may be laid down by law e.g. the Cost Audit Report Rules under the Companies Act in India or by the intended user e.g Excise Department in the case of a Section 14AA audit or by a professional body having jurisdiction over the area of reporting.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Audit: An audit is an independent examination of financial, cost and other related information of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

4.2 Auditee: Auditee means a company or any other entity for which cost audit and/ or certification is carried out.

4.3 Auditor: Auditor is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable the firm. Auditor includes Cost Auditor

4.4 Audit Risk: Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk. The risk of material misstatement has two components viz. Inherent Risk and Control risk.

a. Inherent risk – the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

b. Control risk – the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.

Detection risk – the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

4.5 Assurance engagement – An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria.

There are two types of assurance engagements a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement.

Reasonable assurance engagement – The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion.

Limited assurance engagement – The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.

4.6 Assurance Engagement Risk: The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.

4.7 Audit Strategy: Audit Strategy sets the scope, timing and direction of the audit, and guides the development of the detailed audit plan.

4.8 Cost Audit: Cost audit is an independent examination of cost and other related information in respect of a product or group of products of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.

4.9 Cost Auditor: "Cost Auditor" means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Companies Act and shall be a cost accountant within the meaning of The Cost and Works Accountants Act 1959. "Cost Accountant" is a cost accountant as defined in clause (b) of sub-section (1) of section 2 of The Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under

subsection (1) of section 6 and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants.

4.10 Engagement Partner: Engagement partner means the partner or other person in the firm who is a member of the Institute of Cost Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

4.11 Engagement Team: Engagement team means all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

4.12 Firm: Firm means a sole practitioner, partnership including LLP or any other entity of professional cost accountants as may be permitted by law and constituted under The Cost and Works Accountants Act & Regulations.

4.13 Misstatement: A difference between the amount, classification, presentation or disclosure of a reported cost statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable cost reporting framework. Misstatements can arise from error or fraud.

Where the cost auditor expresses an opinion on whether the cost statements give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the cost auditor's judgment, are necessary for the cost statements to be presented fairly, in all material respects, or to give a true and fair view.

4.14 Risk Assessment: Risk Assessment is the overall process of risk analysis and risk evaluation.

4.15 Non-compliance – Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations governing Cost Audit. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

5. Requirements

5.1 The cost auditor should comply with the relevant ethical requirements including those pertaining to independence in respect of cost audit engagements.(refer 6.1)

5.2 The cost auditor should comply with Cost Audit and Assurance Standards and Statement on Generally Accepted Cost Audit and Assurance Principles and Practices (GACAAP) while conducting an audit. (refer 6.2)

5.3 In determining the audit procedures to be performed in conducting an audit the cost auditor should comply with each of the Cost Audit and Assurance Standards and also with the Statement on Generally Accepted Cost Audit and Assurance Principles and Practices (GACAAP) relevant to the audit. (refer 6.2) A CAAS is relevant to the audit when the CAAS is in effect and the circumstances addressed by the CAAS exist.

5.4 The cost auditor should not represent compliance unless the auditor has complied fully with all of the Cost Audit and Assurance Standards and Statement on Generally Accepted Cost Audit and Assurance Principles and Practices (GACAAP) relevant to the audit. (refer 6.2)

5.5 The cost auditor should plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the Cost Statements to be materially misstated. (refer 6.3)

5.6 The cost auditor should exercise professional judgment in planning and performing the audit. (refer 6.4)

5.7 The auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. (refer 6.4)

5.8 The cost auditor should determine whether the Cost Reporting Framework adopted by management in preparing the Cost Statements is acceptable. (refer 6.5)

5.9 The cost auditor shall not be required to perform audit procedures regarding the entity's compliance with laws and regulations governing cost audit in the absence of identified or suspected non-compliance. (refer 6.6)

6. Application Guidance

6.1 Audit and Ethics(refer 5.1) : The cost auditor should comply with relevant ethical requirements as per Code of Ethics of the Institute of Cost Accountants of India. This code establishes fundamental principles of professional ethics relevant to the auditor when conducting an audit and provides a conceptual framework for applying these principles. The fundamental principles with which the auditor is required to comply are Integrity, Objectivity, Professional competence and due care, Confidentiality, and Professional behavior. In case an audit engagement is in public interest, then the auditor should be independent of the entity subject to the audit. The cost auditors independence from the entity safeguards the cost auditors ability to form an opinion without being affected by influences that might compromise that opinion.

The provision of services for maintenance of cost records, design and implementation of Cost Systems and internal audit are considered to erode the independence.

6.2 Conduct of audit : (refer 5.2, 5.3 and 5.4)

6.2.1 The Cost Audit and Assurance Standard and Statement on Generally Accepted Cost Audit and Assurance Principles and Practices provide the standards for the cost auditor's work in fulfilling the overall objectives of the cost auditor. The CAAS AND GACAAP deal with general responsibilities of the cost auditor, as well as cost auditor's further considerations relevant to the application of those responsibilities to specific topics. In performing an audit, the cost auditor may be required to comply with legal or regulatory requirements in addition to CAAS AND GACAAPs.

6.2.2 The CAAS AND GACAAPs do not override law or regulation that govern audit process. The cost auditor may also conduct the audit in accordance with both CAAS AND GACAAPs and legislative and regulatory requirements. In such cases in addition to complying with each of the CAAS and GACAAP relevant to the cost audit, it may be necessary for the cost auditor to perform additional audit procedures in order to comply with the legislative and regulatory requirements

The form of the cost auditor's opinion will depend upon the applicable financial reporting framework and any applicable laws or regulations e.g.Cost Audit Report Rules..

6.2.3 The cost auditor is not expected to represent compliance with Cost Audit and Assurance Standard and Statement on Generally Accepted Cost Audit and Assurance Principles and Practices unless the cost auditor has complied fully with all of the Cost Audit and Assurance Standard and Statement on Generally Accepted Cost Audit and Assurance Principles and Practices .

6.3 Professional skepticism: (refer 5.5) An attitude of professional skepticism means the cost auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and be alert to audit evidence that contradicts or brings into question the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. An attitude of professionalism is necessary throughout the cost audit process for the auditor to reduce the risk of overlooking unusual circumstances, of over generalizing when drawing conclusions from cost audit observations, and of using faulty assumptions in determining the nature, timing and extent of the cost audit procedures and evaluating the results thereof. When making inquiries and performing other cost audit procedures, the cost auditor is not satisfied with less-than-persuasive audit evidence based on a belief that management and those charged with governance are honest and have integrity. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the cost auditor's opinion.

6.3.1 A cost auditor conducting an audit in accordance with CAAS AND GACAAP obtains reasonable assurance that the Cost Statements taken as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the Cost Statements taken as a whole. Reasonable assurance relates to the whole audit process.

A cost auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the cost auditor's ability to detect material misstatements. These limitations result from factors such as the following:

- The use of testing.
- The inherent limitations of internal control (for example, the possibility of management override or collusion).
- The fact that most audit evidence is persuasive rather than conclusive.

Also, the work undertaken by the cost auditor to form an audit opinion is permeated by judgment, in particular regarding:

a. The gathering of audit evidence, for example, in deciding the nature, timing and extent of audit procedures; and
b. The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the Cost Statements.

6.3.2 Further, other limitations may affect the persuasiveness of audit evidence available to draw conclusions on particular assertions. (for example, transactions between related parties). In these cases certain CAAS AND GACAAPs identify specified audit procedures which will, because of the nature of the particular assertions, provide sufficient appropriate audit evidence in the absence of:

a. Unusual circumstances which increase the risk of material misstatement beyond that which would ordinarily be expected; or
b. Any indication that a material misstatement has occurred.

Accordingly, because of the factors described above, an audit is not a guarantee that the Cost Statements are free from material misstatement, because absolute assurance is not attainable. Further, an audit opinion does not assure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

6.4 Audit Risk and Materiality: (refer 5.6 and 5.7) Entities pursue strategies to achieve their objectives, and depending on the nature of their operations and industry, the regulatory environment in which they operate, and their size and complexity, they face a variety of business risks. Management is responsible for identifying such risks and responding to them. However, not all risks relate to the preparation of the Cost Statements. the auditor is ultimately concerned only with risks that may affect the cost statements.

6.4.1 The cost auditor obtains and evaluates audit evidence to obtain reasonable assurance about whether the Cost Statements give a true and fair view or in accordance with the applicable cost reporting framework. The concept of reasonable assurance acknowledges that there is a risk the audit opinion is inappropriate. The risk that the cost auditor expresses an inappropriate audit opinion when the Cost Statements are materially misstated is known as "audit risk." The cost auditor reduces audit risk by designing and performing audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base an audit opinion. Reasonable assurance is obtained when the auditor has reduced audit risk to an acceptably low level.

