

The Management Accountant

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

Volume 46 □ No. 12 □ December 2011

CONTENTS

1101	EDITORIAL		
1102	PRESIDENT'S COMMUNIQUE		
1105	CHAIRMAN'S COMMUNIQUE (Continuing Education Programme)		
1106	CHAIRMAN'S COMMUNIQUE (Indirect Taxation)		
	Cover Article		
1107	Business Valuation – A Perspective by T. Kannan		
1113	Risks in Business Valuation : Role of CMAs by P. K. Sinha & Sanchari Sinha		
1123	Business Valuation in Mergers and Acquisitions by Debdas Ganguly & Sudarshan Maity		
1127	A witty dialogue on Business Valuation by Subir Chakrabarty		
1130	Role of CMAs in Adapting Different Methods in Business Valuation Process by Palash Garani		
1133	Fair Value Measurement under International Financial Reporting Standard 13 by Dr. Gautam Mitra & Dr. Sumita Chakrabarty		
1136	Role of Management Accountants in Valuing Business by Arindam Ghosh & Asit Gope		
1141	Changing Role of Management Accounting Practices in Business Valuation – an Accountant's Perspective by Mahesha V & Sachindra, G. R.		
1147	Role of CMAs in Business Valuation by Vinay Tandon		
	Indirect Taxation		
1152	Special Audit by a Cost Accountant under Section 14A and 14AA of Central Excise Act, 1944 by M. Govindarajan		
1155	The shape of things to come : Revised concept paper on Service Tax by P. Ravindran		
	Financial Management		
1157	Portfolio Diversification through Alternative Investments by Dr. V. Gopalan		
	Cost Audit		
1159	Performance Appraisal Report – Form III – Check List by V. R. Kedia & Dipti Kejriwal		
	Accounting		
1163	Reporting Intangible Assets : The Accounting Quandary by Dr. Sujit Kumar Roy		
1168	Revenue Approach to Human Resource Accounting by Dr. Biraj Kumar Mohanty & Vijayalaxmi Hiremath		
	Economic Issues		
1172	Global Debt vs India's Debt – India is Better than Globe by Dr. Badar Alam Iqbal & Shakeb Arsalan		
1175	Foreign Institutional Investments and Direct Tax Code by Dr. Martina R. Noronha & Aishwarya R. Kulkarni		
	Random Thoughts		
1180	Cost & Management Accountants and IAS 41 : Agriculture by Sharad K. Marathe		
	Direct Taxation		
1182	Tax Titbits by S. Rajaratnam		
1184	CAPA		
1186	Notification		
1193	Mails to the Editor		
1194	Best Cost Management Practices		
1196	Management Development Programmes 2011-12		
1198	Guidelines of Payment for Membership at Reduced rate		
1200	Admission to Membership		
1210	Index 2011		
1218	Regions & Chapters News		

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.

The contents of this journal are the copyright of The Institute of Cost and Works Accountants of India, whose permission is necessary for reproduction in whole or in part.



PRESIDENT

M. Gopalakrishnan
email : president@icwai.org

VICE PRESIDENT

Rakesh Singh
email : vicepresident@icwai.org

COUNCIL MEMBERS

Amit Anand Apte, A. Om Prakash,
Aruna Vilas Soman, A.S. Durga Prasad,
Dr. Sanjiban Bandyopadhyaya, Hari Krishan Goel,
Manas Kumar Thakur, P.V.S. Jagan Mohan Rao,
Prmodkumar Vithaldasji Bhattad, Sanjay Gupta,
S.R. Bhargave, Suresh Chandra Mohanty,
T.C.A. Srinivasa Prasad

Senior Director (Examinations)

Chandana Bose
exam.cb@icwai.org

Senior Director (Studies)

R N Pal

fna.rnpal@icwai.org

Director (Technical)

J. P. Singh

technical.jps@icwai.org

Director (Studies)

Arnab Chakraborty

studies.arnab@icwai.org

Director (CAT), (Training & Placement)

L. Gurumurthy

cat.gurumurthy@icwai.org

Director (Professional Development)

J. K. Budhiraja

pd.budhiraja@icwai.org

Director (Continuing Education Programme)

D. Chandru

cep.chandru@icwai.org

Director (Discipline, Administration, Membership & Legal)

& Joint Secretary

Kaushik Banerjee

membership.kb@icwai.org

Director (Advanced Studies)

Dr. Alok Pandey

advstudies.alok@icwai.org

Director (Finance)

S. R. Saha

fna.saha@icwai.org

Director (Administration-Delhi Office & Public Relations)

S. C. Gupta

admin.gupta@icwai.org

EDITOR

Rajendra Bose

rnj.rajendra@icwai.org

Editorial Office & Headquarters

12, Sudder Street, Kolkata-700 016

Phone : (033) 2252-1031/34/35,

Fax : (033) 2252-1602/1492

Website : www.icwai.org

Delhi Office

ICWAI Bhawan

3, Institutional Area, Lodi Road

New Delhi-110003

Phone : (011) 24622156, 24618645,

Fax : (011) 24622156, 24631532, 24618645

MISSION STATEMENT

“ICWAI 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

“ICWAI 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 attributed to ICWAI.

The Management Accountant Technical Data

Periodicity Monthly
Language English

Overall size – 26.5 cm. x 19.5 cm.

Printed Area – 24 cm. x 17 cm.

Screens – up to 130

Subscription

Rs. 300/- (Inland) p.a.

Single Copy: Rs. 30/-

Overseas

US \$150 for Airmail

US \$ 100 for Surface Mail

Concessional Subscription Rates for Registered Students & Grad CWAs of the Institute

Rs. 150/- p.a.

Single Copy: Rs. 15/- (for ICWAI Students & Grad CWAs)

**Revised Rates for Advertisement
The Management Accountant**

Rs. (US \$)

Back Cover (colour only) 50,000 2,500

Inside Cover (colour only) 35,000 2,000

Ordy.Full page (B/W only) 20,000 1,500

Ordy.Half page (B/W only) 12,000 1,250

Ordy.Qrtr.page (B/W only) 7,500 750

The Institute reserves the right to refuse any matter of advertisement detrimental to the interest of the Institute. The decision of the Editor in this regard will be final.



The importance of business valuation has assumed great significance in recent times in the wake of economic liberalization where controls began to pave the way for deregulation and corporate acquisitions and mergers have become the order of the day.

The word 'value', in simple words, refers to intrinsic worth of an object or a thing. A thing which is valuable is expected to possess utility. A natural corollary to the above statements would be that anything which has utility will have some worth or value. 'Value' however, is a subjective concept and may differ from person to person, from place to place, from time to time and from one situation to another. This reminds us of the age old adage 'Beauty lies in the eyes of the beholder' which has been aptly described by David Laro & Shannon Pratt ('Business valuation and Taxes, Procedure Law and Perspective') in their words "Like beauty, value is in the eye of the beholder. What is value to one may be inconsequential to another. In this regard, value is mere subjective perception....." A painting by Picasso or Vincent Van Gogh, for instance, may have a high value to a person of aesthetic nature who will not mind spending any amount of moolahs to buy the painting while it may not command such value to a person with no or very little interest in painting. Thus there is always a subjective connotation associated with value and valuation.

Valuation refers to the process of assessing value or price. In commercial parlance, valuation is the process of estimating what something is worth. Business valuation is the process of determining the current worth of a business by use of objective measures (though use of subjective measures cannot be ruled out altogether) and after evaluation of all aspects of business. Items that call for valuation are mostly financial assets or liabilities. It is very common to value assets (for eg, investments in marketable securities such as stocks, options, business enterprises or intangible assets like patents, trademark, copy right) or liabilities (For eg, bonds issued by a company). Valuation of business may be required for a variety of reasons; some of which are investment analysis, long term and medium term investment decision, capital budgeting, mergers & acquisitions, demerger/splitting, dividend decision, share buyback, litigation, tax related valuation including transfer pricing, fulfilling government requirements etc. The list can go on. The importance of business valuation has assumed great significance in recent times in the wake of economic liberalization where controls began to pave the way for deregulation and corporate acquisitions and mergers have become the order of the day. Business valuation to be effective should be clearly defined and the objectives sought to be achieved to be properly ascertained. Also, it is imperative to take into consideration factors like the nature and history of the business, the present financial status of the business, the general economic conditions prevailing in the company and also the industry in which the company operates, normalization of financial statements where comparability adjustments to be done to facilitate comparison with other organizations operating within the same industry, non-operating adjustments to be done where the non-operating assets to be excluded, and non-recurring adjustments to be done where items of expenditure/income which are of a one-time nature are to be excluded to facilitate comparison between different periods.

There are several valuation models that are used, ranging from the simple to the sophisticated ones. There are mainly three approaches to valuation:

- Absolute value models that determine the present value of an asset's expected future cash flows. These kinds of models take two general forms: multi-period models such as the discounted cash flow model or single-period models such as the Gordon model. These models rely on mathematics rather than price observation.
- Relative models determine value based on the observation of market prices of similar assets.
- Option pricing models are used for certain types of financial assets (e.g., warrants, put/call options, employee stock options). The most common option pricing models are the Black-Sholes-Merton models.

The role of CMA's in business valuation is immense as it is these professionals who act as Financial/Accounting analyst and performs financial analysis of the financial/accounting information that reflects the business reality of the company that is being analyzed. CMA's in the present competitive scenario are technically competent to act as appraisers, advisors, consultants, valuers, strategist on matters relating to valuation.

To conclude, let me share with you the fact that while the penultimate issue of the journal have dealt with a theme that was mainly of academic interest not having much bearing on the profession, a humble endeavour is being made in this issue to cover topics that are not only contemporary but which would provide valuable insights to certain practical aspects in Finance.

Am hopeful that our dear readers would find the articles quite practical, useful and enriching!



M. Gopalakrishnan, President

The future is not something we enter. The future is something we create.
– Anonymous

The raging topic in the global economic forum is the sovereign debt crisis which is being faced by the European union. The stronger economies in that region are trying to salvage the situation by various interim as well as long-term measures. All these show the close connect between the international and the national issues. As a professional body we have to expand our vision beyond the national issues and identify areas of cooperation and exchange ideas at the global level which can provide a good leverage at the local level. Gone are the days when professional bodies used to concentrate only on local issues and ignore the realities in the international arena. The Government of India is also closely following up with the professional bodies as to what extent they are tuned to absorb the happenings around the world and work in collaboration with other accounting bodies across the globe.

The Indian economy is also expected to face the impact, with the initial repercussion have already started with wild fluctuations in forex rates. The challenge the business enterprises are going to face in this economic turmoil are to look at costs more closely, so that the impact of the external factors are mitigated by improving the internal efficiencies. The Ministry of Corporate Affairs have been actively promoting the enhancement of cost culture within the organized sector by the Cost Accounting Records and Cost Audit mechanism by the recent notifications. The series of notifications issued in November 2011, has also clarified many issues relating to the entire mechanism. It is very important that the chapters and regional councils hold series of workshops on the matter, involving the industry so that a smooth transition to the principle based approach is possible.

Key Issues

The members are aware that ICWAI has been on the forefront in submitting its views on the Company's Bill, 2009, which is cleared by Cabinet for placing in the Parliament. We hope the path breaking provisions like spending 2% of Net profits on CSR, Class action suits and Role of Independents Directors will find their due mention apart from provisions relating to cost audit in the revised draft. This is going to be most comprehensive piece of legislation in Independent India, and we congratulate the Ministry of Corporate Affairs, for spearheading one more initiative for progress.

The institute has submitted its comments to Ministry of Corporate Affairs on the National Competition Policy, which is another important piece of document in public domain.

You will be happy to know that Central Board of Direct Tax is in the process of seeking inputs for their exposure draft on Tax Accounting Standards, which indicates the evolving path on accounting for computation of taxable income. This is a welcome development as the present accounting framework has been found wanting to address the issues relating to the Tax Accounting. ICWAI is taking steps by submitting its views on the aspect and I invite wider dissemination of this key matter amongst the members.

I am pleased to share with you ICWAI has been invited to be a member of Accounting for Sustainability (A4S) Accounting Bodies Network. This is an important recognition to the consistent efforts in this matter by the Institute. A4S is a project of Prince of Wales foundation, UK on sustainability having international representation. The Prince's Accounting for Sustainability Project works with businesses, investors, the public sector, accounting bodies, NGOs and academics to develop practical guidance and tools for embedding sustainability into decision-making and reporting processes.

Events-National

ICWAI was invited to address the CFOs in the Round Table Discussion on Sustainability Reporting organised by CIMA-TATA Group at Mumbai on 3rd November, 2011. A Round Table conference on Consultative Process on Integrated Reporting by ICWAI-IICA was held at New Delhi on 23rd November, 2011 having participation from CEOs/CFOs of Public/Private Sector Companies and Senior Officials in the Government of India. Ms. Matty Yates, Head International Network, A4S, UK; Shri Sudhir Mital, IAS, Additional Secretary, Ministry of Corporate Affairs and Shri Bhaskar Chatterjee, IAS (Retd.), Director General, Indian Institute of Corporate Affairs guided the discussion.

The Cuttack-Bhubaneswar chapter facilitated the meeting with Shri Naveen Patnaik, Chief Minister of Orissa ICWAI with the delegation comprising myself, Shri Rakesh Singh, Vice

President, and Shri S C Mohanty, Council Member to discuss various points relating to development of our profession in the state. The meeting was followed by a Seminar on CARR & CAR which was well attended by members.

Events-International

SAFA Event :

ICWAI organised first Joint Conference of South Asian Federation of Accountant (SAFA) and European Federation of Accountants and Auditors for SMEs (EFAA) Alliance at New Delhi on 2nd - 3rd November, 2011 inaugurated by Shri Naved Masood, IAS, Secretary, Ministry of Corporate Affairs. The programme had representation from SAFA member bodies, EFAA delegation led by Mr. Geoffrey Britton and Mr. Federico Diomeda, its President and CEO respectively. A Memorandum of Understanding (MoU) was signed between the two organisations having Shri A. N. Raman, President, SAFA executing the same on behalf of SAFA. International Valuation Standards Council (IVSC)

The International Valuation Standards Council (IVSC) held a meeting at Hong Kong from 2nd Nov 2011 to 5th Nov 2011. I am pleased to inform the members that active participation by the ICWAI team represented by Shri P.V. Bhattad and Shri A. Om Prakash, Council Members, led to nomination of ICWAI as a member of working group of Advisory forum, which advises the board of trustees of IVSC.