6.4.2 Audit risk is a function of the risk of material misstatement of the cost statements (or simply, the "risk of material misstatement") (i.e., the risk that the Cost Statements are materially misstated prior to audit) and the risk that the auditor will not detect such misstatement ("detection risk"). The cost auditor performs audit procedures to assess the risk of material misstatement and seeks to limit detection risk by performing further audit procedures based on that assessment. The audit process involves the exercise of professional judgment in designing the audit approach, through focusing on what can go wrong (i.e., what are the potential misstatements that may arise) at the assertion level and performing audit procedures in response to the assessed risks in order to obtain sufficient appropriate audit evidence.

6.4.3 The cost auditor is concerned with material misstatements, and is not responsible for the detection of misstatements that are not material to the Cost Statements taken as a whole. The cost auditor considers whether the effect of identified uncorrected misstatements, both individually and in the aggregate, is material to the Cost Statements taken as a whole. Materiality and audit risk are related

In order to design audit procedures to determine whether there are misstatements that are material to the cost statements taken as a whole, the cost auditor considers the risk of material misstatement at two levels:

- the overall cost statement level and
- in relation to cost heads, items of cost and disclosures and the related assertions.

6.4.4 The cost auditor considers the risk of material misstatement at the overall cost statement level, which refers to risks of material misstatement that relate pervasively to the Cost Statements as a whole and potentially affect many assertions. Risks of this nature often relate to the entity's control environment (although these risks may also relate to other factors, such as declining economic conditions), and are not necessarily risks identifiable with specific assertions at the cost heads, items of cost or disclosure level. Rather, this overall risk represents circumstances that increase the risk that there could be material misstatements in any number of different assertions, for example, through management override of internal control. Such risks may be especially relevant to the cost auditor's consideration of the risk of material misstatement arising from fraud. The auditor's response to the assessed risk of material misstatement at the overall cost statement level includes consideration of the knowledge, skill, and ability of personnel assigned significant engagement responsibilities, including whether to involve experts; the appropriate levels of supervision;

6.4.5 The cost auditor also considers the risk of material misstatement at the cost heads, items of cost and disclosure level because such consideration directly assists in determining the nature, timing, and extent of further audit procedures at the assertion level. The cost auditor seeks to obtain sufficient appropriate audit evidence at the cost heads, items of cost, and disclosure level in such a way that enables the auditor, at the completion of the audit, to express opinion on the Cost Statements taken as a whole at an acceptably low level of cost audit risk. Auditors use various approaches to accomplish that objective. The discussion in the following paragraphs provides an explanation of the components of audit risk.

6.4.6 The risk of material misstatement at the assertion level consists of two components as follows:

- "Inherent risk" is the susceptibility of an assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls. The risk of such misstatement is greater for some assertions and related cost heads, items of cost and disclosures than for others. For example, complex calculations are more likely to be misstated than simple calculations. Cost heads consisting of amounts derived from cost estimates that are subject to significant measurement uncertainty pose greater risks than do cost heads consisting of relatively routine, factual data.
- External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a cause changes to a manufacturing process rendering the existing classification of variable and fixed costs inappropriate and cause product contribution to be misstated.. In addition to those circumstances that are peculiar to a specific assertion, factors in the entity and its environment that relate to several or all of the classes of cost heads, items of cost, or disclosures may influence the inherent risk related to a specific assertion. These latter factors include, for example, external market constraints may cause normal capacity as an unreliable basis for determining unit costs.
- "Control risk" is the risk that a misstatement that could occur in an assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control. That risk is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to preparation of the entity's Cost Statements. Some control risk will always exist because of the inherent limitations of internal control.
- Inherent risk and control risk are the entity's risks; they exist independently of the audit of the Cost Statements. The auditor is required to assess the risk of material misstatement at the assertion level as a basis for further audit procedures, though that assessment is a judgment, rather than a precise measurement of risk. When the auditor's assessment of the risk of material misstatement includes an expectation of the operating effectiveness of controls, the auditor performs tests of controls to support the risk assessment. The CAAS AND GACAAPs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risk of material misstatement." Although the CAAS AND GACAAPs ordinarily describe a combined assessment of the risk of material misstatement, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. The assessment of the risk of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.
- "Detection risk" is the risk that the cost auditor will not detect a misstatement that exists in an assertion that could be material, either individually or when aggregated with other misstatements. Detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor. Detection risk cannot be reduced to zero because the auditor usually does not examine all of cost heads, items of cost , or disclosure and because of other factors. Such other factors include the possibility that an cost auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results. These other factors ordinarily can be addressed through adequate planning, proper assignment of personnel to the engagement team, the application of professional skepticism, and supervision and review of the audit work performed.
- Detection risk relates to the nature, timing, and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessment of the risk of material misstatement at the assertion level. The greater the risk of material misstatement the auditor believes exists, the less the detection risk that can be accepted. Conversely, the less risk of material misstatement the auditor believes exist, the greater the detection risk that can be accepted.

6.5 **Responsibility for the Cost Statements** (refer 5.8) the cost auditor is responsible for forming and expressing an opinion on the Cost Statements.

The term "Cost Statements" refers to a structured representation of the cost information, which ordinarily includes accompanying notes, derived from cost accounting records and intended to communicate an entity's use of economic rersources and the output obtained in accordance with a Cost reporting framework. The term can refer to for example, a cost statement, reconciliation with financial accounts and related explanatory notes.

6.5.1 The requirements of the Cost reporting framework determine the form and content of the Cost Statements and what constitutes a complete set of Cost Statements. For certain Cost reporting frameworks, a single cost statement as such and the related explanatory notes constitutes a complete set of Cost Statements. For example a Cost Statement under Cost Accounting Standard 4.

6.5.2 The Cost auditor is not responsible for preparing and presenting the cost statements in accordance with the applicable Cost reporting framework including inter-alia:

- Designing, implementing and maintaining internal control relevant to the preparation and presentation of Cost Statements that are free from material misstatement, whether due to fraud or error;
- Selecting and applying appropriate Cost accounting policies; and
- Making cost estimates that are reasonable in the circumstances.

6.6 Non-compliance (refer 5.9) The cost auditor shall request management to provide written representation that all known instances of non-compliance or suspected non-compliance with laws and regulations governing Cost Accounting, Cost Records and Cost Audit have been disclosed to the cost auditor. The representations provide necessary audit evidence about management knowledge of identified or suspected non-compliance with laws and regulations who's effects may have a material effect on the cost statement however, written representation do not provide sufficient audit evidence on their own, and accordingly do not effect the nature and extent of other audit evidence that is to be obtained by the cost auditor.

7. Effective date: this Standard to be applied for basic principles governing cost audit for the period commencing on or after-----

Cost Audit and Assurance Standards Board

REQUEST FOR COMMENTS

Cost Audit and Assurance Standards Board, the standard –setting body of the Institute, has approved the release of Exposure Draft of **Cost Audit and Assurance Standard (CAAS 103) on "Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Standards on Auditing"**. The proposed exposure draft of Cost Audit and Assurance Standard may be modified in the light of comments received before being issued in final form.

Please submit your views/ comments/ suggestions on the Cost Audit and Assurance Standard(CAAS-103) preferably by email, latest by 24th December, 2012.

Comments should be addressed to :
The Secretary,
Cost Audit and Assurance Standards Board
The Institute of Cost Accountants of India
3rd Floor, CMA Bhawan
3, Institutional Area, Lodi Road
New Delhi - 110 003
Ph : 011-2462 2510
Email id responses should be sent to :dirtechnical.delhi@icwai.org

Copies of this draft Cost Audit and Assurance Standard may be downloaded directly from the following link.

http://www.icwai.org/icwainew/CAASB/index.asp

Exposure Draft CAAS 104

Cost Audit and Assurance Standard on
Knowledge of Business, its Processes and the Business Environment

The following is the exposure draft of ***Cost Audit and Assurance Standard*** **(CAAS 104)** on "**Knowledge of Business, its Processes and the Business Environment**". In this Standard, the standard portions have been set in ***bold italic*** type. This standard should be read in the context of the background material, which has been set in normal type.

1. Introduction

1.1 In performing an audit of cost statements and other related information, the cost auditor should have the knowledge of the client's business to enable him to understand the processes which may have a significant effect on the cost statements and enable him to express his opinion on the cost statements.

1.2 The cost auditor's level of knowledge for an engagement should include a general knowledge of the economy and the industry within which the entity operates, and a more particular knowledge of how the entity operates.

2. Objective

The objective of this standard is to enable the cost auditor to have knowledge of the client's business which is sufficient to identify and understand the events, transactions and practices that, in the cost auditor's judgment may have a significant effect on the examination of cost statements or on the preparation of the cost audit report.

3. Scope

This standard deals with obtaining the knowledge of the client's business, its processes and business environment as it is important for the cost auditor and members of the audit staff working on an engagement.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 ***Audit: An audit is an independent examination of financial, cost and other related information of an entity whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. Audit includes cost audit.***

4.2 ***Auditee: Auditee means a company or any other entity for which audit and or certification is carried out.***

4.3 ***Audit Risks: Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on cost statements that are materially misstated. Audit risk is a function of the risk of material misstatement and detection risk. The risk of material misstatement has two components viz namely inherent risk and control risk.***

(a) **Inherent risk**—***the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.***

(b) **Control risk**—***the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.***

(c) **Detection risk**—***the risk that the procedures followed by the cost auditor to reduce audit risk to an acceptable low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.***

4.4 ***Assurance engagement – An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria.***

There are two types of assurance engagements a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement.

(a) *Reasonable assurance engagement – The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion.*

(b) *Limited assurance engagement – The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.*

4.5 *Assurance Engagement Risk: "The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated".*

4.6 *Audit Strategy: Audit Strategy sets the scope, timing and direction of the audit, and guides the development of the detailed audit plan.*

4.7 *Cost auditor: "Cost auditor" means an auditor appointed to conduct audit of cost records, under sub-section (2) of section 233B of the Companies Act and should be a cost accountant as defined in clause (b) of sub-section (1) of section 2 of The Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under subsection (1) of section 6 and who is deemed to be in practice under subsection (2) of section 2 of that Act and includes a firm of cost accountants. Cost Auditor includes Audit Partner.*

5. Requirements

5.1 It is essential that the Cost Auditor should have adequate level of understanding of the knowledge of Business, its Processes and the Business Environment, to develop a reasonable assurance in order to express an opinion on the cost statements he is certifying.

5.2 **The Entity and Its Environment:** The cost auditor should obtain an understanding of the following:

5.2.1 The nature of the entity, including its operations covering Business processes, major inputs, Joint & By-Products and Wastages and major inputs etc.

5.2.2 The entity's ownership and governance structure, relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework.

5.2.3 The entity's selection and application of cost accounting policies.

5.2.4 The measurement and review of the entity's performance.

5.3 **The Entity's Internal Control:**

5.3.1 The cost auditor should obtain an understanding of internal controls relevant to the audit.

5.3.2 The cost auditor should evaluate whether management has created and maintained a culture of honesty and ethical behaviour.

5.3.3 The cost auditor should evaluate the adequacy of the internal audit function.

5.4 **I T Environment & Control:** The cost auditor should evaluate and assess:

5.4.1 IT Architecture, Systems and programmes in use in the entity;

5.4.2 Controls on unauthorized access to data;

5.4.3 Unauthorized changes to data in master files, systems or programmes; and

5.4.4 Integrity of information and security of the data.

5.5 **The entity's risk assessment process:** The cost auditor should obtain an understanding of whether the entity has a process for:

5.5.1 Identifying business risks relevant to cost reporting objectives;

5.5.2 Assessing the likelihood of their occurrence;

5.5.3 Estimating the significance of the risks; and

5.5.4 Deciding about actions to address those risks.

5.6 **Cost Information System/ Management Information System**: The cost auditor should obtain an understanding of the management information system, relevant to cost reporting, including the following areas:

5.6.1 The classes of transactions and their analysis, that are significant to the cost statements;

5.6.2 The procedures, by which those transactions and their analysis are initiated, recorded, processed, and reported in the management information systems and cost statements;

5.6.3 The related cost accounting records, supporting information that are used to initiate, record, process and report transactions; and

5.6.4 The reporting process used to prepare the entity's cost statements, including significant estimates and disclosures.

5.7 **Identifying and Assessing the Risks of Material Misstatement:** The cost auditor should identify and assess the risks of material misstatement at the cost statement level; and at the assertion level for classes of transactions and disclosures. For this purpose, the cost auditor should:

- Identify risks including relevant controls that relate to the risk of material misstatements or a risk of fraud;
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention;
- Whether the risk involves significant transactions with related parties;
- The degree of subjectivity in the measurement of information related to the risk.
- Whether there arises a need for revising the assessment of risk based on additional audit evidence obtained.

6. Application Guidance

6.1 Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous & dynamic process of gathering, updating and analysing information throughout the audit. The understanding establishes a frame of reference within which the cost auditor plans the audit and exercises professional judgment throughout the audit, for example, when:

- Assessing risks of material misstatement of the cost statements;
- Considering the appropriateness of the selection and application of cost accounting policies, and the adequacy of cost statement disclosures;
- Identifying areas where special audit consideration may be necessary, for example, abnormal losses, lower yields, higher wastages, higher utilities consumption, related party transactions etc.
- Developing Models for use in performing analytical procedures;
- Responding to the assessed risks of material misstatement, including designing and performing further audit procedures to obtain sufficient appropriate audit evidence; and
- Evaluating the sufficiency and appropriateness of audit evidence obtained, such as the appropriateness of assumptions and of management's oral and written representations.

6.2 Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments etc. Examples of matters the cost auditor may consider include:

- The market and competition
- Cyclical or seasonal activity
- Changes in product technology
- Business risk (for example, high technology, high fashion, ease of entry for competition)
- Declining or expanding operations
- Adverse conditions (for example, declining demand, excess capacity, serious price competition)
- Key ratios and operating statistics
- Specific cost accounting practices and problems
- Specific or unique practices (for example, relating to labor contracts, financing methods, accounting methods).
- Energy supply sources and cost
- Environmental requirements and problems

6.3 An understanding of the entity's selection and application of cost accounting policies may encompass matters such as:

- The methods the entity uses to account for significant and unusual transactions (abnormal events).
- The effect of significant cost accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- Changes in the entity's cost accounting policies.
- Cost reporting standards and laws and regulations that are new to the entity and when and how the entity will adopt such requirements.

6.4 Management will measure and review those things they regard as important. Performance measures, whether external or internal, create pressures on the entity. These pressures, in turn, may motivate management to take action to improve the business performance or to misstate the cost or financial statements. Accordingly, an understanding of the entity's performance measures assists the cost auditor in considering whether pressures to achieve performance targets may result in management actions that increase the risks of material misstatement, including those due to fraud. Examples of internally-generated information used by management for measuring and reviewing financial performance, and which the cost auditor may consider, include:

- Key performance indicators and key ratios (financial and non-financial).
- Key trends and operating statistics.
- Period-on-period financial performance analyses.
- Budgets, forecasts, variance analyses, segment information and divisional, departmental or other unit level performance reports.
- Employee performance measures and incentive compensation policies.
- Comparisons of an entity's performance with that of competitors.

6.5 While understanding controls that are relevant to the audit, cost auditor should evaluate the design of those controls and determine whether they have been implemented properly, by performing procedures in addition to discussions with the entity's personnel.

6.6 If an entity has an internal audit function, inquiries of the appropriate individuals within the function may provide information that is useful to the cost auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing risks of material misstatement at the cost statement and assertion levels. If based on responses to the cost auditor's inquiries, it appears that there are findings that may be relevant to the entity's audit; the cost auditor may consider it appropriate to read related reports of the internal audit function.

6.7 The cost auditor should assess the following with regard to IT environment and controls.

- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.
- Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database.
- The possibility of IT personnel gaining access to privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.
- Unauthorized changes to data in master files.
- Unauthorized changes to systems or programs.
- Failure to make necessary changes to systems or programs.
- Inappropriate manual interventions.
- Potential loss of data or inability to access data as required.

6.8 If the entity has established such a process, the cost auditor should obtain an understanding of it, and the results thereof. If the cost auditor identifies risks of material misstatement that management failed to identify, the cost auditor should evaluate whether there was an underlying risk of a kind that the cost auditor expects would have been identified by the entity's risk assessment process. If there is such a risk, the cost auditor should obtain an understanding of why that process failed to identify it, and evaluate whether the process is appropriate to its circumstances or determine if there is a significant deficiency in internal control with regard to the entity's risk assessment process.

6.9 As part of the risk assessment, the cost auditor should determine whether any of the risks identified are, in the cost auditor's judgment, a significant risk. In exercising this judgment, the cost auditor should exclude the effects of identified controls related to the risk.

6.10 An understanding of the business risks facing the entity increases the likelihood of identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the cost statements. However, the cost auditor does not have a responsibility to identify or assess all business risks because not all business risks give rise to risks of material misstatement.

6.11 The cost auditor should obtain an understanding of control activities relevant to cost/ management information system in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions and disclosure in the financial statements or to every assertion relevant to them.

6.12 The cost auditor should obtain an understanding of the major activities that the entity uses to monitor internal control relevant to cost reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls.

6.13 The cost auditor should understand the related cost accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred primarily to the accounting system and subsequently to cost accounting statement.