IFAC Meeting

The IFAC Council Meeting was held at Berlin on 15th and 16th November, 2011. Shri A S Durga Prasad, Council Member, ICWAI was the member of delegation along with me. The experience was quite useful as we were able to understand the current developments in the international arena and how the accounting bodies all over the world are shaping their strategy. The Sovereign Debt Crisis was one key issue which was discussed in detail as it will have impact on all economies including India, as our country is also well connected with global economic environment. We also had interaction with the representatives of Chartered Institute of Management Accountants (CIMA), UK and Internationaler Controller Verenien eV (ICV) [International Controller Association], Germany respectively on the sidelines of the meeting. The interactions were very useful for strengthening the existing tie up with the UK body and explore mutual areas of co-operation with ICV.

The Board and Assembly meetings of South Asian Federation of Accountants (SAFA) were held at Dhaka, Bangladesh on 29th November, 2011 under the chairmanship of Shri A. N. Raman, President, SAFA. This was preceded by meetings of various Committees of SAFA held on 28th November, 2011 attended by Shri S R Bhargava; Shri S C Mohanty and Shri A. Om Prakash as members of various committees. During the International Seminar on Sustainability on 27th November, 2011 at Dhaka, Shri A. N. Raman, President, SAFA was the keynote speaker and shared the dais with Ms. Sheikh Hasina, Hon'ble Prime Minister of Bangladesh.

ICWAI nominee in SAFA, Shri A. N. Raman, President, SAFA will be laying down office on 31st December, 2011 and Mr. Muhammad Rafi, from Institute of Cost and Management Accountants, Pakistan will be assuming office from 1st Jan 2012. The year in retrospect gave a new shape to the road map that is

being followed by SAFA. The alignment of SAFA activities through a Strategy Matrix to the objectives of SAARC has been hailed as a clear game changer in the strategies and action plan for the Accounting bodies from the SAARC region. I am sure that with the possible inclusion of CPA Maldives over a step by step framework and the various collaborations by SAFA, with EFAA, GRI and other bodies, the coming years will lead SAFA to a new leadership role under the new President. I compliment Shri Raman for the excellent work he has done and offer the best wishes from ICWAI to the incoming President SAFA- Mr. Muhammad Rafi, ICMAP.

Shri Rakesh Singh, Vice President, ICWAI participated in a joint Seminar at Dubai, United Arab Emirates (UAE) organised by ICWAI Overseas Centre, Dubai with Indian Institute of Management Calcutta (IIMC) on 10th November, 2011. It was an opportunity to interact with the members in the Region and discuss issues relating to progress of the profession in that region.

Committee Meetings of ICWAI

I am happy that during the month, various Board/ Committees of ICWAI met and discussed various issues under their domain, assessed the progress on the initiatives already on and the plan of action for the future. The Banking & Insurance Committee, Advanced Studies, Cost Audit & Assurance Standards Board, Cost Accounting Standards Board, National Task Force Meeting, Finance Committee, CAT and RC & Chapter Co-ordination Committee organised their meetings during the month.

Regional Initiatives

It is heartening to note Regional Councils and Chapters of ICWAI are reciprocating the initiatives of Council of the ICWAI in an equal measure. To mention a few, South Indian Regional Council of ICWAI has entered into an Institute Industry Education Programme with WIPRO, with the aim of benefitting the employees of the Company to acquire a professional accounting qualification. I compliment Team SIRC for the initiative. Northern Indian Regional Council of ICWAI organised a well-attended seminar on recently released Generally Accepted Cost Accounting Principles (GACAP) by ICWAI at New Delhi on 24th November, 2011.

Technical Directorate

To accelerate the progress of issue of CAS and guidance notes, Cost Accounting Standards Board (CASB) of the Institute in its 49th meeting held on 25th and 26th November 2011 has approved the revised Guidance Note on Cost Accounting Standard - 4. Exposure Draft of Cost Accounting Standard on Pollution Control Cost has been released and the same is likely to be released for comments / suggestions shortly.

Professional Development Directorate

Master Circular number 2/2011

The Cost Audit Branch, Ministry of Corporate Affairs has issued a Master Circular number 2/2011 dated 11th November, 2011 on Cost Accounting Records and Cost Audit. The Circular inter alia covers, various clarifications relating to appointment of cost auditor, cost audit report and audit committee meetings relating to cost audit.

In addition, Cost Audit Branch, Ministry of Corporate Affairs has come out with clarifications on The Companies (Cost Accounting Records) Rules, 2011 and The Companies (Cost Audit) Report through two general circulars issued on 30.11.2011. I am sure that many queries members and industry had on the earlier notifications will be resolved by these notifications.

National Seminar on Cost and Risk Management at Chennai

ICWAI has been associated as a knowledge partner for the National Seminar on Cost and Risk Management at Chennai on 19th, November 2011 by the Institute of Public Enterprises Hyderabad. The National Seminar deliberated issues relating to Risk Management particularly, Enterprise Risk Management, Risk Management in Financial sector, Integrated Reporting, Statutory Compliances relating to Cost Accounting Records & Reports Rules etc.

CAT Directorate

I am happy to inform that your Institute has taken a firm step forward to reach the wide spectrum of the society by releasing admission notice for ICWAI courses in nearly 206 newspapers across the country on 26th Nov 2011. This has created a very positive vibration among the Chapters/Regional Councils. ICWAI plans more such campaigns across the country to reach the larger sections of the youth across the country. The Committee on CAT has also laid down the strategy to be followed to take the course to the next level.

CEP Directorate

The Institute is on the forefront in propagating XBRL and I am happy that the combined efforts of CEP Directorate and PD Directorate have started yielding results. The National Seminar on XBRL (eXtensible Business Reporting Language) on 10th November 2011 at Chennai was organised in association with SIRC of ICWAI. In inaugural session, I was able to share the initiatives taken by ICWAI in promoting XBRL. Chief Guest, Shri S. Manjesh Roy- DGM, SEBI, Southern Regional Office briefly discussed the importance of XBRL. The CEP Directorate has also actively organized programmes on XBRL at Bhubaneswar on 23rd October, 2011, Kolkata and Ahmedabad on 12th November, 2011, Jaipur and Pune on 15th November, 2011.

On 24th November, ICWAI in collaboration with Standing Conference on Public Enterprise (SCOPE) organised a one day programme on Companies (Cost Accounting Records) Rules, 2011 and Companies (Cost Audit Report) Rules, 2011. In the opening session I addressed the gathering, along with Chief guest Shri B B Goyal, Advisor (Cost).

I am also pleased to state that as a part of the international training programme, held at Singapore, Malaysia and Bangkok, the participants had an Interaction session with the Vice President and other Technical Team of the Malaysian Institute of Certified Public Accountants (MICPA) Kuala Lumpur on the financial and taxation system and IFRS.

Membership Directorate

The efforts to make the membership process more smooth, the Membership Department had specified and uploaded a chart of function wise email ids at the link <http://members.icwai.org/members/contactus.asp>. The members can ask their queries to the concerned email ids as provided in our website and can get prompt replies to their queries.

As an additional measure, we are planning to start online applications for Associate Membership, Fellow Membership and

Certificate of Practice. The process is on and a detailed announcement for this will be made as soon as the system is made functional.

IT Directorate

I am also happy to note that the web based system of online registration of the Students (IEPS) is being implemented across the country in all Regional Councils and Chapters of the Institute w.e.f. 06th December 2011. This system would facilitate the registration of student records in the centralized database server of the Institute on real time basis. The necessary user training has already been imparted to the users of Regional Councils and Chapters in the month of October and November 2011. A Helpdesk also has been created to facilitate the Chapters and Regional Councils to solve any issues on the running of the system.

ICWAI MOU with CISI, UK

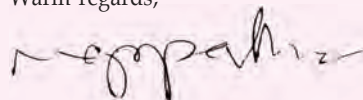
In a path breaking event, the Institute of Cost and Works Accountants of India (ICWAI) and Chartered Institute for Securities and Investment (CISI), UK signed a memorandum of understanding at Mumbai on 1st December, 2011 on awarding the membership of CISI to ICWAI members and concessional fee for ICWAI students at a special concessional fee. The Chartered Institute for Securities & Investment is the largest professional body for those who work in the securities and investment industry in the UK and in a growing number of major financial centres round the world. Evolved from the London Stock Exchange, they now have more than 40,000 members in 89 countries. The CISI agreed to offer entry to their membership upon application at Associate (ACSI) level to ICWAI members and Member (MCSI) level to members of ICWAI with three years' relevant experience. Both parties have also agreed to conduct seminars and conferences on contemporary areas such as IFRS, business valuations etc. Further, they have also agreed to share developments in the areas of common interest at international level. I feel this MOU between ICWAI and CISI paves way for long term cooperation in the field of risk management, Assets Servicing, global securities operations and investment in both countries. To give benefit to the students of both the institute, it has been agreed to offer their courses to the students of other institute.

FIR against malicious and defamatory emails

ICWAI has always preferred to deal the various issues amicably and in a transparent manner. It was brought to my notice that one of the past President and Council Members of Institute (including one ex-Member of Council) were receiving malicious and defamatory emails from an unverifiable email id. The Institute has taken serious note of it and filed an FIR with Police station at Kolkata, the contents of which are available on the website of the Institute.

With best wishes to you and members of your family for Christmas, New Year and other festivities.

Warm regards,



M. Gopalakrishnan,
President, ICWAI
2nd December, 2011



Hari Krishan Goel, Chairman

Dear Professional Colleagues,

It gives me immense pleasure to share with you the activities of the Continuing Education Programme Committee (CEP) of the Institute which is always a image building committee of the Institute. I take this opportunity to thank our President and other Council Members for the confidence and faith entrusted to me for the responsibility of the CEP Committee of the Institute. Over the years, the Committee made a strong base and strong presence as one among the leading training Institutes for the training programmes along with other top business schools and other management schools in India.

The Continuing Education Programme (CEP) Directorate of the Institute regularly organises around 100 training programmes/ Seminars/ Workshops in a year at different locations in India and abroad. The Institute has taken initiatives to train the professionals on the new developments in the areas of Cost Management, Financial Management, Taxation, Project Management and Contract Management, International Financial Reporting Standards, (IFRS) Direct Tax Code (DTC), GST, Revised Schedule-VI, Cost Accounting Standards, Cost Accounting Records Rules, Cost Audit Report Rules, XBRL etc. The objective of the CEP Directorate is to update the knowledge and skills of the Finance Professionals in the Public and Private sector organisations, Government departments, Multi-Nationals, Financial Institutions, Banking and Insurance Companies.

The CEP Directorate is one of the front runners in organising training programmes to the finance professionals in India. The CEP Directorate introduced the intensive Certificate course on IFRS which is very well received by the Indian Corporates. As a matter of pride, the CEP Directorate organises regular exclusive tailor-made in-house programmes to Indian Navy, Indian Air Force, M/o Railways, National Highways Authority of India, Central Electricity Regulatory Commission, Council for Scientific and Industrial Research, ONGC Ltd., Lanco Power Ltd., DCM Limited, BHEL, MMTC Ltd., Power Grid Corporation. Of India Ltd., Power Finance Corporation, Indian Oil Corporation, Airports Authority of India and others. In addition to this, Corporates like TATA and Reliance Group Companies, ITC Limited, BMW Limited, Siemens India Ltd., LG Electronics Limited, Maruti Udyog Limited and many more private sector companies along with many PSUs participated in large number in the seminars/conferences/programmes of the CEP Committee.

The CEP committee has been organising international programmes for the last 15 years which were well received and participated by the senior executives of Indian Corporates and Government Departments.

In addition, the CEP Directorate regularly gives training to the delegation of finance professionals from Nepal Electricity Authority and Nepal Telecom Company from Kathmandu, Nepal on various topics related to Cost Management, Finance and Accounts, Auditing etc.

Recently the institute organised many seminars and workshops on IFRS, Revised Schedule VI, XBRL, DTC and GST across India for our members, students and other professionals. During 2010-11 the CEP Directorate of the Institute trained around 3000 Finance professionals on various topics.

The Technical Sessions of the Seminars/Conferences/ Workshops and Residential and Non-Residential programmes at different locations throughout India and Abroad are being handled by very reputed faculty Members who are authority on the subjects like Dr. T. P. Ghosh on IFRS and Revised schedule-VI, Prof S. Sampath and Mr. R. K. Raman on Direct Taxation and Financial Management, Mr. N. R. Govindarajan and Mr. R.G. Rajan on IFRS, Revised Schedule-VI etc, Mr. B. S. Ramaswamy on Contract Management, Cost Management, Mr. P. Ravindaran on Indirect Taxation, Mr. Atul Kumar Gupta on Service Tax, Mr. SA Murali Prasad and Dr. D. Jagannathan on Cost Accounting and Cost Management etc and others.

I also take this opportunity to thank my committee members for their cooperation and continued support which made us as one among the leading training Institutes in India.

Wishing you all and your family members Merry Christmas and a very Happy and Prosperous New Year.

With personal regards

(Hari Krishan Goel)

Chairman,
Continuing Education Programme Committee
7th December, 2011



Manas Kumar Thakur, Chairman

Dear Professional Colleagues,

The national economy of the country is moving in a most turbulent situation, recording a downward trend in the economic growth rate leading towards larger fiscal and budget deficit. Tax to GDP ratio is also significantly poor as compared to the expected one. In this critical economic scenario, expansion of the tax base and greater collection of taxes followed by tapping all the avenues of tax evasion would only pave the way towards accelerated economic growth and prosperity.

It is my great pleasure to address all my professional friends and colleagues through our exponent 'The Management Accountant' and to share my views on the tools and mechanism for greater tax collection and achieving a double digit GDP growth rate. The Cost and Management Accountants (CMA) play a very significant role in the domain of indirect taxes, be it central excise, service tax, customs or VAT. We are all aware that more than 50% of total tax collections of the Government comes from indirect taxes and out of the same, more than 65% is collected from

taxing services. State Governments are solely dependent on revenue collection from VAT and Central Sales Tax. Our learned members in practice are really doing a good job in formulating and complying the provisions relating to indirect taxes.

Indirect tax, in particular service tax, is transforming into a new horizon wherein taxing services would be based on a negative list concept rather than the multiplicity of the existing mammoth service tax provisions. Indirect taxes frontier is in the process of emerging into a new regime with the introduction of 'Goods and Services Tax' (GST) which will combine all the indirect tax provisions and legislations into a single one and covering all goods and services manufactured, sold, traded and provided in India and thereby ensuring a much better tax to GDP ratio in the days to come. Government of India has recently published a concept paper on 'Taxation of Services' on negative list basis and solicited suggestion of the trade and business bodies/associations, institutes and public at a large. I am happy to announce that the indirect Taxation committee of the institute has already submitted valued suggestions to the Government of India for drawing up new course of action in drafting service regulations. News are spreading across the country on a regular basis regarding introduction of GST in India and the required constitutional amendments required for the same. You would be pleased to know that the Indirect Taxation committee of the institute has already submitted a detailed study paper to the finance Ministry, Government of India citing therein various tools, techniques and mechanism for introduction of GST, better management and tax compliance and thereby ensuring greater collection of revenue for the Government. Efforts are on to provide much valued services and advises to union government as well as State Governments to lay down a more assessee friendly and revenue collection oriented tax policy/rules and regulations for overall long term sustainability of the economic objectives.

The Indirect Taxation committee recently organized a seminar in Kolkata on the applicability of negative list in taxing the services where Hon'ble Member Secretary of CBEC presided. A number of seminars, symposium and workshops are organized on Pan India Basis to spread the idea of GST and the role of CMAs therein. Liaison with all the Government authorities including State Government, Commercial Tax Authorities are taking place on a regular basis to emphasize the importance of the CMAs in this dedicated professional field. On behalf of the Indirect Tax committee, I am pleased to announce that in near future a number of web seminars (web miners) would be arranged on the following topics so that the benefit of knowledge sharing is spread across the universe :

1. Rules, Regulations and Procedures relating to service tax including electronic filing of returns thereof.
2. Rules, Regulations and Procedures relating to Central Excise including electronic filing of returns thereof
3. Goods and Services Tax and the role of Cost and Management Accountants.
4. Indirect tax reforms both in Union as well as State levels.

Eminent experts in the dedicated fields would address the members as well as all professionals to impart knowledge among all. As a part of building a knowledge bank in indirect taxation field, the institute as well as the committee is in the process of collecting well regarded articles/presentations so that the collective wisdom be shared among all the members for the over all growth of the fraternity. The committee is also envisaging the introduction of a post membership specialized programme on 'Indirect Tax Management' which would target to cater regular as well as specialized needs and requirement of the profession as well as for enhancing the knowledge base of our members in this field.

The committee is untiringly engaged in highlighting and emphasizing the role of the Cost and Management Accountants in all the areas of indirect taxes and show casing the profession before all Government and other authorities which in variably would fetch successes to the profession in entity. In conclusion, I would like to mention that not only the indirect tax committee but the efforts of all the members of the council would lead towards a much better professional field and platform for all of us. I cordially thank to all my fellow members in the council who have extended enormous support to me towards drawing the future plans which indeed would place all of us and the institute in a new scale.

In this context, I would further like to reiterate that time has come for the Cost & Management Accountants to contribute their best for the overall development of the economy through ensuring accurate determination of tax liability, ensuring all statutory compliances and tapping all seepage of revenue of the Government. Before I close, let all of us take the oath that we being the Cost & Management Accountants should put our best endeavor for the overall and sustainable growth of the economy.

Wishing you and your family merry Christmas and a very happy & prosperous new year!

With warm regards

Manas Kumar Thakur
Chairman, Indirect Tax Committee.
3rd December, 2011



Business Valuation—A Perspective

T. Kannan

GRAD CWA, FCA, DISA (ICAI)
Partner, C.K.Prusty & Associates, Kolkata

Background

During the last decade profound changes have taken place in economic and business environment. The pace of growth has been phenomenal. The continuity in the growth in business and emergence of the new generation entrepreneurs has tremendously increased participation of the public in the financial market and development of new financial products. Normal corollary to economic growth is the stakeholders' curiosity and interest in valuations of their respective investee institutions or potential investments or divestments. All these have led to a greater demand for valuation services as investors and shareholders are interested in up-to-date information on their assets. Valuation can be considered the heart of finance. In corporate finance, we consider how best to increase firm value by changing its investment, financing and dividend decisions. In portfolio management, we expend resources trying to find firms that trade at less than their true value and then hope to generate profits as prices converge on value. In studying whether markets are efficient, we analyze whether market prices deviate from value, and, if so, how quickly they revert back. Understanding what determines the value of a firm and how to estimate that value seems to be a prerequisite for making sensible decisions. A significant number of CMAs & other accounting fraternity members are actively engaged in the valuation services. The business valuation discipline has advanced as a profession.

Definition

To a normal business entity, business valuation may be defined as a process and a set of procedures used to estimate the economic value of an owner's interest in a business. Valuation is used by financial market participants to determine the price they are willing to pay or receive to consummate a sale of a business. In addition to estimating the selling price of a business, the same valuation tools are often used by business appraisers to resolve disputes related to estate and gift taxation, divorce litigation, allocate business purchase price among business assets, establish a formula for estimating the value of partners' ownership interest for buy-sell agreements, and many other business and legal purposes.

In reality, a business valuation is a complex process and it involves a multitude of factors ranging from financial matters to historical perspectives. It is a broad and technically challenging discipline. The valuation is performed in a variety of contexts and for a variety of purposes. The word 'value' means different things to different people and the result will not be the same should the context change. A valuation is not an exact science. The value is a subjective term and can have a different connotation. Valuation involves use of professional judgement, knowledge of business, analysis of facts, interpretations and usage of different methods and procedures, which may result into different values in each given situation. This implies that the business value must be measured and defined by a 'standard of value' that is relevant, meaningful and reliable.

Methods of Valuation

Discounted Cash flow Valuation

In discounted cash flow valuation, the value of an asset is the present value of the expected cash flows on the asset, discounted back at a rate that reflects the riskiness of these cash flows. This approach gets the most play in academia and comes with the best theoretical credentials. In this section, we will look at the foundations of the approach and some of the preliminary details on how we estimate its inputs.

We buy most assets because we expect them to generate cash flows for us in the future. In discounted cash flow valuation, we begin with a simple proposition. The value of an asset is not what someone perceives it to be worth but it is a function of the expected cash flows on that asset. Put simply, assets with high and predictable cash flows should have higher values than assets with low and volatile cash flows.

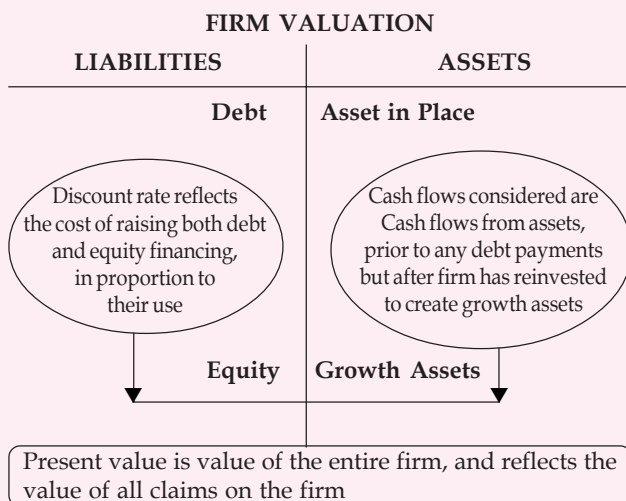
Using discounted cash flow models is, in some sense an act of faith. We believe that every asset has an intrinsic value and we try to estimate that intrinsic value by looking at an asset's fundamentals. What is intrinsic value? Consider it the value that would be attached to an asset by an all-knowing analyst with access to all information available right now and a perfect valuation model. No such analyst exists, of

course, but we all aspire to be as close as we can to this perfect analyst. The problem lies in the fact that none of us ever gets to see what the true intrinsic value of an asset is and we, therefore, have no way of knowing whether our discounted cash flow valuations are close to the mark or not.

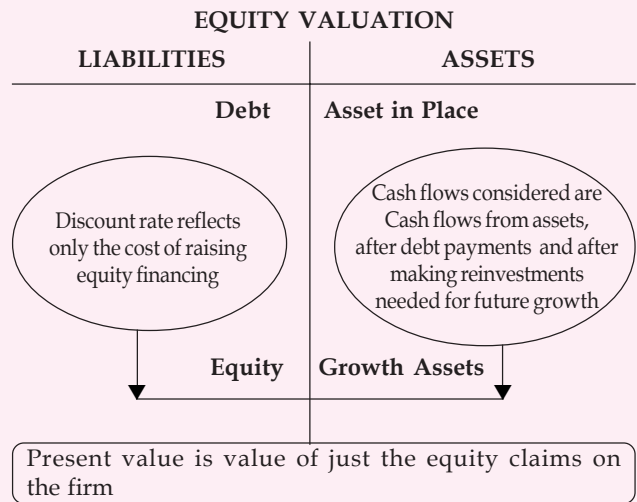
There are four variants of discounted cash flow models in practice, and theorists have long argued about the advantages and disadvantages of each. In the first, we discount expected cash flows on an asset (or a business) at a risk-adjusted discount rate to arrive at the value of the asset. In the second, we adjust the expected cash flows for risk to arrive at what are termed risk-adjusted or certainty equivalent cash flows which we discount at the risk free rate to estimate the value of a risky asset. In the third, we value a business first, without the effects of debt, and then consider the marginal effects on value, positive and negative, of borrowing money. This approach is termed the adjusted present value approach. Finally, we can value a business as a function of the excess returns we expect it to generate on its investments. As we will show in the following section, there are common assumptions that bind these approaches together, but there are variants in assumptions in practice that result in different values.

Discount Rate Adjustment Models

Of the approaches for adjusting for risk in discounted cash flow valuation, the most common is the risk adjusted discount rate approach, where we use higher discount rates to discount expected cash flows when valuing riskier assets, and lower discount rates when valuing safer assets. There are two ways in which we can approach discounted cash flow valuation. The first is to value the entire business, with both assets-in-place and growth assets; this is often termed firm or enterprise valuation :



The second way is to just value the equity stake in the business, and this is called equity valuation :



Dividend Discount Model

The oldest discounted cash flow models in practice tend to be dividend discount models. While many analysts have turned away from dividend discount models on the premise that they yield estimates of value that are far too conservative, many of the fundamental principles that come through with dividend discount models apply when we look at other discounted cash flow models.

Basis for Dividend Discount Models

When investors buy stocks in publicly traded companies, they generally expect to get two types of cash flows - dividends during the holding period and an expected price at the end of the holding period. Since this expected price is itself determined by future dividends, the value of a stock is the present value of dividends through infinity :

$$\text{Value per share of stock} = \sum_{t=1}^{t=\infty} \frac{(EDPS_t)}{(1+K_e)^t}$$

where,

E(DPS_t) = Expected dividends per share in period t

K_e = Cost of equity

Variations on the Dividend Discount Model

Since projections of rupee dividends cannot be made in perpetuity and publicly traded firms, at least in theory, several versions of the dividend discount model have been developed based upon different assumptions about future growth. We will begin with the simplest—a model designed to value stock in a stable-growth firm that pays out what it can afford to in dividends. The value of the stock can then be written as a function of its expected dividends in the

next time period, the cost of equity and the expected growth rate in dividends

$$\text{Value of stock} = \frac{\text{Expected Dividends of next period}}{(\text{Cost of Equity} - \text{Expected growth rate in perpetuity})}$$

Though this model has made the transition into every valuation textbook, its origins are relatively recent and can be traced to early work by David Durand and Myron Gordon. It was Durand who noted that valuing a stock with dividends growing at a constant rate forever was a variation of The Petersburg Paradox—a seminal problem in utility theory for which a solution was provided by Bernoulli in the eighteenth century. It was Gordon, though, who popularized the model in subsequent articles and a book, giving it the title of the Gordon Growth Model. While the Gordon Growth Model is a simple approach to valuing equity, its use is limited to firms that are growing at stable rates that can be sustained forever.

There are two insights worth keeping in mind when estimating a 'stable' growth rate. First, since the growth rate in the firm's dividends is expected to last forever, it cannot exceed the growth rate of the economy in which the firm operates. The second is that the firm's other measures of performance (including earnings) can also be expected to grow at the same rate as dividends. To see why, consider the consequences in the long term of a firm whose earnings grow say @3% a year forever, while its dividends grow at 4%. Over time, the dividends will exceed earnings. On the other hand, if a firm's earnings grow at a faster rate than dividends in the long term, the payout ratio, in the long term, will converge towards zero, which is also not a steady state. Thus, though the model's requirement is for the expected growth rate in dividends, analysts should be able to substitute in the expected growth rate in earnings and get precisely the same result, if the firm is truly in steady state.

In response to the demand for more flexibility when faced with higher growth companies, a number of variations on the dividend discount model were developed over time in practice. The simplest extension is a two-stage growth model which allows for an initial phase where the growth rate is not a stable growth rate and a subsequent steady state where the growth rate is stable and is expected to remain so for the long term. While, in most cases, the growth rate during the initial phase will be higher than the stable growth rate, the model can be adapted to value companies that are expected to post low or even negative growth rates for a few years and then revert back to stable growth. The value of equity can be written as the present value of expected dividends

during the non-stable growth phase and the present value of the price at the end of the high growth phase, usually computed using the Gordon Growth Model :

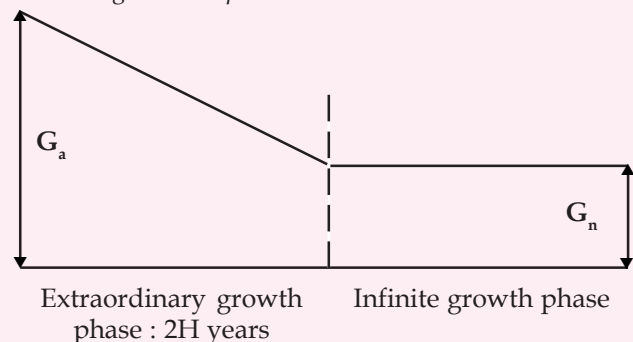
$$P_0 = \sum_{t=1}^{t=n} \frac{E(DPS_t)}{(1 + \text{Cost of Equity Share})^t} + \frac{P_n}{(1 + \text{Cost of Equity Share})^n}$$

$$\text{where } P_n = \frac{E(DPS_{n+1})}{(\text{Cost of equity} - g)}$$

where $E(DPS_t)$ is the expected dividends per share in period t and g is the stable growth rate after n years.

More complicated variants of this model allow for more than two stages of growth, with a concurrent increase in the number of inputs that have to be estimated to value a company, but no real change in the underlying principle that the value of a stock is the present value of the expected dividends. To allow for computational simplicity with higher growth models, some researchers added constraints on other aspects of firm behaviour including risk and dividend payout to derive "simpler" high growth models. For instance, the H model is a two-stage model for growth, but unlike the classical two-stage model, the growth rate in the initial growth phase is not constant but declines linearly over time to reach the stable growth rate in steady state. This model was presented in Fuller and Hsia and is based upon the assumption that the earnings growth rate starts at a high initial rate (G_a) and declines linearly over the extraordinary growth period (which is assumed to last $2H$ periods) to a stable growth rate (G_n). It also assumes that the dividend payout and cost of equity are constant over time and are not affected by the shifting growth rates. Figure 1 graphs the expected growth over time in the H Model.