6.14 Risks at the cost statement level may derive in particular from a deficient control environment (although these risks may also relate to other factors, such as declining economic conditions). For example, deficiencies such as management's lack of competence may have a more pervasive effect on the cost statements and may require an overall response by the auditor.

6.15 Risks of material misstatement at the cost statement level refer to risks that relate pervasively to the cost statements as a whole and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, or disclosure level. Rather, they represent circumstances that may increase the risks of material misstatement at the assertion level, for example, through management override of internal control. Cost statement level risks may be especially relevant to the auditor's consideration of the risks of material misstatement arising from fraud.

6.16 The auditor's assessment of the identified risks at the assertion level provides a basis for considering the appropriate audit approach for designing and performing further audit procedures. For example, the auditor may determine that only by performing tests of controls may the auditor achieve an effective response to the assessed risk of material misstatement for a particular assertion

7. Effective Date:

This Standard is to be applied for the Audit of Cost Statements for the period commencing on or after-----

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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In continuation of MOU signed by the Institute of Cost Accountants of India for Members of the Institute on 6th July 2012, the Institute has signed a Memorandum of Understanding (MoU) with Taxmann on 12th November 2012 at New Delhi for sharing the web contents through their website. As per this MOU, any student who has enrolled or registered with the Institute is eligible to subscribe Taxmann publications at a concessional rate of Rs. 500/- (for one year subscription), Rs. 600/- (for two years' subscription) and Rs. 750/- (for three years' subscription). The concessional subscription rates are inclusive of service tax.

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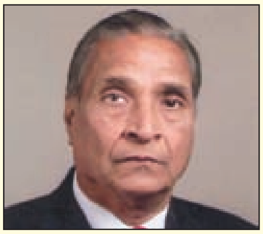
Mr Ayindra Prasad Sanyal,
BCOM, ACMA
104 / 2, Hari Sava Road,
PO - Nona Chandanpukur,
Barrackpore,
Kolkata 700122

M/33638
Mr Amit Kumar,
ACMA
Managing Partner M/s.
Pandemic Advisors, B - 73,
Sainik Nagar, Nawada, Delhi
New Delhi 110059

Obituary



We deeply mourn the sudden demise of Shri CMA K. G. Goyal who passed away on 15th November, 2012. He was the past Central Council Member of the Institute. We extend our heartfelt condolence to Shri CMA Goyal's family.

May his soul rest in eternal peace.

The Institute of Cost Accountants of India

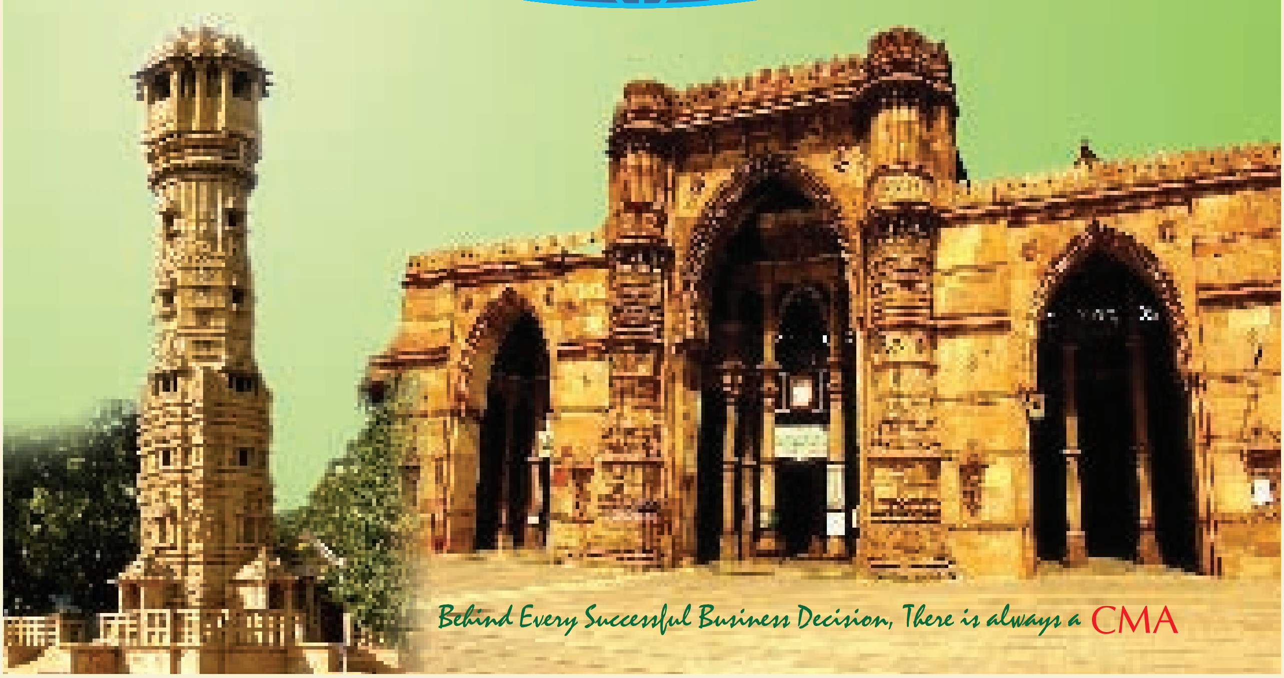
(Statutory body under an Act of Parliament)

54th National Cost Convention-2013

Venue : Gujarat University Convention and Exhibition Center, Ahmedabad

Theme : India's Cost Competitiveness – Imperatives for CMAs

on 18-19 January, 2013 at Ahmedabad



The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

54th National Cost Convention-2013

Theme : India's Cost Competitiveness – Imperatives for CMAs

Dear Sir / Madam,

The business dynamics today is creating huge churning in the corporate world with each company striving for achieving its objective of sustained growth by unlocking business value and unleashing sweeping efforts and initiatives for bringing about excellence in all spheres of corporate functioning.

Competitiveness in operations and performance is the sole mantra which helps build great companies. It calls for a concerted and focused approach to developing business strategies which can be leveraged to deliver enhanced stakeholders value. It is the result of dedicated pursuit wherein the business is structured and managed in a way so as to bring about all round efficiencies and a culture of result orientation in economic, social and environmental dimensions of corporate activities.

The key objective of the companies is sustained growth which calls for a focused approach to Cost Management leading to all round efficiency in operations through appropriate leveraging of value drivers. The CMAs are the key professional resource for facilitating efficient management of scarce resources and providing a structure for continuous monitoring of the flow of cost information within the enterprise.

The survival and growth of the companies in this highly dynamic and volatile corporate world mandates a pragmatic and innovative approach to the management. Companies which assume leadership in Cost Management will be the winners of tomorrow. This poses as challenge for the CMAs to emerge as effective support for the companies in their efforts to steer through the highly competitive business environment.

Corporate competitiveness is essential for building world class organizations. Therefore, this year the Institute is organizing 54th National Cost Convention on the theme 'India's Cost Competitiveness – Imperatives for CMAs at Gujarat University Convention and Exhibition Center, Ahmedabad during 18-19 January 2013 in association with Western India Regional Council and Ahmedabad Chapter of Cost Accountants.

The Technical sessions will deliberate on the following themes — Cost Competitiveness – Key to Enterprise Survival and Growth, Building Enterprise competitiveness through enhancing professional skills set, Coping with the tardy growth of the economy, Analysing concern areas and the role of CMAs, Energising Infrastructure: Strategic options and action agenda, Availability of Adequate Power: Sine qua non for sustained economic development and Not everything is healthy in the HEALTH sector - imperatives for CMAs.

Looking forward for your co-operation and active participation and wishing you a very prosperous & eventful New Year 2013.