Figure 1: Expected Growth in the H Model



The value of expected dividends in the H Model can be written as :

$$P_0 = \frac{DPS_0 * (1+G_n)^n}{(r - G_n)} + \frac{DPS_0 * H * (G_n - G_n)}{(r - G_n)}$$

where DPS_0 is the current dividend per share and growth is expected to decline linearly over the next 2H years to a stable growth rate of g_n . This model avoids the problems associated with the growth rate dropping precipitously from the high growth to the stable growth phase, but it does so at a cost. First, the decline in the growth rate is expected to follow the strict structure laid out in the model – it drops in linear increments each year based upon the initial growth rate, the stable growth rate and the length of the extraordinary growth period. While small deviations from this assumption do not affect the value significantly, large deviations can cause problems. Second, the assumption that the payout ratio is constant through both phases of growth exposes the analyst to an inconsistency – as growth rates decline the payout ratio usually increases. The allowance for a gradual decrease in growth rates over time may make this a useful model for firms which are growing rapidly right now, but where the growth is expected to decline gradually over time as the firms get larger and the differential advantage they have over their competitor's declines. The assumption that the payout ratio is constant, however, makes this an inappropriate model to use for any firm that has low or no dividends currently. Thus, the model – by requiring a combination of high growth and high payout – may be quite limited in its applicability.

Applicability of the Dividend Discount Model

While many analysts have abandoned the dividend discount model, arguing that its focus on dividends is too narrow, the model does have its proponents. The dividend discount model's primary attraction is its simplicity and its intuitive logic. After all, dividends represent the only cash flow from the firm that is tangible to investors. Estimates of free cash flows to equity and the firm remain estimates and conservative investors can reasonably argue that they cannot lay claim on these cash flows. The second advantage of using the dividend discount model is that we need fewer assumptions to get to forecasted dividends than to forecasted free cash flows. To get to the latter, we have to make assumptions about capital expenditures, depreciation and working capital. To get to the former, we can begin with dividends paid last year and estimate a growth rate in these dividends. Finally, it can be argued that managers set their dividends at levels that they can sustain even with volatile earnings. Unlike cash flows that ebb and flow with a company's earnings and reinvestments, dividends remain stable for most firms. Thus, valuations based upon dividends will be less volatile over time than cash flow based valuations.

The dividend discount model's strict adherence to dividends as cash flows does expose it to a serious problem. Many firms choose to hold back cash that they can pay out to stockholders. As a consequence, the free cash flows to equity at these firms exceed dividends and large cash balances build up. While stockholders may not have a direct claim on the cash balances, they do own a share of these cash balances and their equity values should reflect them. In the dividend discount model, we essentially abandon equity claims on cash balances and under value companies with large and increasing cash balances. At the other end of the spectrum, there are also firms that pay far more in dividends than they have available in cash flows, often funding the difference with new debt or equity issues. With these firms, using the dividend discount model can generate value estimates that are too optimistic because we are assuming that firms can continue to draw on external funding to meet the dividend deficits in perpetuity.

Notwithstanding its limitations, the dividend discount model can be useful in three scenarios :

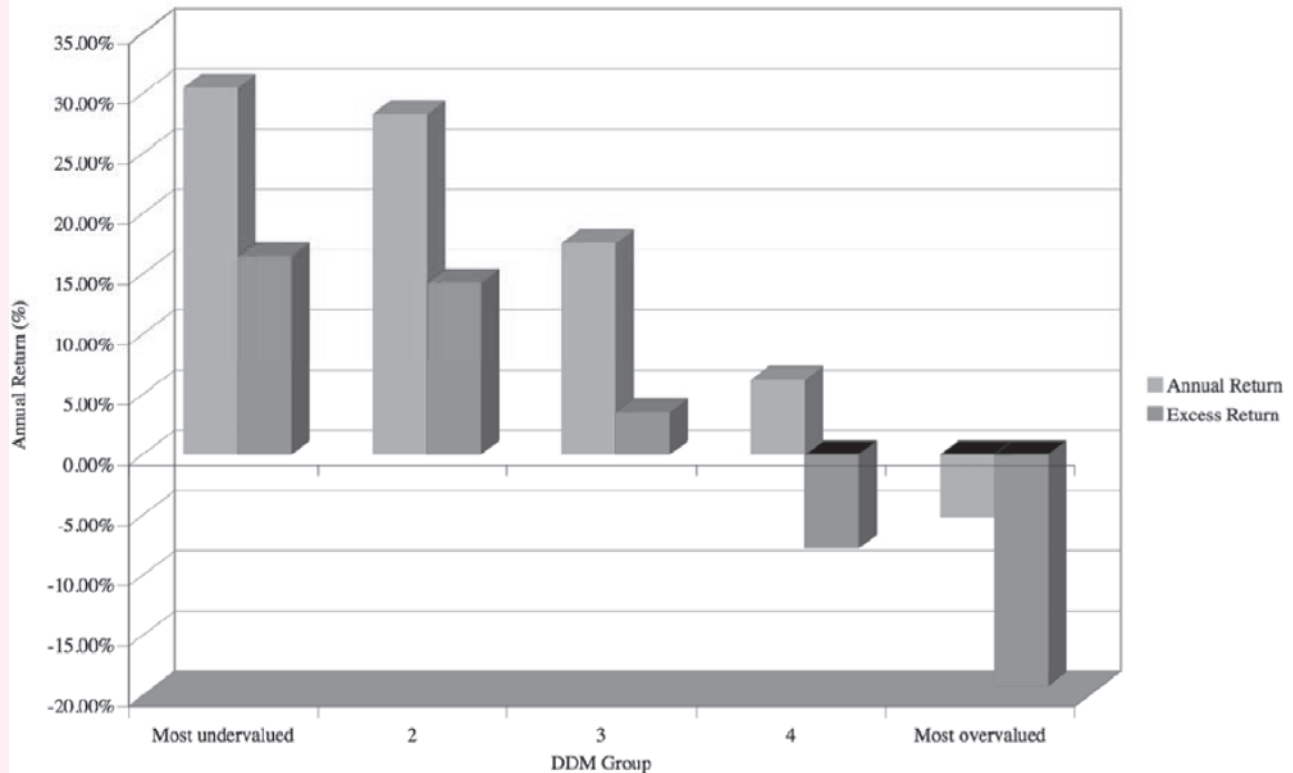
- It establishes a baseline or floor value for firms that have cash flows to equity that exceeds dividends. For these firms, the dividend discount model will yield a conservative estimate of value, on the assumption that the cash not paid out by managers will be wasted in poor investments or acquisitions.
- It yields realistic estimates of value per share for firms that do pay out their free cash flow to equity as dividends, at least on average over time. There are firms, especially in mature businesses, with stable earnings, that try to calibrate their dividends to available cash flows. At least until very recently, regulated utility companies in the United States, such as phone and power, were good examples of such firms.
- In sectors where cash flow estimation is difficult or impossible, dividends are the only cash flows that can be estimated with any degree of precision. There are two reasons why dividend discount model remain widely used to value financial service companies. The first is that estimating capital expenditures and working capital for a bank, an investment bank or an insurance company is difficult to do. The second is that retained earnings and book equity have real consequences for financial service
- Companies since their regulatory capital ratios are computed on the basis of book value of equity.

In summary, then, the dividend discount model has far more applicability than its critics concede. Even the conventional wisdom that the dividend discount model cannot be used to value a stock that pays low or no dividends is wrong. If the dividend payout ratio

is adjusted to reflect changes in the expected growth rate, a reasonable value can be obtained even for non-dividend paying firms. Thus, a high-growth firm, paying no dividends currently, can still be valued based upon dividends that it is expected to pay out when the growth rate declines.

them to buy back stock. In the second, we try to compute the cash that could have been paid out as dividends by estimating the residual cash flow after meeting reinvestment needs and making debt payments. In the third, we either accounting earnings or variants of earnings as proxies for potential dividends.

Figure 2: Performance of Dividend Discount Model



Extended Equity Valuation Models

In the dividend discount model, we implicitly assume that firms pay out what they can afford to as dividends. In reality, though, firms often choose not to do so. In some cases, they accumulate cash in the hope of making investments in the future. In other cases, they find other ways, including buybacks, of returning cash to stockholders. Extended equity valuation models try to capture this cash build-up in value by considering the cash that could have been paid out in dividends rather than the actual dividends.

One fix for this problem is to replace dividends in the dividend discount models with potential dividends, but that raises an estimation question: How do we best estimate potential dividends? There are three suggested variants. In the first, we extend our definition of cash returned to stockholders to include stock buybacks, thus implicitly assuming that firms that accumulate cash by not paying dividends return use

Buybacks as Dividends

One reason for the fall of the dividend discount model from favour has been the increased use of stock buybacks as a way of returning cash to stockholders. A simple response to this trend is to expand the definition of dividends to include stock buybacks and to value stocks based on this composite number. In recent years, firms in the United States have increasingly turned to stock buybacks as a way of returning cash to stockholders.

The trend towards stock buybacks is very strong, especially in the 1990s. By early 2000, more cash was being returned to stockholders in stock buybacks than in conventional dividends.

What are the implications for the dividend discount model? Focusing strictly on dividends paid as the only cash returned to stockholders exposes us to the risk that we might be missing significant cash returned to stockholders in the form of stock

buybacks. The simplest way to incorporate stock buybacks into a dividend discount model is to add them on to the dividends and compute a modified payout ratio :

$$\text{Modified dividend payout ratio} = \frac{\text{Dividends} + \text{Stock Buybacks}}{\text{Net Income}}$$

Certainty Equivalent Models

While most analysts adjust the discount rate for risk in DCF valuation, there are some who prefer to adjust the expected cash flows for risk. In the process, they are replacing the uncertain expected cash flows with the certainty equivalent cash flows, using a risk adjustment process akin to the one used to adjust discount rates.

Risk and Return Models

A more practical approach to converting uncertain cash flows into certainty equivalents is offered by risk and return models. In fact, we would use the same approach to estimating risk premiums that we employ while computing risk adjusted discount rates but we would use the premiums to estimate certainty equivalents instead :

Certainty Equivalent Cash flow = Expected Cash flow / (1 + Risk Premium in Risk adjusted Discount Rate)

Assume, for instance, that M/s ABC Ltd. has a risk-adjusted discount rate of 13.45%, based upon its market risk exposure and current market conditions; the risk free rate used was 4.25%. Instead of discounting the expected cash flows on the stock at 13.45%, we would decompose the expected return into a risk free rate of 4.25% and a compounded risk premium of 8.825% :

$$\text{Compounded Risk Premium} = \frac{(1 + \text{Risk adjusted Discount Rate})}{(1 + \text{Risk-free Rate})} - 1$$

$$= \frac{(1.1345)}{(1.0425)} - 1 = .08825$$

Conclusion

Since valuation is key to so much of what we do in finance, it is not surprising that there are a myriad of valuation approaches in use. In this paper, we examined three different approaches to valuation, with numerous sub-approaches within each. The first is discounted cash flow valuation, where the value of a business or asset is determined by its cash flows and can be estimated in one of four ways : (a) expected cash flows can be discounted back at a risk-adjusted discount rate; (b) uncertain cash flows can be converted into certainty equivalents and discounted

back at a risk free rate; (c) expected cash flows can be broken down into normal (representing a fair return on capital invested) and excess return cash flows and valued separately; and (d) the value of the asset or business is first estimated on an all-equity funded basis and the effects of debt on value are computed separately.

Not surprisingly, given their common roots, these valuation approaches can be shown to yield the same value for an asset, if we make consistent assumptions. In practice, though, proponents of these approaches continue to argue for their superiority and arrive at very different asset values, often because of difference in the implicit assumptions that they make within each approach.

The second approach has its roots in accounting, and builds on the notion that there is significant information in the book value of a firm's assets and equity.

While there are few who would claim that the book value is a good measure of the true value, there are approaches that build on the book value and accrual earnings to arrive at consistent estimates of value. In recent years, there has also been a push towards fair value accounting with the ultimate objective of making balance sheets more informative and value relevant.

The third approach to valuation is relative valuation, where we value an asset based upon how similar assets are priced. It is built on the assumption that the market, while it may be wrong in how it prices individual assets, gets it right on average and is clearly the dominant valuation approach in practice.

Relative valuation is built on standardized prices, where we scale the market value to some common measure such as earnings, book value or revenues, but the determinants of these multiples are the same ones that underlie discounted cash flow valuation.

References

- Michaud, R.O. and P.L. Davis, 1981, Valuation Model Bias and the Scale Structure of Dividend Discount Returns, *Journal of Finance*, V. 37, 563-573.
- Shiller, R., 1981, Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends, *American Economic Review*, V. 71, 421-436.
- Damodaran, A. 2006, *Damodaran on Valuation*, Second Edition, John Wiley and Sons, New York. Hagstrom, R., 2004, *The Warren Buffett Way*, John Wiley, New York.
- Foerster, S.R. and S.G. Sapp, 2005, *Dividends and Stock Valuation: A Study of the Nineteenth to the Twenty-first Century*, Working Paper, University of Western Ontario.
- Sorensen, E.H. and D.A. Williamson, 1985, *Some Evidence on the Value of the Dividend Discount*
- *Business Valuation practice Standard* by ICAI



Risks in Business Valuation : Role of CMAs

**P. K. Sinha
Sanchari Sinha**

M.Com, LL.B, A.C.A., F.I.C.W.A., A.C.I.S. (London), A.C.S., Ph.D.
Director, Zeal Institute of Management & Computer Applications, Pune
MBA, Symbiosis, M.Sc. (Econ) U.K.

Introduction to valuation

A prerequisite for intelligent decision-making, in choosing investments for a portfolio, in deciding on the appropriate price to pay or receive in a takeover and in making investments, financing and dividend choices when running a business is on knowing what an asset is worth and what determines its value.

- Some assets are easier to value than others. The details of valuation vary from asset to asset and the uncertainty associated with value estimates is different for different assets but their core principles remain the same.

- There are two extreme vies of valuation process. At one end are those who believe that valuation if done right is a hard science, where there is little room for analyst views or human error. At the other end are those who feel that valuation is more of an art, where savvy analysts can manipulate the numbers to generate whatever result they want. The truth does lie somewhere in the middle and in this context let us consider three components of valuation process i.e. bias, uncertainty and complexity bought by modern technology and easy excess to information :

1. Bias

- *Value first, valuation to follow: Bias in Valuation*

CMAs never start valuing a company with a blank slate. Very often their views on the company are formed before they start putting the numbers into the models they use and their conclusions tend to reflect their biases. They begin by considering the sources of bias in valuation and then move on to evaluate how bias manifests itself in most valuation.

- *Sources of Bias*

Bias in valuation starts from the day when companies to value are chosen. These choices are almost never random and how they are made can lay the foundation for bias. It may be that something has been read in the press (good or bad) about the company or heard from an expert that it has

been undervalued or overvalued. This adds to bias when this information collected is needed to value a firm.

The annual report and other financial statements include not only the accounting numbers but also management discussions of performance, often putting the best possible spin on the numbers. With many large companies it is easy to access the analysts view and they can often access their complete valuations.

Finally, the market's own estimate of the value of the company, i.e. the market price adding to the mix.

- *Manifestation of Bias*

There are three ways in which views on value can be influenced by bias:

1. Inputs used in valuation: When companies are valued assumptions have to be made to move on. These assumptions can be optimistic or pessimistic. For a company with high operating margins assumptions can be made either that the company will be able to maintain its margins for extended period (optimistic) or that competition will drive the margins down to industry average very quickly (pessimistic). The path chosen will reflect prior biases.

2. Post-valuation tinkering: In this CMAs revisit assumptions after the valuation, in an attempt to get closer to what they had expected to obtain starting off. Thus, a CMA who values a company at Rs.15 per share, when the market price is Rs. 25, may revise his growth rate upwards and his risk downward to come up with a higher value, if he believes that the company was undervalued at the beginning.

3. Leave the value as it is but attribute the difference between the value estimated and the value thought. This is the right one to a qualitative factor such as synergy or strategic considerations. This is a common devise on acquisition valuation where CMAs are often called upon to justify the unjustifiable. In fact, the use of premiums and discounts, where they increase or reduce estimated value, provides a window on the bias in the process.

- *What to do about bias*

There are several ways in which one can mitigate the effects of bias on valuation :

Reduce institutional pressures : A significant portion of bias can be attributed to institutional factors.

De-link valuations from reward/punishment : If one wants acquisition valuations to be unbiased, one has to separate the deal analysts from deal making.

No pre-commitments : Decision-makers should avoid taking strong public positions on the value of the firm before the valuation is complete.

Self-awareness : The best antidote to bias is awareness. A CMA who is aware of the biases he brings to the valuation process can either actively try to confront these biases when making input choices or open the process up to more objective points of view about a company's future.

Honest reporting : Valuations would be much more useful if CMAs revealed their biases up front.

- ***Bias is only an estimate : Impression and Uncertainty in valuation***

Barring a very small subset of assets, there will always be uncertainty associated with valuations and even the best valuations come with a substantial margin of error.

2. Uncertainty

- ***Sources of Uncertainty***

Uncertainty is a part and parcel of the valuation process, both at the point when a business is valued and in how that value evolves over time as new information is obtained which impacts valuation. The information can be specific to the firm being valued, it can be more generally about the sector in which the firm operates or can be general market information (about interest rates and the economy).

When valuing an asset at any point in time, forecasts are made for the future and best estimates are made given the information available at the time of valuation or estimates of value can be wrong for a number of reasons and these reasons can be categorized into three groups.

1. Estimation of uncertainty : Even if information sources are impeccable, raw information has to be converted into inputs and these inputs have to be used in models. Any mistakes or mis-assessments made at either stage of this process will cause estimation error.

2. Firm specific uncertainty : The path that is envisioned for a firm can prove to be hopelessly wrong. The firm may do much better or much worse

than expected and the resulting earnings are cash flows that will be very different from estimates.

3. Macroeconomic uncertainty : Even if a firm evolves exactly the way it is expected to, the macroeconomic environment can change in predictable ways, interest rates can go up or down, and the economy can do much better or worse than expected. These macroeconomic changes will affect value.

- ***Responses of Uncertainty***

Analysts who value companies confront uncertainty at every turn in a valuation and they respond to it in both healthy and unhealthy ways.

Among the healthy responses are :

Better valuation models: Building better valuation models that use more of the information that is available at the time of valuation is one way of attacking the uncertainty problem. It should be noted that even the best constructed models may reduce estimation uncertainty but they cannot reduce or eliminate the very real uncertainties associated with future.

Valuation ranges : A few CMAs recognize that the value that they obtain for a business is an estimate and try to quantify a range on the estimate.

– **Probabilistic statements :** Some CMAs couch their valuations in probabilistic terms to reduce the uncertainty they feel. Thus a CMA who estimates a value of Rs. 30 for a stock that is trading at Rs. 25 will state that there is a 60 or 70% probability that the stock is undervalued rather than make the categorical statement that it is undervalued. Unfortunately, not all CMAs deal with uncertainty in ways that lead to better decisions.

Among the unhealthy responses are :

Passing the buck : Some try to pass on responsibility for estimates by using other people's numbers in the valuation. For example, analysts will often use the growth rate estimated by other analysts.

Giving up on fundamentals : A significant number of analysts give up especially on full-fledged valuation models, unable to confront uncertainty and deal with it.

- ***What to do about Uncertainty***

In general, CMAs should try to focus on making best estimates of firm specific information i.e. How long will the firm be able to maintain high growth? How fast earnings grow during the period? What type of excess returns will the firm earn and steer away from bringing in their views on macroeconomic variables, to see why interest rates today are too low and that they will go up by about 1.5% over the next

year and if one builds up expected rise in interest rates into discounted cash flow valuation, they will all yield low values for the companies being analyzed.

In summary, CMAs should concentrate on building the best models they can with as much information as they can legally access, trying to make the best estimates of firm-specific components and being as neutral as they can be on macroeconomic variables.

● *Payoff to Valuation i.e. the Valuation cannot be judged by its precision*

Some companies can be valued more precisely than others simply because there is less uncertainty about the future. For examples, one can value a mature company with relatively few assumptions and be reasonably comfortable with the estimated value. Valuing a technology firm will require far more assumptions as when valuing an emerging market company. Valuing a young technology firm or an emerging market firm requires a blend of forecasting skills, tolerance for ambiguity and willingness to make mistakes that many do not have.

3. Complexity that modern technology and easy access to information have introduced into valuation

● *Are Bigger Models better: Valuation Complexity*

Valuation models have become more and more complex over the past two decades as a consequence of two developments, i.e., on one side, computers and calculators have become more powerful and accessible and, on the other hand, information is plentiful and easy to access and use. One can download detailed historical data on thousands of companies and use the data as they fit.

● *More or less detail*

More detail gives CMAs a chance to use specific information to make better forecasts on each individual item. On the other hand, more detail creates the need for more inputs, with the potential for error in each one and generates more complicated models.

● *Costs of Complexity*

There are clear costs that one pays as models become more complex and require more information:

Information overload: More information does not always lead to better valuation. Models that require dozen of inputs to value a single company often get short shrift from users.

Black box syndrome: The models become so complicated that CMAs using it no longer understand their inner workings. They feed inputs into the model's black box and the box spits out a value.

Big versus small assumptions: Complex models often generate voluminous and detailed output and it becomes very difficult to separate the big assumptions from the small. For examples, the assumption that pretax operating margins will stay at 20% (a big assumption that doubles the value of the company) has to compete with the assumption that accounts receivable will decline from 5% of revenues to 4% over the next 10 years (a small impact that has almost no impact on value).

● *Principle of Parsimony*

In physical sciences, the principle of parsimony dictates that the simplest possible explanation for a phenomenon is tried before moving on to more complicated ones. A similar principle should be adopted in valuation. In other words, if an asset is valued with three inputs, five should not be used.

Approaches to Valuation used by CMAs

● There are three approaches to valuation i.e. Discounted Cash Flow (DCF), Relative Valuation and Contingent Claim Valuation:

1. Discounted Cash Flow Valuation (DCF)

In DCF valuation, the value of an asset is the present value of an expected cash flow on the asset, discounted back at a rate that reflects the riskiness of these cash flows.

Assets are bought because they are expected to generate cash flows in future. In DCF valuation the value of an asset is not what someone perceives it to be worth; but rather a function of expected cash flows on that asset.

In DCF valuation, the value of an asset is estimated as the present value of expected cash flows on it :

$$\text{Value of an Asset} = \frac{E(CF_1)}{(1+r)} + \frac{E(CF_2)}{(1+r)^2} + \frac{E(CF_3)}{(1+r)^3} \dots + \frac{E(CF_n)}{(1+r)^n}$$

where $E(CF_t)$ = expected cash flow in the period t
 r = Discount rate reflecting riskiness of estimated cash flows
 n = Life of asset

Cash flows will vary from asset to asset, dividends for stocks, coupons (interest), face value for bonds and after-tax cash flows for a business. The discount rate will be a function of riskiness of estimated cash flows, with higher rates for riskier assets and lower rates for safer ones.

There are three distinct ways in which CMAs categorize DCF models :

(a) Differentiate between valuing a business as a going concern as opposed to collection of assets.

- Value of an asset in the DCF framework is the present value of expected cash flows on that asset. Extending this proposition to valuing a business, it can be argued that the value of a business is the sum of values of individual assets owned by the business. While this may be technically correct, there is a key difference between valuating a collection of assets and business. A business or a company is an ongoing entity with assets that it already owns and assets it expects to invest in future. This can be best seen when we look at the financial balance sheet (as opposed to an accounting balance sheet) for an ongoing company in the figure below. Note that investments that have already been made are categorized as assets in place but investments that the business will make in future are growth assets.

- A financial balance sheet provides a good framework to draw out the difference between valuing a business as a going concern and valuing it as a collection of assets. In a going concern valuation, CMAs have to make best judgments not only on existing investments but also on expected future investments and their profitability. In an asset based valuation, they focus primarily on assets in place and estimate the value of each asset separately. Adding the asset values together yields the value of the business. For companies with lucrative growth opportunities, asset based valuations will yield lower values than going concern valuations.

Simple view of a Firm

ASSETS		LIABILITIES	
Assets in Place Existing investments generate cash flows today	Investments already made	DEBT	Borrowed money
Growth Assets Expected value that till be created by future investments		EQUITY	Owner's funds

(b) Draw a distinction between valuing equity in a business and valuing the business itself

- There are two ways CMAs approach DCF valuation :

- Value the entire business, with both assets in place and with growth assets. This is often termed firm or enterprise valuation. The cash flows before

debt payments and after reinvestment needs are free cash flows to the firm and discount rates that reflect the composite cost of financing from all sources of capital are referred to as cost of capital.

Firm Valuation

ASSETS		LIABILITIES	
Cash flows are cash flow from assets prior to any debt payments but after the firm has reinvested to create growth assets	Assets in place Growth Assets	DEBT	Discount rate reflects the cost of raising both debt and equity financing in proportion to their use
		EQUITY	

Present value is value of the entire firm and reflects the value of all claims of the firm

- Value the equity stake in the business known as equity valuation. The cash flows after debt payments and reinvestment needs are called *free cash flows to equity* and the discount rate that reflects just the cost of equity financing is the *cost of equity*. Note that the former (firm value) to the latter (equity value) can be arrived by netting out the value of all non-equity claims from firm value. Done right, the value of equity should be same whether it is valued directly (by discounting cash flows to equity at the cost of equity) or indirectly (by valuing the firm and subtracting out the value of all non-equity claims).

Assets		Liabilities	
Cash flows are cash flows from assets after debt payments and after making reinvestments needed for future growth	Assets in place Growth Assets	DEBT	Discount rate reflects only the cost of raising equity financing
		EQUITY	

Present value is value of just the equity claims on the firm

(c) Lay out two different and equivalent ways of doing DCF valuation in addition to expected cash flow approach – a value based on excess returns and adjusted present value (APV)

- The model presented so far relates to expected cash flows that are discounted back at a risk-adjusted discount rate and is the most commonly used DCF approach, but there are other two widely used variants. In the first, cash flows are separated into excess return cash flows and normal return cash flows. Earning the risk adjusted required return (cost of capital or equity) is considered a normal return cash flow but any cash flows above or below this number are categorized as excess returns which can, therefore, be either positive or negative.

With excess return valuation framework, value of business can be written as sum of two components :

Value of business = Capital invested in firm today + Present value of excess return cash flows from both existing and future projects

- If an assumption is made that the accounting measure of capital invested (book value of capital) is a good measure of capital invested in assets today, this approach implies that firms that are expected to earn positive excess return cash flows will trade at market value higher than their book values and that the reverse will be true for firms, that are expected to earn negative excess return cash flows.

- In the second variation, called the adjusted present value (APV) approach, the effects on value of debt financing are separated from the value of the assets of a business. In general, using debt to fund a firm's operations creates tax benefits (because interest expenses are tax deductible) on the plus side and increases bankruptcy risk (and expected bankruptcy costs) on the minus side.

In the APV approach, the value of a firm can be written as :

Value of business = Value of business with 100% equity financing + Present value of expected tax benefits of debt - expected bankruptcy costs

- In contrast to the conventional approach, where the effects of debt financing are captured in the discount rate, the APV approach attempts to estimate the expected Rupee value of debt benefits and costs separately from the value of operating assets.

- There are 3 inputs that are required to value any asset in the model. This includes expected cash flow, timing of cash flow and discount rate.

2. Relative valuation

In relative valuation, CMAs value an asset by looking at the market prices of similar assets. Thus, for determining what to pay for a house they look at what similar houses in the neighborhood were sold rather than doing an intrinsic valuation. Extending this analogy to stocks, investors often decide whether

a stock is cheap or expensive by comparing its pricing of similar stocks (usually in its peer group).

In relative valuation, the value of an asset is derived from the pricing of comparable assets, standardized using a common variable.

There are two components of comparable or similar assets :

(a) From valuation standpoint, this would imply assets with similar cash flows, risk and growth potential. In practice, it is usually taken to mean other companies that are in the same business as the company being valued.

(b) Standard price is the other component. After all, the price per share of a company is in some sense arbitrary since it is a function of the number of shares outstanding, a two-for-one stock split would halve the price. Dividing the price or market value by some measures that are related to that value will yield a standardized price. When valuing stocks, this essentially translates into using multiples where the market value is divided by earnings, book value or revenues to arrive at an estimate of standardized. These numbers can then be compared across companies.

There are three variations on relative valuation, with differences primarily in how CMAs define comparable firms and control for differences across firms:

1. **Direct comparison** : The key part in this analysis is identifying similar one or two companies and getting their market values.

2. **Peer group average** : CMAs compare how their company is priced (using a multiple) with how peer group is priced (using the average for that multiple). Thus, a stock is considered cheap if it trades at 12 times earnings and the average price earnings ratio for the sector is 15. Implicit in this approach is the assumption that while companies may vary widely across a sector, the average for the sector is representative for a typical company.

3. **Peer group average adjusted for differences** : Recognizing that there can be wide differences between the company being valued and other companies in the comparable firm group, CMAs sometimes try to control for differences between companies. In many cases control is subjective. A company with higher expected growth than the industry will trade at a higher multiple of earnings than the industry average but how much higher is left unspecified. In a few cases, CMAs explicitly try to control for differences between companies either by adjusting the multiple being used or by using

statistical techniques. For statistical controls, CMAs can use multiple regressions where they can regress the multiple that they are using against the fundamentals that they believe caused that multiple to vary across companies. The resulting regressions can be used to estimate the value of individual companies.