Thanking you,

With best regards,

CMA Shrenik S. Shah
Co-Chairman
Convention Committee

CMA Suresh Chandra Mohanty
Chairman
Convention Committee

54th National Cost Convention 2013

Behind Every Successful Business Decision, There is always a CMA

NCC CMA 2013

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

Programme Schedule

Day 1 — 18th January, 2013 (Friday)

08:30 a.m. to 09:20 a.m.	**Registration**	
09:30 a.m. to 11:00 a.m.	**Inaugural Session**	
11:00 a.m. to 11:30 a.m.	**Tea Break**	
11:30 a.m. to 01:00 p.m.	**Plenary Session**	: Cost Competitiveness - Key to Enterprise survival and growth
01:00 p.m. to 02:00 p.m.	**Lunch Break**	
02:00 p.m. to 03:30 p.m.	**Technical Session I**	: Building Enterprise Competitiveness through enhancing professional skills set
03:30 p.m. to 04:00 p.m.	**Tea Break**	
04:00 p.m. to 05:30 p.m.	**Technical Session II**	: Coping with the tardy growth of the economy-Analysing concern areas and the role of CMAs
7:30 p.m. to 10:00 p.m.	Cultural Programme followed by Conference Dinner	

Day 2 — 19th January, 2013 (Saturday)

09:30 a.m. to 11:00 a.m.	**Technical Session III**	: Energising Infrastructure - Strategic options and action agenda
11:00 a.m. to 11:30 a.m.	**Tea Break**	
11:30 a.m. to 1:00 p.m.	**Technical Session IV**	: Availability of Adequate Power - Sine qua non for sustained economic development
1:00 a.m. to 2:00 p.m.	**Lunch Break**	
2:00 p.m. to 3:30 p.m.	**Technical Session V**	: Not everything is healthy in the Health sector : imperatives for CMAs
3:30 p.m. to 4:30 p.m.	**Valedictory Session**	

Venue : Gujarat University Convention and Exhibition Centre, Ahmedabad (GUJARAT)

Contact : Institute of Cost Accountants of India, CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi- 110003. Tel. : 011-24622156-58 Fax : 011-43583642 E-mail : ncc2013@icwai.org

Western India Regional Council of ICAI, Rohit Chambers, 4th Floor, Janmabhoomi Marg, Fort Mumbai - 400 001

Ahmedabad Chapter of Cost Accountants, 402-403, Shopper's Plaza-III, 4th Floor, Opp. Municipal Market, C.G. Road, Navrangpura, Ahmedabad-380009

CEP Credit : 6 Hours

54th National Cost Convention 2013

Behind Every Successful Business Decision, There is always a CMA

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

Delegate For Convention

Dear Sir,

We invite you/ your Company to register / sponsor delegates for the 54th National Cost Convention-2013 to be held on 18th and 19th January, 2013 at Gujarat University Convention and Exhibition Center, Ahmedabad (Gujarat) in association with the Western India Regional Council and Ahmedabad Chapter of Cost Accountants.

Participants

Corporates Directors, CFOs, Cost and Management Accountants and other Senior Management Executive in the Corporate Sector, Practicing Professionals in Secretarial, Financial, Legal and Management Discipline, Researchers and Academicians would benefit from participation in the Convention.

Delegate Fee and Registration Procedure

Particulars	Fees (₹)
Corporate Delegates	5,500/-
Members	4,500/-
Cost Accountant-in-Practice/Academicians	3,000/-
Student	2,000/-
Spouse	2,000/-
Foreign Delegates	US$ 200/-

The entire fee is payable in advance and is not refundable once the nomination is received. The enclosed Delegate Registration Form duly completed along with delegation fees may please be sent to:

The Chairman
Delegate Committee
The Institute of Cost Accountants of India
CMA Bhawan, 3, Institutional Area,
Lodhi Road, New Delhi-110003

Thanking you,

Yours sincerely,

(CMA Amit A. Apte)
Chairman
Delegate Committee

Payment

The Cheque / Demand Draft to be drawn in favour of **"ICAI-National Cost Convention-2013"** payable at New Delhi. Details for NEFT Payment : State Bank of India, Lodhi Road, New Delhi-110003

Current A/C No.: 32642074215 IFS Code: SBIN0060321

PAN No. AAATT9744L Service Tax No. AAATT9744LSD005

CEP Credit : 6 Hours

54th National Cost Convention 2013

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The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

54th National Cost Convention- 2013

THEME : India's Cost Competitiveness – Imperatives for CMAs

Advertisement Tariff for Souvenir

Dear Sir,

The Institute of Cost Accountants of India established under an Act of Parliament is the premier professional body imparting Education, training and propagating Cost and Management Accountancy in India and abroad. There are over 60,000 members in Service and Practice. The members in service with Government, Public and Private Sectors, are occupying high positions like Chairman & Managing, Directors, CEOs, CFOs and so on.

We are proud to inform you that the **54th National Cost Convention- 2013** is being organized by the Institute of Cost Accountants of India in association with the Western India Regional Council & Ahmedabad Chapter of Cost Accountants.

The theme of the Convention is **"India's Cost Competitiveness – Imperatives for CMAs"** and the convention is scheduled for 18th and 19th January, 2013 at Gujarat University Convention and Exhibition Center, Ahmedabad (Gujarat). This mega Convention will be attended by a large number of delegates from India and abroad.

The Convention will be addressed by eminent personalities both from India and abroad. On the occasion of this Convention, the Committee has decided to bring out a Souvenir which will be released at the Valedictory Function. The Convention of this nature can be a success only with your participation through Advertisements.

We request you to participate in this mega convention by releasing an **advertisement in the souvenir**. A souvenir advertisement form is enclosed.

Looking forward to your kind co-operation and active participation.

Thanking you,

Yours Sincerely,

(CMA T.C.A. Srinivasa Prasad)
Chairman
Souvenir Committee

Advertisement Space	Size	Tariff (₹)
Back Cover	18cm x 24 cm	75,000/-
Front Inside Cover	18cm x 24 cm	50,000/-
Back Inside Cover	18cm x 24 cm	50,000/-
Center Spread (Colour)	18cm x 24 cm	25,000/-
Special Full Page (Colour)	18cm x 24 cm	20,000/-
Ordinary Full Page	18cm x 24 cm	15,000/-

54th National Cost Convention 2013
Behind Every Successful Business Decision, There is always a CMA

The Institute of Cost Accountants of India
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Sponsorship Details

Platinum Sponsor (₹ 10,00,000)

Delegate fee (non-residential) exemption for 10 delegates
Display on the Convention Backdrop as Platinum Sponsor and
all other prominent places Sponsor Logo in badges and in all NCC Material

Gold Sponsor (₹ 5,00,000)

Delegate fee (non-residential) exemption for 6 delegates
prominent display on the Convention Backdrop as Gold Sponsor and
all other prominent places Sponsor Logo in badges and all NCC Material

Silver Sponsor (₹ 3,00,000)

Delegate fee (non-residential) exemption for 4 delegates
Prominent display on the Convention Backdrop as Silver Sponsor and
all other prominent places

Sponsor For Dinner (₹ 3,00,000)

Delegate fee (non-residential) exemption for 4 delegates
Display at Convention Dinner
Display on the Convention Backdrop as Sponsor

Sponsor For Lunch (₹ 2,50,000)

Delegate fee (non-residential) exemption for 4 delegates
Display at Convention Lunch
Display on the Convention Backdrop as Sponsor

Sponsor For Convention Kit (₹ 2,00,000)

Delegate fee (non-residential) exemption for 4 delegates
Display on the Conventional Backdrop as Sponsor
Sponsor name printed in Conventional kit

Sponsor For Mementoes (₹ 1,00,000)

Delegate fee (non-residential) exemption for 2 delegates
Display on the Conventional Backdrop as Sponsor
Sponsor name printed in Mementoes

Sponsor For Cultural Event (₹ 1,00,000)

Delegate fee (non-residential) exemption for 2 delegates,
Display at Convention Culture Event as Sponsor

Note: One special full page (Coloured) advertisement in the Souvenir for all above mentioned categories.

Other Sponsorship

Banner/ Stall/ Publicity Material on request- ₹ 50,000

54th National Cost Convention 2013
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The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)

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CMA Shrenik S. Shah — Chairman, WIRC
CMA Neeraj D. Joshi — Secretary, WIRC
CMA Ashok B. Nawal — Treasurer, WIRC

54th National Cost Convention 2013
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Committees – National Cost Convention- 2013

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Chairman

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Members

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CMA Sanjay Bhargave	Council Member
CMA Amit A. Apte	Council Member
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CMA G.V. S. Subrahmanyam	Chairman, SIRC
CMA Ashok Mukherjee	Chairman, EIRC
CMA Vijender Sharma	Chairman, NIRC
CMA Ashish P. Thatte	Vice Chairman, WIRC
CMA Rashmikant B. Kothari	V.C. Ahmedabad Chapter
CMA Ashish Bhavsar	Treasurer Ahmedabad Chapter

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Chairman

CMA Sanjay Bhargave	Council Member

Members

CMA Aruna Vilas Soman	Council Member
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CMA Anil Kumar Gupta	Chairman, Jabalpur Chapter
CMA B.N. Chatterjee	Chairman, Jhagrakhand-Chirmiri Chapter
CMA B.N. Mule	Chairman, Kolhapur-Sangli Chapter
CMA P. Subramaniyam	Chairman, Korba Chapter
CMA K.D. Shah	Member, Ahmedabad Chapter
CMA Hetal Shah	Member, Ahmedabad Chapter
CMA Ila Patel	Member, Ahmedabad Chapter
CMA A.L. Patel	Member, Ahmedabad Chapter