3. Contingent claim valuation

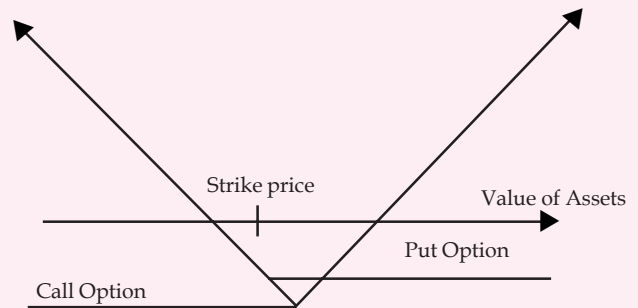
In recent years, though CMAs have increasingly used option pricing models developed to value assets, businesses and equity stakes in businesses, these applications are often categorized loosely as real options.

A contingent claim or option is an asset that pays off only under certain contingencies i.e. if the value of the underlying asset exceeds a pre-specified value for a call option, or is less than a pre-specified value for a put option. Much work has been done in the past few decades in developing models that value options and these option pricing models can be used to value any assets that have option like features.

The figure below illustrates the payoffs on call and put options as a function of the value of the underlying asset. An option can be valued as a function of variables like current value and variance in value of the underlying asset, strike price and the time to expiration of the option and the riskless interest rate. This was first established by Black and Scholes (1972) and has been extended and refined subsequently in numerous variants. While the Black Scholes option pricing model ignored dividends and assumed that options would not be exercised early, it can be modified to allow for both. A discrete-time variant, the binomial option pricing model, has been developed to price options.

An asset can be valued as a call option if the payoffs on it are a function of the value of an underlying investment. If that value exceeds a prescribed level, the asset is worth the difference. If not worth nothing it can be valued as a put option if it gains value as the value of the underlying investment drops below a pre-specified level and it is worth nothing when the underlying investment's value exceeds that specified level. There are many assets that generally are not viewed as options but still share option characteristics. A patent can be analyzed as a call option on a product with the investment outlay needed to get the project going considering the strike price and the patent life becoming the life of the option. An undeveloped oil reserve or gold mine provides an owner with a call option to develop the reserve or mine, if oil or gold price increase.

Payoffs on Options as a Function of the Underlying Asset's Value



The essence of real option arguments is that DCF models understate the value of assets with option characteristics. The understatement occurs because DCF models value assets based on a set of expected cash flows and do not fully consider the possibility that firms can learn from real time developments and respond to that learning. For examples, an oil company can observe what the oil price is each year and adjust its development of new reserves and production in existing reserves accordingly rather than be locked into a fixed production schedule. As a result, there should be an option premium added into DCF value of oil reserves. It is this premium on value that makes real options so alluring and potentially dangerous.

Role of Valuation

- Role of Valuation is different in various arenas. The relevance of valuation can be discussed in portfolio management, in acquisition analysis, in corporate finance and for legal and tax purposes.

● Valuation in portfolio management

The role that valuation plays in portfolio management is majorly determined by the investment philosophy of the investor i.e. for a passive investor valuation plays a minimal role whereas it plays a larger role for an active investor. Even among active investors, the nature and role of valuation is different for different types of active investment.

● Fundamental Analysts

The underlying theme in fundamental analysis is that the true value of a firm can be related to its financial characteristics i.e. growth prospects, risk profile and cash flows. Any deviation from this true value is a sign that a stock is undervalued or overvalued. It is a long term investment strategy and the assumptions underlying it is the relation between value and underlying financial factors can be measured. The relationship is stable over time and deviations from the relationship are corrected in a reasonable time period.

Fundamental analysts include both value and growth investors but their valuation focus is different. Value investors are interested in assets in place and acquiring them at less than their true value. Growth investors are far more focused on valuing growth assets and buying these assets at a discount.

● *Activist Investors*

Activist investors take positions that have a reputation for poor management and then use their equity holdings to push for change in the way companies are run. Their focus is not so much on what the company is worth today but rather what its value would be if it were managed well.

Activist investors have to ensure that there is additional value that can be generated by changing management i.e. they have to separate how much of a firm's poor stock price performance has to do with bad management and how much of it is a function of external factors. The former is fixable but the latter is not.

● *Chartists*

Chartists believe that prices are driven as much by investor psychology as by any underlying financial variables.

The information available from trading measures i.e. price movements, trading volumes and short sales gives an indication of investor psychology and future price movements. The assumptions here are that prices move in predictable patterns, that there are enough marginal investors taking advantage of these patterns to eliminate them and that the average investor in the market is driven more by emotion than by rational analysis.

● *Information Traders*

Information traders attempt to trade in advance of new information or shortly after it is revealed to financial markets.

The underlying assumption is that these traders can anticipate information announcements and gauge the market reaction to them better than the average investor in the market.

For an information trader, the focus is on the relationship between information and changes in value rather than on value per se.

● *Market timers*

Market timers note with some legitimacy that the payoff to calling turns in markets is much greater than the returns from stock picking. They argue that it is easier to predict market movements than to select stocks and that these predictions can be based on factors that are observable. While valuation of

individual stocks may not be much direct use to market timer, market timing strategies can use valuation in one of at least two ways :

➤ The overall market itself can be valued and compared to the current level.

➤ Valuation models can be used to value a large number of stocks and the results from the cross-section can be used to determine whether the market is over- or undervalued.

● *Efficient Marketers*

Efficient marketers believe that the market price at any point in time represents the best estimate of the true value of the firm and that any attempt to exploit perceived market efficiencies will cost more than it will make in excess profits.

For efficient marketers, valuation is a useful exercise to determine why a stock sells for the price that it does.

➤ Valuation in acquisition analysis

● Valuation plays a central part of acquisition analysis. The bidding firm or individual has to decide on a fair value for the target firm before making a bid and the target firm has to determine a reasonable value of itself before deciding to accept or reject the offer.

● There are special factors to consider in takeover valuation. First, there is a synergy that the increase in value that many managers foresee as occurring after mergers is because the combined firm is able to accomplish things that the individual firm could not. The effects of synergy on the combined value of two firms (target plus bidding firm) have to be considered before a decision is made on the bid. Second, the value of control, which measures the effects on value of changing management and restructuring the target firm, will have to be taken into account in deciding on a fair price. This is of particular concern in hostile takeovers.

➤ Valuation in corporate finance

● There is a role for valuation at every stage of a firm's life cycle. For small private business thinking of expanding, valuation plays a key role when they approach venture capital and private equity investors for more capital.

● The share of a firm that a venture capitalist will demand in exchange for a capital infusion will depend on the value of estimates for the firm.

● As companies get larger and decide to go public, valuations determine the prices at which they are offered to the market in public offering. Once established, decisions on where to invest, how much

to borrow, and how much to return to the owners will all be decisions that are affected by valuation. If the objective in corporate finance is to maximize firm value, the relationships among financial decisions, corporate strategy and firm value have to be delineated.

➤ Valuation for legal and tax purposes

- Most valuations, especially of private companies, are done for legal or tax reasons.

- A partnership has to be valued whenever a new partner is taken on or an old one retires and businesses that are jointly owned have to be valued when the owner decides to break up.

- Businesses have to be valued for estate tax purposes when the owner dies and for divorce proceedings when a couple breaks up. While the principles of valuation may not be different when valuing a business for legal proceedings, the objective often becomes providing a valuation that the court will accept rather than the “right” valuation. After all, legal precedents and the language of the law often trump common sense in the court room.

Risk analysis in Discounted Cash Flow valuation

- Risk in valuation refers to the likelihood that a return on an investment will be received that is different from the return it is expected to make. Thus, risk includes not only the bad outcomes (returns that are lower than expected) but also the good ones (returns that are higher than expected). The former is referred to as downside risk and the latter as upside risk but both are considered when measuring risks. In this part estimation issues and application challenges in using discounted cash flow models are examined.

1. Estimating discount rates : This refers to the process of estimating discount rates by breaking down financing into debt and equity components and how best to estimate the costs of each.

- Cost of equity is difficult to estimate partly because it is an implicit cost and partly because it varies across equity investors. For publicly traded firms, estimation is done from the perspective of the marginal investor in the equity, who is presumed to be well-diversified. This assumption allows us to consider only the risk that cannot be diversified away as equity risk and measure it with a beta (in the capital asset pricing model) or betas (in the arbitrage pricing and multifactor models). There are three different ways in which cost of equity can be estimated i.e. by entering parameters of a risk and return model, by looking at return differences across stocks over long periods and by backing out an implied cost of equity from stock prices.

- Cost of debt is the rate at which a firm can borrow money and will depend on the default risk embedded in the firm. This default risk can be measured using a bond rating or by looking at financial ratios. In addition, the tax advantage that accrues from tax deductible interest rate will reduce the after-tax cost of borrowing.

- Cost of capital is a weighted average of the costs of different components of financing with the weights based on market values of each component.

2. Measuring Cash Flows : When valuing a firm, the cash flows that are discounted should be after taxes and reinvestment needs but they should be before debt payments. When valuing equity, the cash flows should be after debt payments. In this section some of the challenges in coming up with these numbers for firms have been considered.

- There are limitations of accounting measures of earnings and to adjust these earnings for mis-categorized items such as operating leases and R&D. Next step is the tax rate which should converge on the marginal tax rate in future periods. For firms that are losing money and not paying taxes, the net operating losses that they are accumulating will protect some of their future income from taxation.

- The reinvestment that firms make in their own operations is then considered in two parts:

1. Net capital expenditure of the firm, which is the difference between capital expenditure (a cash outflow) and depreciation (effectively a cash flow). In this net capital expenditure, the capitalized operating expenses (such as R&D) and acquisitions are included.

2. The second part relates to investments in non cash working capital, mainly inventory and accounts receivable. Increases in non-cash working capital represent cash outflows to the firm, while decreases represent cash inflows. Non-cash working capital at most firms tend to be volatile and may need to be smoothed out when forecasting future cash flows.

- The next step is to examine two measures of cash flows to equity i.e. the actual dividends paid, which are easily observable but are discretionary and a broader measure of potential dividends i.e. the free cash flow to equity, which captures cash available after meeting reinvestment and financing needs. Many firms pay out less in dividends than available as free cash flow to equity, and more realistic estimates of equity value are obtained using the latter.

3. Forecasting Cash Flow : Key to valuing businesses. In this context the following are necessary :

- In making estimates, past history of the firm is relied on or on estimates supplied by analysts or

managers but they are not risk-free. Tying expected growth to the investment policy of the firm i.e. how much it reinvests and how well it chooses its investments i.e. not only is prudent but also preserves internal consistency in valuations.

- When valuing equity, especially in high growth businesses, the bulk of the value will come from the terminal value. To keep terminal values bounded and reasonable, the growth rate used in perpetuity should be less than or equal to the growth rate of the economy and the reinvestment rate assumed has to be consistent with growth rate.

4. Equity Discounted Cash Flow Models

- The primary difference between dividend discount model and free cash flow to equity models lies in the definition of cash flows. The dividend discount model uses a strict definition of cash flow to equity (i.e. the expected dividends on the stock) whereas the FCFE model uses an expansive definition of cash flow to equity as the residual cash flow after meeting all financial obligations and investment needs. When firms pay dividends that are different from the FCFE, the values from the two models will be different. In valuing firms for takeovers or in valuing firms where there is a reasonable chance of changing corporate control, the value from the FCFE provides better estimate of value.

5. **Firm Valuation Models** : This part develops an alternative approach to discounted cash flow valuation and the following needs to be considered:

- Cash flows to the firm are discounted at the weighted average cost of capital to obtain the value of the firm which when reduced by the market value of outstanding debt yields the value of equity. Since the cash flow to the firm is a cash flow prior to debt payments, this approach is more straight-forward to use when there is significant leverage or when leverage changes over time, although the weighted average cost of capital, used to discount free cash flows to the firm, has to be adjusted for changes in leverage.

- Alternative approaches to firm valuation are the APV approach, where the effect on value of debt (tax benefits minus bankruptcy costs) to the un-levered firm value is added and the excess return models where present value of excess returns to the book value of capital invested to estimate firm value are added.

- Next step is to look at how changes in the financial leverage of a firm can affect the value of its equity. Cost of capital and APV approaches both are considered while making this judgment.

Risk analysis in Relative Valuation method

- In relative valuation, the objective is to value an asset based on how similar assets are currently priced by the market. Consequently, there are two components to relative valuation :

1. To value assets on a relative basis, prices have to be standardized, usually by converting prices into multiples of some common variable. While this common variable will vary across assets, it usually takes the form of earnings, book value or revenues for publicly traded stocks.

2. To find similar assets which is challenging since no two assets are exactly alike. In the context of valuing equity in firms, the problems are compounded since firms in the same business can still differ on risk, growth potential and cash flows. The question of how to control for these differences when comparing a multiple across several firms becomes a key one.

- While the allure of multiples remains their simplicity, there are four steps in using them soundly.

1. Define the multiple consistently and measure it uniformly across the firms being compared.

2. Need to have a sense of how the multiple varies across firms in the market.

3. Need to identify the fundamental variables that determine each multiple and how changes in these fundamentals affect the value of the multiple.

4. Need to find truly comparable firms and adjust for differences among the firms on fundamental characteristics.

Conclusion

- Valuation plays a key role in many areas of finance i.e. in corporate finance, in mergers and acquisitions and in portfolio management.

- Valuation is not an objective exercise and any preconceptions and biases that CMAs bring to the process will find their way into the value.

- In general terms there are three approaches to valuation :

1. Discounted cash flow valuation which relates the value of an asset to the present value of expected future cash flows on that asset.

2. Relative valuation which estimates the value of an asset by looking at the pricing of comparable assets relative to a common variable like earnings, cash flows, book values or sales.

3. Contingent claim valuation which uses option pricing models to measure the value of assets that share option characteristics.

- In discounted cash flow (DCF) valuation, the

value of an asset is the present value of an expected cash flow on the asset, discounted back at a rate that reflects the riskiness of these cash flows. There are three inputs that are required to value any asset in the model i.e. expected cash flow, timing of the cash flow and discount rate that is appropriate given the riskiness of these cash flows.

- In relative valuation, the value of an asset is derived from the pricing of comparable assets standardized using a common variable.

- A contingent claim or option is an asset that pays off only under certain contingencies i.e. if the value of the underlying asset exceeds a pre-specified value for a call option or is less than a pre-specified value for a put option. □

References

- Business Valuation, Ashish K Bhattacharya
- Business Valuation : Needs & Techniques, Hozefa Natalwala
- Business Valuation Methods, Pytheas Business Guides, March 2002
- Business Valuation Report, Certified Business Appraisals Inc, September 06, 2011
- Business Valuation Report, Donald Sonneman, ASA
- Business Valuation Report, Plumbing Corporation and Mickey's Plumbing & Heating, Biz By Owner
- Private Company Valuation, Aswath Damodaran
- Security Analysis for Investment & Corporate Finance, Second Edition, Aswath Damodaran

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

12, Sudder Street, Kolkata - 700 016



NOTIFICATION

**Cancellation of Registration under Regulation 25(1) of CWA Act, 1959
Registration Numbers Cancelled
For December-2011 Examination**

UPTO

ERS/002802, NRS/004400 (except 4033, 4047, 4049-4105), 4695-4700

SRS/009075, WRS/006806, RSW/077893, RAE/005855

RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 30th June 2004) as above but desire to take the Institute's Examination in December-2011 must apply for **DE-NOVO** Registration and on being Registered **DE-NOVO**, **Exemption** from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of THE ICWA OF INDIA, payable at Kolkata.

Date : 21st June, 2011

**ARNAB CHAKRABORTY
DIRECTOR OF STUDIES**



Business Valuation in Mergers and Acquisitions

Debdas Ganguly
Sudarshan Maity

B. Tech., MBA, Ph.D., Professor & Dean of the School of Management (MBA), Haldia Institute of Technology Haldia, Purba Medinipur
B.COM (H), M.COM, SET, AICWA

Introduction

Mergers and acquisitions are strategic decisions taken for maximization of a company's growth by enhancing its production and marketing operations. They are being used in a wide array of fields such as banking, information technology, telecommunications, and business process outsourcing as well as in traditional businesses in order to gain strength, expand the customer base, cut competition or enter into a new market or product segment.

Company valuation is a systematic procedure for estimating the economic value of a business. It is a single value that represents the value of all the other components like brand value, insolvency, and debtor's turnover that together form a company's value. It is done under many circumstances like at the time of mergers and acquisitions, reorganization, raising public funds, and winding up of the business.

Business Valuation Purposes

Businesses may be valued for various purposes such as:

- (a) Merger and Acquisition (M & A)
- (b) Takeover
- (c) Demerger
- (d) Sale/Disinvestment
- (e) Public Issue
- (f) Share Pledge
- (g) Taxation Dispute
- (h) Partners' share

Elements of Business Valuation

The elements of business valuation are the important categories that have to be considered when the worth of a particular company is being determined. There are various elements of business valuation, all of which are equally important.

Economic conditions

A business valuation report begins with a description of national, regional and local economic conditions existing as of the valuation date, as well as

the conditions of the industry in which the subject business operates.

Financial Analysis

This permits the valuation analyst to compare the subject company to other businesses in the similar industry, and to discover trends affecting the company and/or the industry over time. By comparing a company's financial statements in different time periods, the valuation expert can view growth or decline in revenues or expenses, changes in capital structure, or other financial trends. How the subject company compares to the industry will help with the risk assessment and ultimately help determine the discount rate and the selection of market multiples.

The financial statement analysis generally involves:

- Common size analysis
- Ratio analysis (liquidity, solvency, profitability, turnover, etc.)
- Trend analysis
- Industry comparative analysis.

Normalization of financial statements

The most common normalization adjustments fall into the following four categories :

> Comparability adjustments

It is necessary that the financial statements of the subject company's are in line with the other businesses in the same industry or geographic location. For elimination of variation, adjustments are made in the company's financial statement in accordance with industry standard.

> Non-operating adjustments

Buyer is interested only with operating assets. Non-operating assets which do not have any future return other than the scrap value usually eliminated from the Balance Sheet.

> Non-recurring adjustments

Company's financial statements may be affected by events that are not expected to recur, such as the

purchase or sale of assets, a lawsuit, or an unusually large revenue or expense. These non-recurring/extraordinary items are adjusted with the financial statements for better reflection of future performance.

> Discretionary adjustments

The owners of private companies may be paid at variance from the market level of compensation that similar executives in the industry might command. In order to determine fair market value, payment to promoters, associates and relatives must be adjusted to industry standards.

Steps in Business valuation

- Identification of the purpose of Business Valuation
- Evaluate the company's strategic position, company's competitive advantages and disadvantages in the industry.
- Develop performance scenarios for the company and the industry and critical events that are likely to impact the performance.
- Forecast Income Statement and Balance Sheet line items based on the scenarios.
- Check the forecast for reasonableness.
- Estimating Discount Rate and Capitalization Rate.
- Estimating the Weighted Average Cost of Capital (WACC).
- Preparation of valuation Report.
- Interpreting the Results.

Business Valuation Techniques

The methods of valuation can be broadly categorized into three types, namely Balance Sheet based, Income based and Market based. All these methods carry a significant degree of importance in the context of mergers and acquisitions.

Balance Sheet Based Valuation

This method of valuation related to mergers and acquisitions is applied while the target firm is running at a loss. In this kind of a situation, the valuation of the assets of the firm at loss is estimated. The asset based method can be further categorized into the following forms :

Book Value – The book value valuation method is based on the simple assumption that adding the value of all the assets of the company and subtracting the liabilities leaving a net asset valuation, can best determine the value of a business. Although the balance sheet of a company usually gives an accurate indication of the short-term assets and liabilities, this is not the case of long term ones as they may be hidden by techniques such as “off balance sheet financing”. Moreover, valuation being a forward

looking exercise may not bear much relationship with the historical records of assets and liabilities in the published balance sheet.

Replacement Value – Valuations of listed companies have to be done on a different footing as compared to an unlisted company. In case of listed companies, the real value of the assets may or may not be reflected by the market price of the shares. However, in case of unlisted companies, only the information relating to the profitability of the company as reflected in the accounts is available and there is no indication of market price. Replacement value is the replacement value of assets less liabilities.

Liquidation Value – The liquidation value is based on the premise that it is generally possible to liquidate the assets of a company and after paying off the company's liabilities the net proceeds would accrue to the equity of the company. Valuation of assets based on liquidity does not yield better results if the fair market value of assets is in excess of value of its assets on a liquidated basis. Liquidation value can be used to determine the bare bottom benchmark value of a business, since this should be the funds the business may bring upon business valuation.

Market Based Valuation

This valuation reflects the price that the market at a point in time is prepared to pay for the shares. This valuation method broadly takes into account the investors' perceptions about the performance of the company and the management's capabilities to deliver a return on their investments.

The market based method can be further categorized into the following types :

Price Earnings Multiple – The price-earnings ratio (P/E) is simply the price of a company's share of common stock in the public market divided by its earnings per share (which is the company's entire net profit, or earnings, divided by the number of shares in issue). By multiplying this P/E multiple by the net income, the value for the business could be determined. This valuation method provides a benchmark business valuation as the non-listed companies wishing to use this method; a comparable quoted company/sector should be used. The P/E gives you an idea of what the market is willing to pay for the company's earnings. The higher the P/E the more the market is willing to pay for the company's earnings.

An alternate to this method is the use of the price earning (P/E) ratio instead of the rate of return. The P/E ratio of a listed company can be calculated by

dividing the current price of the share by the earning per share (EPS). Therefore the reciprocal of the P/E ratio is called earnings-price ratio or earning yield.

Market Capitalization of Listed Companies – Market capitalization is calculated by multiplying a company's shares outstanding (shares that have been authorized, issued, and purchased by investors) by the current market price of one share of a publicly traded company. Market capitalization is fluctuating every day, because of exchanges between buyers and sellers made during the trading day. The market price can also be moved by speculation about changes in expectations about profits or about mergers and acquisitions.

Sales/Profit Multiple – Sales or profit multiples are the most widely used business valuation benchmarks used in valuing a business. Under both the methods profits or sales multiplied by a multiplier as per company's present position with the industry standard, which may be 0.75, 1, 2, or higher. Higher the multiplier higher the value of the company.

Earning Based Valuation

The normal purpose of the contemplated purchase is to provide for the buyer the annuity for his investment outlay. The buyer would certainly expect yearly income, returns stable or fluctuating but nevertheless some return which commensurate with the price paid therefore. Valuation based on earnings, based on the rate of return on the capital employed, is a more modern method being adopted.

Income Capitalization – Capitalization of Earnings method determines the business value using a single measure of the expected business economic benefit as the numerator. This is divided by the capitalization rate that represents the risk associated with receiving this benefit in the future. The earnings figure to be capitalized should be one that reflects the true nature of the business, such as the last three years average, current year, or projected year. When determining a capitalization rate you should compare with rates available to similarly risky investments.

Dividend Capitalization – When using dividend capitalization you must first determine dividend paying capacity of a business. Dividend paying capacity based on average net income and an average cash flow are used. To determine dividend paying capacity, near term capital needs, expansion plans, debt repayment, operation cushion, contractual requirements, past dividend paying history of a business and dividends of a comparable company should be investigated. After analyzing these factors, percent of average net income and of average cash

flow that can be used for the payment of dividends can be estimated.

Discounted Cash Flow (DCF) – This valuation method focuses on estimates of future streams of cash flows, which are then discounted to a "present value," that is, what they'd be worth today. This method is considered a strong tool because it concentrates on cash generation potential of a business. Under this valuation method future free cash flow of the company (meeting all the liabilities) discounted by the firm's weighted average cost of capital (the average cost of all the capital used in the business, including debt and equity), plus a risk factor measured by beta. For valuation purposes, a buyer is looking for a high DCF value.

Discounted Earnings – This valuation method based upon the present value of projected future earnings or dividends, discounted by the required rate of return or the capitalization rate. The future dividend or earnings may constant or growth. But the question is how well the earnings or dividends are projected.

Discount Rates and Capitalization Rates

In valuation theory, a discount rate represents the total expected rate of return that an investor would likely require from a potential investment. The discount rate is directly related to the level of risk; thus, increased risk will result in a higher discount rate.

The discount rate is comprised of two elements: (i) the risk-free rate, which is the return that an investor would expect from a secure, practically risk-free investment, such as a government bond; and (ii) a risk premium that compensates an investor for the relative level of risk associated with a particular investment in excess of the risk-free rate.

In the other side capitalization rate includes the risk-free rate of return as its core, and it is increased by the risk inherent in the business. A company's capitalization rate is often derived by subtracting a company's expected long-term annual growth rate from its discount rate. Thus, a growing company's capitalization rate is usually lower than its discount rate.

A case Study – Merger of Bank of Rajasthan with ICICI Bank

Mergers and acquisitions in the banking sector is a common phenomenon across the world. The primary objective behind this move is to attain growth at the strategic level in terms of size and customer base. This, in turn, increases the credit-creation capacity of the merged bank tremendously. Small banks fearing aggressive acquisition by a large bank

sometimes enter into a merger to increase their market share and protect themselves from the possible acquisition.

The acquisition of Bank of Rajasthan (BoR) by ICICI bank is the first consolidation of country's crowded banking sector since 2008. ICICI Bank's acquisition of Bank of Rajasthan at about Rs. 3,000 crore is a great move by ICICI to enhance its market share across the Indian boundaries especially in northern and western regions.

For the year ended March 09, BoR had net profit of Rs 117 crore with total income of Rs 1,507 crore. For the nine-month ended December 09, the bank had net loss of Rs 9 crore with total income of Rs 1,086 crore.

Shares in Bank of Rajasthan closed up 19.95 percent at 99.50 rupees on the date of announcement (May 18, 2010). Listed in New York and Mumbai, ICICI's Mumbai shares ended down 1.45 percent at 889.35 rupees in a Mumbai market up 0.24 percent and ICICI's American Depositary Receipts were down 3.04 percent by 1738 GMT.

ICICI is offering to pay 188.42 rupees per share, in an all-share deal, for Bank of Rajasthan, a premium of 89 percent to the small lender's closing price on May 18, 2010, valuing the business at \$668 million. The two had proposed a share swap ratio of 1 : 4.72, which means BoR shareholders, will gain one share of ICICI Bank for every 4.72 shares of BoR.

The deal, which will give ICICI a sizeable presence in the northwestern desert state of Rajasthan, values the small bank at about 2.9 times its book value, compared with an Indian banking sector average of 1.84.

Bank of Rajasthan has a loan book of 77.81 billion rupees (\$ 1.7 billion) and market capitalisation of Rs. 1,600 crore compared with ICICI Bank's Rs. 99,000 crore. It reported a net loss of Rs. 44.7 crore for the quarter ended December 2009 on revenue of Rs. 344.83 crore.

ICICI BANK'S MERGER RECORD

1997 : Takeover of ITC Classic Finance
1998 : Takeover of Anagram Finance
2000 : Merger with Bank of Madura
2002 : ICICI and ICICI Bank merge
2005 : Acquires Russia's IvestitsionnoKreditny Bank
2007 : Amalgamation of Sangli Bank

In terms of assets, ICICI Bank is around 25 times as large as BoR. With the merger, the turnover of ICICI Bank would cross Rs 4,00,000 crore. BoR has a total business of over Rs. 23,000 crore, against nearly Rs. 3,84,000 crore of ICICI Bank.

P K Tayal, the main promoter of BoR said the deal was a win-win solution for everyone and the agreement with ICICI Bank envisaged that the bank's employees would get the same position in the merged entity.

The proposed merger seeks to enhance ICICI Bank's branch network — already the largest among Indian private sector banks — especially its presence in northern and western India. It would combine as much as 463 branches of BoR's branch franchise with ICICI Bank's strong capital base, to enhance the ability of the merged entity to capitalise on the growth opportunities in the Indian economy. Since 1997, when it acquired ITC Classic, ICICI Bank has periodically merged banks with itself to increase its reach. The deal will also help ICICI tackle increasing competition by HDFC Bank.

Conclusion

Business valuations using any method should not be too high or too low because that could be costly, resulting in either overpayment or lost opportunities. A deal that may be sound from a business standpoint may be unsound from a financial standpoint if the bidder firm pays too much. The purpose of a valuation analysis is to provide a disciplined procedure for arriving at a price. If the buyer offers too little, the target may resist and, since it is in play, seek to interest other bidders. If the price is too high, the premium may never be recovered from post-merger synergies. □

References

- Fernandez, Pablo (2002), Valuation Methods and Shareholder Value Creation, Academic Press, San Diego, CA.
- Fernandez, Pablo (2002), Company Valuation Methods. The Most Common Errors in Valuation, Working Paper No. 449
- Malucha, Marek, Business Valuation in Mergers & Acquisition, 2009
- Wikipedia: Business Valuation; http://en.wikipedia.org/wiki/Business_valuation; 21.10.2011
- The website of ICICI Bank: <http://www.icicibank.com/>; September 29, 2011
- The website of Reserve Bank of India: <http://www.rbi.org.in/>; September 29, 2011
- <http://business-law.lawyers.com/buying-selling-businesses/Asset-Valuation-in-Mergers-and-Acquisitions.html> ; October 18, 2011
- The Economic Times, 31st July 2009



A witty dialogue on Business Valuation

Subir Chakrabarty

BE (M), Gr (OR), FICWA, MFM
Faculty of Bhavan's Institute of Management Science,
Kolkata

Nakul : My family manages "Ideal Food" which is a restaurant serving quality lunches at reasonable prices at six locations in Kolkata. "Ideal Food" is well-known and has a strong customer base, ranging from professionals to retirees and college students. They had started two locations about three years ago as part of an expansion plan.