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Chairman

CMA Amit A. Apte	Council Member

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CMA Ashish P. Thatte	Vice Chairman, WIRC
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CMA Ashok B. Nawal	Treasurer, WIRC
CMA A.G. Dalwadi	Past Council Member
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CMA Dinesh K. Birla	Member, WIRC
CMA G.R. Paliwal,	Member, WIRC
CMA Debasish Mitra	Member, WIRC
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CMA P. Ghosh	Chairman, Vindhyanagar Chapter

For enquiry and further details, please contact at:

- **The Institute of Cost Accountants of India**, CMA Bhawan 12, Sudder Street, Kolkata-700 016
  Phone : 033-22521031-34-35, Fax No : 033-22527993, E-mail : ncc2013@icwai.org, Website : www.icwai.org
- **Delhi Office,** CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi- 110003
  Phone : 011-24622156-58 Fax : 011-43583642
- **Western Indian Regional Council of ICAI**, Rohit Chambers, 4th Floor, Janmabhoomi Marg, Fort Mumbai - 400 001
  Phone : 022-22043406 / 3416, 22841138
- **Ahmedabad Chapter of Cost Accountants**, 402-403, Shopper's Plaza-III, 4th Floor, Opp. Municipal Market, C.G. Road, Navrangpura, Ahmedabad-380009. Phone : 079-26403616

54th National Cost Convention 2013

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The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

54th NATIONAL COST CONVENTION-2013

Theme : India's Cost Competitiveness – Imperatives for CMA's

SPONSORSHIPS FORM

The Chairman,
Delegate Committee,
National Cost Convention- 2013
The Institute of Cost Accountants of India
3 Institutional Area, Lodhi Road, New Delhi-110003

Dear Sir,

I / We wish to Sponsor.. in connection with **the "National Cost Convention -2013"** on 18th and 19th January, 2013 at Ahmedabad.

A crossed, Cheque/ DD No. ....Dated.....................................
for Rs. ....drawn on .... Bank in favour of National Cost Convention -2013 is attached.

Name of the Organisation .... Signature..
Address .... Name...
.... Designation...
Tele. No .... Mobile...
Fax............................ E-mail... Website....................................

RATES OF SPONSORSHIP

Particulars	Rs.	Particulars	Rs.
Platinum	10,00,000/-	Gold	5,00,000/-
Silver	3,00,000/-	Dinner	3,00,000/-
Lunch	2,50,000/-	Convention Kit	2,00,000/-
Mementoes	1,00,000/-	Cultural Event	1,00,000/-
Other Sponsorships	50,000/-	*Taxes Extra as applicable	

Payment

The Cheque/ Demand Draft to be drawn in favour of **"National Cost Convention 2013"** payable at New Delhi. Details for NEFT Payment : State Bank of India, Lodhi Road, New Delhi- 110003

Current A/C No. :... IFS Code: ....

Contact Detail : Institute of Cost Accountants of India, 3, Institutional Area, Lodhi Road, New Delhi- 110003
Tel. : 011-24622156-58 Fax : 011-43583642 E-mail : ncc2013@icwai.org

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

54th NATIONAL COST CONVENTION-2013

Theme : India's Cost Competitiveness – Imperatives for CMA's

DELEGATES REGISTRATION FORM

The Chairman,
Delegation Committee,
National Cost Convention- 2013
The Institute of Cost Accountant of India
Institutional Area, Lodhi Road, New Delhi-110003

Dear Sir,

Please register the following delegates for attending the 54th National Cost Convention -2013 on 18th and 19th January, 2013 at Ahmedabad. The particulars of the delegates are as under:

1. Name of the delegates(s)

Name of The Delegates	**Designation**	**Address of the Delegate** (for Convention Correspondence)

Membership No./ Student Regn. No.	**Practicing Non Practicing**	**Tel. No.**	**Mobile No.**	**E-mail**

2. Details of the payment

Payment

The Cheque/ Demand Draft to be drawn in favour of **"National Cost Convention 2013, (ICAI)"** payable at New Delhi.

Details for NEFT Payment : State Bank of India, Lodhi Road, New Delhi- 110003

Current A/C No. : 149801000056073 IFS Code: IOBA0001498

Contact Detail : Institute of Cost Accountants of India, 3, Institutional Area, Lodhi Road, New Delhi- 110003
Tel. : 011-24622156-58 Fax : 011-43583642 E-mail : ncc2013@icwai.org

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

54th NATIONAL COST CONVENTION-2013

Theme : India's Cost Competitiveness – Imperatives for CMA's

SOUVENIR ADVERTISEMENT FORM

The Chairman,
Souvenir Committee,
National Cost Convention- 2013
The Institute of Cost Accountant of India
CMA Bhavan, 3 Institutional Area, Lodhi Road, New Delhi-110003

We are pleased to release the following advertisement for the Souvenir to be brought out at the

National Cost Convention - 204

Advertisement Tariff		`	✓*
Back Cover	18 cm x 24cm	75000/-	
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Back Inside Cover	18 cm x 24 cm	50,000/-	
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Ordinary Full Page	18 cm x 24 cm	15,000/-	

I / We wish to release .... in connection with **the "National Cost Convention -2013"** scheduled on 18th and 19th January, 2013 Ahmedabad.

A crossed, Cheque/ DD No. ....Dated....................................

for `. ....drawn on .... Bank in favour of **National Cost Convention -2013** is enclosed herewith.

Name of the Organisation .... Signature..

Address .... Name..

.... Designation...

Tele. No .... Mobile..

Fax............................. E-mail..Website....................................

Payment

The Cheque/ Demand Draft to be drawn in favour of **"National Cost Convention 2013, (ICAI)"** payable at New Delhi.

Details for NEFT Payment : State Bank of India, Lodhi Road, New Delhi- 110003

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Tel. : 011-24622156-58 Fax : 011-43583642 E-mail : ncc2013@icwai.org

Regions & Chapters News

WIRC

Indore-Dewas Chapter of Cost Accountants (IDCCA)

The festival of Deepotsava was celebrated with pomp and gaiety by IDCCA on 13th November 2012 at Chapter Office Hall, Indore. The celebrations started with performing of Laxmi Pooja. CMA (Dr) Niranjan Shastri, Chairman, IDCCA welcomed all staff, students and members for the divine program. CMA Vijay P. Joshi, RCM explained the importance of this festival in the day to day life of a common man and more so of a professional. The program was attended by faculty members, our members and students. The program concluded with distribution of sweats and gifts to staff, workers and volunteers. The program was followed by a volunteers' meet which was attended by volunteers and faculty members. CMA (Dr) Niranjan Shastri, Chairman, IDCCA appreciated the efforts of volunteers during recent programs organized by the Chapter. CMA Vijay P. Joshi urged the volunteers to take independent charge of programs and allow the faculty/committee members to play the role of facilitators only. Dr. Antimbala Shastri, Faculty Member explained the need of communication skills for successful leadership.

SIRC

Hyderabad Chapter of Cost Accountants (HCCA)

HCCA organized a one day seminar on "Pharma Industry – Interplay between Regulations and Corporate Responsibility" was conducted on 13th October, 2012 at Hotel Square, Hyderabad. The key note address was delivered by Shri R.P. Thakur, IPS, Director General, Drug Control Administration, A.P. Speakers CS K.V. Ranga Rao, Former Executive Director, BDMA, Dr. P.L.K.M. Rao, Pharma Consultant, CMA E. Vidya Sagar, Practicing Cost Accountant, Dr. Zoher Sihorwala, Sr. Vice President, Dr. Reddy's Laboratories Ltd., Dr. HSR Arora, Air Commodore (Retd) , CMA J. Kumar, Advocate and Sri V.S. Suresh, Dr. Reddy's Laboratories Ltd., delivered their views on CSR with respect to the Pharma industry. The members of Hyderabad Chapter and 40 other delegates both from the Costing fraternity and other professions participated in the program.

EIRC

Cuttack-Bhubaneswar Chapter of Cost Accountants (CBCCA)

The 49th session of Oral Coaching was inaugurated on Sunday, the 7th October, 2012 at the Conference hall of the Chapter. CMA Suresh Chandra Mohanty, Vice President, of the Institute inaugurated the function as Chief Guest and Shri Subrata Kumar Mishra, Managing Director, Orissa Agro Industries Corporation Ltd. and CMA Srikanta Kumar Sahoo, Vice Chairman, EIRC of ICAI were the Guest of Honour on the occasion. They encouraged and advised the students for completion of the course as early as possible to grab the opportunity in the prevailing market scenario. CMA A.K.Swain. Chairman, Coaching Committee coordinated the program and delivered the welcome address. He also highlighted the performance of the Chapter at all India Level and the facilities provided by the Chapter. CMA Sudhansu Kumar Sahu, Chairman, CBCCA in his speech, assured all for providing the best of the facilities to the students. Eminent faculties and other members of the Chapters also advised the students on the occasion. More than 200 students along with their guardians /parents were present on the occasion.

Shri S.B.Samal, Secretary of the Chapter extended vote of thanks.

NIRC

Lucknow Chapter of Cost Accountants (LCCA)

LCCA organized a seminar on "Conceptual Changes in Service tax on 21st October 2012. CMA Sudhanshu Dwivedi, Director (Finance), Purvanchal Vidyut Vitran Nigam Ltd., (UP) was the Chief Guest of this programme. The Chief Guest inaugurated the function by lighting the lamp. Present were CMA Vijendra Sharma, Chairman, NIRC, CMA Rakesh Bhalla, Vice-Chairman, NIRC, Shri Arvind Kumar, Secretary/ Treasurer, NIRC, CMA Sunil Singh, Chairman, LCCA and other members of the Chapter.

The key Note Speakers CMA Vijendra Sharma and CMA Rakesh Bhalla, stated that effective from that day, almost all services that we use will be subject to 12% service tax. Only a few on the negative list and the exempt list have been spared. Some see the changeover as a more efficient way of administering the tax.

A large number of members of Lucknow Chapter and other neighbouring areas attended this function. CMA Anjana Chhadha, Treasurer LCCA proposed Vote of Thanks.

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

Benevolent Fund for the members of The Institute of Cost and Works Accountants of India was created with the noble cause of extending grants and financial assistance of prescribed amount to the members and beneficiaries of the Fund for medical treatment, financial distress and death.

In the recent past, although the grants and financial assistance could be extended to the eligible members and beneficiaries of the Fund in time, it would have been possible to provide enhanced benefits if the membership of Fund had been larger. We, therefore, appeal to those members of the Institute of Cost Accountants of India who have not yet become members to apply for Life Membership of the Fund immediately. The members are also requested to arrange for donations for the fund to provide support to this noble purpose. For details and application form, please visit the Institute's website:www.icwai.org.

REGIONAL COST CONVENTION 2012

CEP CREDIT : 6 HOURS

Jointly organised by

THE INSTITUTE OF COST ACCOUTANTS OF INDIA
SOUTHERN INDIA REGIONAL COUNCIL
&
HYDERABAD CHAPTER OF COST ACCOUNTANTS

DATE: Friday, the 21st & Saturday the 22nd December – 2012

VENUE: Hotel Marigold, Begumpet, Hyderabad

Theme: 'EMERGING TRENDS IN COSTING AND PRICING'

Plenary Session: CONVENTION DESIGN ECONOMIC POLICIES IMPACT ON PRICING

Technical Session - I: REGULATED CONSUMER PRICING

Technical Session – II: AFFORDABLE HEALTH CARE

CULTURAL PROGRAMME & DINNER : DHOLA RI DHANI, NH 7, Kompally, Hyderabad

Technical Session – III: NEW PRICING MODELS

DELEGATE FEES:	CORPORATE DELEGATES	: ₹ 4,000/-
	PRACTICING MEMBERS	: ₹ 2,000/-
	OTHER MEMBERS/CHAPTER MC MEMBERS	: ₹ 3,000/-
	STUDENT/ACCOMPANYING GUEST	: ₹ 1,500/-

CONVENTION COMMITTEE ADVISORS:

CMA
M. GOPALAKRISHNAN – CCM – ICAI
A.S. DURGA PRASAD – CCM – ICAI
Dr. P.V.S. JAGAN MOHAN RAO – CCM – ICAI
A. OM PRAKASH – CCM – ICAI
K. GOVINDARAJ – Govt. Nominee, ICAI
B.V.RAMANA MURTY, Former President – ICAI

CONVENTION COMMITTEE MEMBERS :

CMA
G.V.S. SUBRAHMANYAM – Chairman – SIRC - Chairman
K.K. RAO, Chairman–Hyderabad Chapter – Co-Chairman
P. RAJU IYER – Vice Chairman– SIRC - Member
PADMANABHAN H – Secretary – SIRC - Member
Ch. VENKATESWARLU – Treasurer – SIRC - Member
B.L. KUMAR – Vice-Chairman Hyderabad Chapter - Member
K.V.B. RADHAKRISHNA– Secretary Hyderabad Chapter - Member
A. VIJAY KIRAN – Treasurer - Hyderabad Chapter - Member

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Website: www.sircoficwai.com

HYDERABAD CHAPTER OF COST ACCOUNTANTS
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Himayat Nagar,
Hyderabad – 500 029
Andhra Pradesh
Phone: 040 - 27635937
Telefax: 040 - 27607893
E-mail: hyderabad@icwai.org

PLEASE MAKE IT A POINT TO REGISTER YOURSELF FOR THIS SPECTACULAR EVENT HAPPENING AT HYDERABAD AND BE A PART OF THE WINNING TEAM

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(statutory body under an Act of Parliament)

MANAGEMENT DEVELOPMENT PROGRAMMES 2012-13

DURATION	TOPIC	VENUE	FEE (RS.) NON – RESIDENTIAL	FEE (RS.) RESIDENTIAL SINGLE ROOM BASIS
DECEMBER, 2012				
11-14	Recent Trends in Financial Management	Amritsar		35000*
18-21	Contracts and their Management	Shirdi	-	35000*
18-21	Emerging Issues in Direct and Indirect Taxation	Shirdi	-	35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	Mumbai	25000*	-
JANUARY, 2013				
02-04	Costing for Engineers	Chennai	15000*	40000*
08-12	Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI	Hyderabad	-	35000*
08-12	Advance Tax, TDS and Tax Planning	Hyderabad	-	35000*
FEBRUARY, 2013				
19-22	Risk Based Internal Audit for Effective Management Control	Puri	-	35000*
19-22	Emerging Issues in Management of Taxation	Puri	-	35000*

Note :- *Plus 12.36% Service Tax.

For Non-Residential Programmes - Fee includes course fee, course material, lunch, tea/coffee etc.
For Residential Programmes - Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.
CEP Credit Hours - (For 1 Day Prog. - 4 Hours) (For 2 Days Prpg. - 6 Hours) (For 3 Days & more Prog.-10 Hours)
For Kind Information:
For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programmes without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programmes, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
For residential programmes normally the first day check-in is at 12.00 noon and last day check-out is at 12.00noon
The Payment of the Fee is to be made by Cheque/DD in favour of 'The Institute of Cost Accountants of India' payable at New Delhi.
Details for ECS Payment: State Bank of India (60321), Andhra Association Building, 24-25 Institutional Area, Lodhi Road, New Delhi- 110003
Current A/c No. 30678404793 MICR Code : 110002493 IFCS Code : SBIN0060321

Cost Accounting Standards Board

REQUEST FOR COMMENTS

Cost Audit and Assurance Standards Board, the standard –setting body of the Institute, has approved the release of Exposure Draft of Cost Audit and Assurance Standard on **Knowledge of Business, its Processes and the Business Environment(CAAS-104)**. The proposed exposure draft of Cost Audit and Assurance Standard may be modified in the light of comments received before being issued in final form.

Please submit your views/ comments/ suggestions on the Cost Audit and Assurance Standard(CAAS-104)preferably by email, latest by 24th December, 2012.

Comments should be addressed to :

The Secretary,
Cost Audit and Assurance Standards Board
The Institute of Cost Accountants of India
3rd Floor, CMA Bhawan
3, Institutional Area, Lodi Road
New Delhi- 110 003
Ph : 011-2462 2510
Email id responses should be sent to :casb@icwai.org

Copies of this draft Cost Audit and Assurance Standard may be downloaded directly from the following link.

http://www.icwai.org/icwainew/CAASB/index.asp

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)
12, SUDDER STREET, KOLKATA - 700 016
TELEPHONES: (033) 2252 1031 / 1034 / 1035, 2252 1492 / 1602 FAX 033-2252 1026
Website: www.icwai.org e-mail: exam.amitava@icwai.org

Ref.No.Ex/12/2012 October 9, 2012

ANNOUNCEMENT

On 3rd October 2012 the Election Commission of India had notified the schedule of Gujarat State Assembly Elections, 2012.

The notification had stated that there will be 2 (Two) phases of Assembly Elections for Gujarat State Assembly Election 2012. For the first phase, the date of polling will be 13.12.2012 (Thursday) and the 2nd phase polling will be held on 17.12.2012 (Monday).

In view of the above, the Institute has rescheduled its December 2012 examination for Gujarat State only as per following :

Examination Centre	Original date of Examination	Revised date of Examination	Intermediate 9.30 A.M. to 12.30 P.M.	Final 2.00 P.M. to 5.00 P.M.	Foundation 2.00 P.M. to 5.00 P.M.
Surat Centre Code - 117	13.12.2012	23.12.2012	Applied Direct Taxation	Indirect & Direct Tax Management	NIL
Vapi Centre Code - 129	13.12.2012	23.12.2012	Applied Direct Taxation	Indirect & Direct Tax Management	NIL
Adipur-Kachchh Centre Code - 134	17.12.2012	23.12.2012	Applied Indirect Taxation	Business Valuation Management	Business Mathematics & Statistics Fundamentals
Ahmedabad Centre Code - 101, 132	17.12.2012	23.12.2012	Applied Indirect Taxation	Business Valuation Management	Business Mathematics & Statistics Fundamentals
Baroda Centre Code - 103	17.12.2012	23.12.2012	Applied Indirect Taxation	Business Valuation Management	Business Mathematics & Statistics Fundamentals

Scheduled date and Subject of Examination except above two days as per Time Table and Programme – December 2012 of above centres in Gujarat will remain unchanged.

The Examination Time Table and Programme – December 2012 for all other Centres in India and Overseas will remain unchanged.

A. Das
Director (Examination)

The Institute of Cost Accountants of India

(Statutory Body Under An Act of Parliament)

Examination Time Table & Programme — December 2012

Programme for Syllabus 2008

Day, Date & Time	Intermediate 09.30 A.M. to 12.30 P.M.	Final 02.00 P.M. to 05.00 P.M.	Foundation 02.00 P.M. to 05.00 P.M.
Monday 10 th December, 2012	Financial Accounting	Capital Market Analysis & Corporate Laws	
Tuesday 11 th December, 2012	____	Financial Management & International Finance	
Wednesday 12 th December, 2012	Commercial and Industrial Laws & Auditing	Management Accounting-Strategic Management	
Thursday 13 th December, 2012	Applied Direct Taxation	Indirect & Direct — Tax Management	
Friday 14th December, 2012	Cost & Management Accounting	Management Accounting — Enterprise Performance Management	Organisation and Management Fundamentals
Saturday 15 th December, 2012	____	Advanced Financial Accounting & Reporting	Accounting
Sunday 16 th December, 2012	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Monday 17 th December, 2012	Applied Indirect Taxation	Business Valuation Management	Business Mathematics and Statistics Fundamentals

Programme for Management Accountancy—December 2012 Examination

Monday 10th December, 2012 09.30 A.M. to 12.30 P.M.	Monday 10th December, 2012 02.00 P.M. to 05.00 P.M.	Tuesday 11th December, 2012 09.30 A.M. to 12.30 P.M.	Tuesday 11th December, 2012 02.00 P.M. to 05.00 P.M.	Wednesday 12th December, 2012 09.30 A.M. to 12.30 P.M.
Management Accountancy	Advance Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

Examination Fees

Groups (s)	Final Examination	Intermediate Examination	Foundation Course Examination	Management Accountancy Examination
One Group (Inland Centres) (Overseas Centres)	₹ 1250/- US $ 100	₹ 1000/- US $ 90	₹ 1000/- US $ 60	Per Group ₹ 2500/-
Two Groups (Inland Centres) (Overseas Centres)	₹ 2250/- US $ 100	₹ 1600/- US $ 90		

1. (a) Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹ 50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
   (b) Students can also download the Examination Form from ICAI Website at www.icwai.org.
   (c) Students can also submit the form online.
2. Last date for receipt of Examination Application Forms without late fees is 10th October, 2012 and with late fees of ₹ 300/- is 20th October, 2012.
3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of "The Institute of Cost Accountants of India" and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICAI, 12 Sudder Street, Kolkata - 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata - 700016.
5. Finance Act 2011, involving Assessment Year 2012-2013 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct - Tax Management (Final) for the purpose of December 2012 term of Examination under Revised Syllabus 2008.
6. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Solapur, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Foundation—1st February, 2013 and Inter & Final - 21st February, 2013.

A. Das
Director (Examination)

THE MANAGEMENT ACCOUNTANT (AUTHOR INDEX)–2012 (VOLUME 47, NOS. 1 TO 12)

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Obituary

The Institute and its members deeply mourn the untimely demise of CMA A. Om Prakash, Council Member who left for his heavenly abode on 2nd December 2012 at Chennai. May God give the necessary courage and strength to the bereaved family member in this hour of grief.

May his soul rest in eternal peace.

The Institute of Cost Accountants of India
12, Sudder Street, Kolkata - 700 016 • Phone : (033) 2252-1031 / 34 / 35
Fax : (033) 2252-1602 / 1492 • www.icwai.org

2013

JANUARY

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

13- Makar Sankranti
23- Netaji Birthday
25- Id-E-Milad
26- Republic Day

FEBRUARY

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24	25	26	27	28		

15- Vasant Panchami
14- Sri Panchami

MARCH

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31						

10- Maha Shivratri
27- Holi
29- Good Friday

APRIL

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21	22	23	24	25	26	27
28	29	30				

11- Handi New Year
13- Vaisakhi
15- Vaisakhi (Bengal)/Bahag Bhiu (Assam)
24- Mahavir Jayanti

MAY

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1- May Day
9- Rabindranath's Birthday
25- Buddha Purnima

JUNE

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JULY

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10- Rath Yatra

AUGUST

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9- Id-Ul-Fiter
15- Independence Day
20- Raksha Bandhan
28- Janmasthami

SEPTEMBER

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29	30					

9- Ganesh Chaturthi
16- Onam

OCTOBER

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27	28	29	30	31		

2- Gandhi Jayanti
4- Mahalaya
13- Dashami
16- Bakri ID

NOVEMBER

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17	18	19	20	21	22	23
24	25	26	27	28	29	30

3- Deepawali
5- Bhaiya Dooj
14- Muharram
17- Guru Nanak Jayanti

DECEMBER

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22	23	24	25	26	27	28
29	30	31				

25- X-mas Day

Happy and Prosperous 2013

Glimpses of Bijoya Sammeloni & Deepawali function "Kathaye Gaane...... Kitchu Somoy" held at Institute HQ on 23.11.12

Glimpses of Bijoya Sammeloni & Deepawali function "Kathaye Gaane...... Kitchu Somoy" held at Institute HQ on 23.11.12

CMA Rakesh Singh, President of the Institute, CMA Sanjay Gupta, Council Member & other dignitaries seen with CS Nesar Ahmed, President, ICSI at the London Global Convention 2012

CMA (Dr) Sanjiban Bandyopadhyaya, Council Member felicitating Shri T.B. Chatterjee, VP & Co. Secretary, DIC Ltd at a programme on "Recent Amendments in Foreign Trade" held at HQ on 2.11.12

Sri R.P. Thakur, IPS, Director General, Drug Control Administration, A.P is addressing the delegates on the occasion of seminar on " Pharma Industry – Interplay between Regulations and Corporate Responsibility " on 13.10.2012. CMA Radha Krishna Komaragiri, Secretary, HCCA, CMA K.K. Rao, Chairman, HCCA and CMA Dr. P.V.S. Jagan Mohan Rao, Council Member are also seen.

CMA Pramod Dube, Chairman, PCCA, CMA S. R. Bhargave, Council Member, CMA Rakesh Singh, President of the Institute, Shri BB Goyal, Cost Advisor, MCA & Shri Vinayak S Khanvalkar, past President, ICSI (from L to R) at a programme on XBRL held at Pune on 7.10.12

CMA Manas Kumar Thakur, Council Member felicitating Shri Agneswar Sen, Jt. Director General, DGFT at a programme on "Recent Amendments in Foreign Trade" held at HQ on 2.11.12

CMA Vishwanath Bhat, Qecretary, Bangalore Chapter, CMA K R Murali Krishna, Chairman, BCCA, CMA T.C.A. Srinivasa Prasad, Council Member and CMA A. Om Prakash, Council Member (from L to R) at a programme on "Filing of Cost Audit and Compliance Report in XBRL" at Bangalore on 16.10.12

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CMA Rakesh Singh, President of the Institute & CMA S.C. Mohanty, Vice President of the Institute called on Shri Sachin Pilot, Hon'ble Minister of State for Corporate Affairs (IC) on 1.11.12

Signing of MoU by the Institute with CMJ University established in Meghalaya States on 1.11.12

CMA T.C.A. Srinivasa Prasad, Council Member with Mr. Mahmood-Ul-Hassan, Director (Central Region), ICMA, Pakistan at Lahore during the former's visit to ICMA, Pakistan

CMA T.C.A. Srinivasa Prasad, Council Member with other participants at the meeting on "Governmental & Public Sector Enterprises Accounting" held at Lahore

Meeting on "Governmental & Public Sector Enterprises Accounting" in progress at Lahore hosted by ICMA, Pakistan

PAIB meeting being chaired by CMA T.C.A. Srinivasa Prasad, Council Member at ICMA, Pakistan, Lahore.

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Editor : Rajendra Bose