Sahadev : That's great. You are born with silver spoon in your mouth.

Nakul : My family now wants to sell these two locations.

Sahadev : Why?

Nakul : The two locations that my family is seeking to sell had low revenues in the last fiscal year as compared to the other locations. Both locations have had trouble maintaining quality staff, and the managers have been largely unsuccessful in running the business and controlling costs. Moreover, the locations are in posh areas of Kolkata where rent is quite high. These two locations experienced net losses for the last fiscal year.

Sahadev : That's why your family wants to get rid of these underperforming locations.

Nakul : Yah, but first we like to have reasonable values of these units.

Sahadev : I suggest you engage a business valuation consulting firm to provide an estimate of the fair market value of the units.

Nakul : We have already tried with the idea.

Sahadev : That's good. Your family can now decide on the issue based on the value estimate.

Nakul : To be frank I like to cross-check the valuations.

Sahadev : Have you any idea of business valuation?

Nakul: Business valuation is a process to determine what a business is worth. But, business value means different things to different people.

Sahadev : Strange.

Nakul : Yes, whether you like it or not. A business owner may believe that the business connection to the community it serves is worth a lot. An investor may think that the business value is entirely defined

by its historic income. In addition, economic conditions affect what people believe a business is worth. For instance, when jobs are scarce, more business buyers enter the market and increased competition results in higher business selling prices.

Sahadev : Is that all.

Nakul : No. The circumstances of a business sale also affect the business value. There is a big difference between a business that is shown as part of a well-planned marketing effort to attract many interested buyers and a quick sale of business assets at an auction. Hence, business value is really an expected price the business would sell for. The real price may vary quite a bit depending on who determines the business value. Compare a buyer who wants the business now because it fits important lifestyle goals to a buyer that purchases an income stream at the lowest price possible. The selling price also depends on how the business sale is handled, e.g. contrast a well-conducted business marketing campaign and a "fire sale".

Sahadev : It seems you are quite knowledgeable with the art of "business valuation". Can you please mention the main approaches to business valuation?

Nakul : There are three main approaches to measure what a business is worth: (i) asset approach, (ii) market approach, and (iii) income approach.

Sahadev : The first approach sounds good, because I am always interested in increasing my assets.

Nakul : The asset approach views the business as a set of assets and liabilities that are used as building blocks to construct the picture of business value. Since every operating business has assets and liabilities, a natural way to address this question is to determine the value of these assets and liabilities. The difference is the business value.

Sahadev : Bah, Bah, it's so simple. I like this approach.

Nakul: Sounds simple, but the challenge is in the details: figuring out what assets and liabilities to include in the valuation, choosing a standard of measuring their value, and then actually determining what each asset and liability is worth. For example, many business balance sheets may not include the

most important business assets such as internally developed products and proprietary ways of doing business. If the business owner did not pay for them, they don't get recorded on the "cost-basis" balance sheet!

Sahadev : The market approach must be simpler - after all the market is for everybody.

Nakul : I do not know what you mean by simpler. The market approach to valuing a business is a way to determine its fair market value - a monetary value likely to be exchanged in an arms-length transaction, when the buyer and seller act in their best interest. Market data is great if you need to support your offer or asking price - after all, if the "going rate" is this much, why would you offer more or accept less?

Sahadev : I am getting little confused because of "arms-length transaction". Are they literally going to fight?

Nakul : Not at all. No business operates in a vacuum. If you are looking to buy a business, you decide what type of business you are interested in and then look around to see what the "going rate" is for businesses of this type. If you are planning to sell your business, you will check the market to see what similar businesses sell for. It is intuitive to think that the "market" will settle to some idea of business price equilibrium - something that the buyers will be willing to pay and the sellers willing to accept. That's what is known as the fair market value.

Sahadev : I have read that the income approach takes a look at the core reason for running a business - making money. Is it true?

Nakul : Then you too have some knowledge of business valuation. In income approach the so-called economic principle of expectation applies: "If I invest time, money and effort into business ownership, what economic benefits are expected in the future and when will it provide me?" Since the money is not in the bank yet, there is some measure of risk - of not receiving all or part of it when you expect it. So, in addition to figuring out what kind of money the business is likely to bring, the income valuation approach also factors in the risk. Since the business value must be established in the present, the expected income and risk must be translated to today. The income approach uses two ways to do this translation: capitalisation and discounting.

Sahadev : Can you please elaborate these two ways?

Nakul : The capitalization method basically divides the business expected earnings by the so-called capitalization rate. The idea is that the business value

is defined by the business earnings and the capitalization rate is used to relate the two. For example, if the capitalization rate is 20%, then the business is worth five times its annual earnings.

Sahadev : What about the discounting method?

Nakul : The discounting method works a bit differently: first, you project the business income stream over some future period of time, usually measured in years. Next, you determine the discount rate which reflects the risk of getting this income on time. Last, you figure out what the business will be worth at the end of the projection period. This is called the residual or terminal business value. Finally, the discounting calculation gives you the so-called present value of the business, or what it is worth today.

Sahadev : Do we get the same result using the capitalisation and the discounting methods?

Nakul : Since both income valuation methods do the same thing, you would expect similar results. In fact, the capitalization and discount rates are related: $\text{Capitalisation Rate} = [\text{Discount Rate} - \text{Growth rate}]$.

Sahadev : Then why should go for the two different methods.

Nakul : The difference between capitalization and discounting is what income input you use. Capitalization uses a single income measure such as the average of the earnings over several years. The discounting is done on a set of income values, one for each year in the projection period. If your business shows smooth, steady profits year to year, the capitalization method is a good choice. For a growing business with rapidly changing and less predictable profits, discounting gives the most accurate results.

Sahadev : If you permit me to know a little more detail about your intention of cross checking the business valuation estimate of the consultant what the steps you are going to follow.

Nakul : The steps I am going to follow for the business valuation are : (i) planning and preparation, (ii) adjusting the financial statements, (iii) choosing the business valuation methods, (iv) applying the selected valuation methods, and (v) reaching the business value conclusion.

Sahadev : Can you be a little more specific in your particular situation?

Nakul : We plan to market the business until a suitable buyer is found. We want to pick the best offer and are not in a hurry to sell. In this situation our standard of value is the so-called fair market value. We plan to sell our business to the highest and most suited bidder.

Sahadev : What exactly you mean by the first step – planning and preparation.

Nakul : I repeat that business value depends on how and why it's measured. Once we know how and under what conditions we shall measure our business worth, it is time to gather the relevant data that impacts the business value. This data may include the business financial statements, operational procedures, marketing and business plans, customer and vendor information, and staff records. Some of the information will provide immediate parameters to determine the business value. Others, notably the company's historical financial statements, require adjustments to prepare inputs for the business valuation methods.

Sahadev : What about “adjusting the financial statements”. I believe it is the job of management accountants.

Nakul : May be you are correct. But I like to shoulder the responsibility myself. Since we have considerable discretion in how we use the business assets as well as what income and expenses we recognize, the historical financial statements may need to be recast or adjusted. The idea is to construct an accurate relationship between the required business assets, expenses and the levels of business income these assets are capable of producing. In general, both the balance sheet and the income statement require recasting in order to generate inputs for use in business valuation.

Sahadev : My destination is fast approaching. Quickly elucidate the third step – “choosing the business valuation methods”.

Nakul : The business valuation methods we choose to determine our business value depend upon a number of factors. The key points to consider: (i) the complexity and value of the company's asset base, (ii) availability of the comparative business sale data from the market, (iii) business earnings history, (iv) availability of reliable business earnings projections into the future, and (v) availability of data on the cost of capital, both debt and equity.

Sahadev : You are smart. It seems you do not want

to commit on the exact method you'll adapting for your particular case.

Nakul : The fact is that there are a number of well-established methods to determine business value, hence it is a good idea to use several of them to cross-check our results.

Sahadev : With the relevant data assembled and the choices of the business valuation methods made, calculating your business value should produce reasonably accurate and justifiable results.

Nakul : One reason to use several business valuation methods is to cross-check our assumptions. For example, if one business valuation method produces surprisingly different results, we could review the inputs and consider if anything has been overlooked.

Sahadev : Finally how do you conclude about the business valuation estimate?

Nakul : With the results from the selected valuation methods available, we can make the decision of what the business is worth. This is called the business value synthesis. Since no one valuation method provides the definitive answer, we may decide to use several results from the various methods to form our opinion of what the business is worth. Since the various business valuation methods we have chosen may produce somewhat different results, concluding the business value requires that these differences be reconciled. Business valuation experts generally use a weighting scheme to derive the business value conclusion. The weights assigned to the results of the business valuation methods reflect their relative importance in reaching the business value estimate.

Sahadev : I have to get down. My station has arrived. Thank you very much for the eloquent discussion we had today. If god permits, I may utilise this idea of business valuation for selling a business on a “going concern basis”, or when we have a synergistic buyer who is applying the “investment standard of measuring” our business value, or where the “forced liquidation” premise of value may apply. □

Corrigendum

In the November 2011 issue of The Management Accountant on page 1055, the photograph of Dr. Sujit Roy was printed inadvertently instead of Shri Ranjan Dasgupta. The Editor deeply regrets the error.



Role of CMAs in Adapting Different Methods in Business Valuation Process

Palash Garani

M. Com, M.Phil., PGDFM, ACS, AICWA,
Faculty of Maulana Azad College, Kolkata

Proposition

As a business owner seeking to determine the value of business, they are faced with a daunting array of formulas, theories and procedures. At Entrust, CMAs role is to help to identify an appropriate valuation assortment. CMAs do so as a service to business owner, as part of overall evaluation of business. Business valuation can be an intricate and difficult subject – though not necessarily as complex and difficult as some might suggest. CMAs guide through some process and, as with all other aspects of their services, will make sure that their role to determine the value of business should be understandable.

Overview

Business valuation is a process and a set of procedures used to determine the economic value of an owner's interest in a business. Valuation is used by financial market participants to determine the price they are willing to pay or receive, to consummate a sale of a business. In addition to estimating the agreed price of a business, the same valuation tools are often used by business appraisers to resolve disputes related to estate and gift taxation, allocate business purchase price among business assets, establish a formula for estimating the value of ownership interest for buy-sell agreements, and many other business and legal purposes.

Tools to Value a Business Enterprise

Asset approach

Since every running business has assets and liabilities, a natural way to address this question is to determine the value of these assets and liabilities. The difference is the business value.

Sounds simple enough, but the challenge is in the details: figuring out what assets and liabilities to include in the valuation, choosing a standard of measuring their value, and then actually determining what each asset and liability is worth. Two processes are used here: namely, the liquidation value and replacement cost. In this scenario the CMAs are closely involved in determining the proper value of assets and liabilities.

Market approach

The market approach to valuing a business is a great way to determine its fair market value – a monetary value likely to be exchanged in an arms-length transaction, where the buyer and seller operate in their best interest.

Income approach

The income approach takes a look at the core reason for running a business – making money. The business value must be recognized in the present, the expected income and risk must be translated to today. The income approach uses two ways to do this translation :

Valuation by direct capitalization

In its simplest form, the capitalization method basically divides the business expected earnings by the so-called capitalization rate. The idea is that the business value is defined by the business earnings and the capitalization rate is used to relate the two.

This approach is used for companies which are listed in the stock exchanges.

From the balance sheet of the company the book value of all the total tangible assets are subtracted from the total liabilities and net tangible assets are calculated i.e. Net Tangible Assets (N) = Total Tangible Assets - Total Liabilities

Discounted cash flow valuation

Here the value of business is fixed by computing net present value of business with the help of capital budgeting methods.

Valuation process

- Forecast income and costs associated with using the property over the life of the property.
- Compute Present Value of future cash flows (using appropriate discount rate reflecting risk of investment) by following formulae :

Present Value of future cash flows =

$$\frac{C_1}{(1+r)} + \frac{C_2}{(1+r)^2} + \dots + \frac{C_n}{(1+r)^n}$$

- Compute the net present value by subtracting

Present Value of Cash Outflows from Present Value of Cash Inflows.

Role of Cost & Management Accountants (CMAs) In the Context of Different Aspects of Business Valuation

Consistent with other roles in today's business, Cost and Management Accountants have a dual reporting relationship. As a strategic partner and provider of decision based financial and operational information, management accountants are responsible for managing the business team and, at the same time, having to report relationships and responsibilities to the corporation's finance organization.

The activities CMAs provide inclusive of forecasting and planning, performing variance analysis and also formulating various strategies regarding mergers & acquisitions through different valuation techniques. Conversely, the preparation of certain financial reports, reconciliations of the financial data to source systems, risk and regulatory reporting will be more useful to the corporate finance team as they are charged with aggregating certain financial information from all segments of the corporation.

The Cost Accounting Standard Board (CASB) constituted by the ICWAI has representation from other sister institutes, government departments, industrial associations, and so on.

The basic theme of CMA (cost and management accounting) has moved or is moving away from simple measurement and supply of information to management of processes and creation of value by deploying the information itself.

Significant work has been done in keeping velocity with the advancements in the field of business valuation particularly in merger & acquisition process.

The role for CMAs in business valuation is very much vital. In fact, the reports of this valuation are prepared by the CMAs and the information is a major input for the investors. As CMA professionals, their role is always related to assessment of various elements of businesses—especially brand valuation, intellectual property valuation, valuation in case of mergers & acquisition etc. Their contributions of these valuations are discussed :

Valuation of brand : The importance to a business of its brand is undeniable. Once it is accepted that brands do have value then there is a need to understand and protect that value.

Having established that brands are valuable and should be valued the question arises as to how to value them. This area is complex and, like business and property valuations, subjective. However, the CMAs

apply certain healthy methodologies, some of which are summarized :

1. Discount rate / Net Present Value : Under these valuation methods a CMA determines :

*Present value of the historic investment in marketing and promotions.

* Estimation of the advertising investment required to achieve the present level of brand recognition.

* Present value of the price premium (with respect to a private label) paid by customers for that brand.

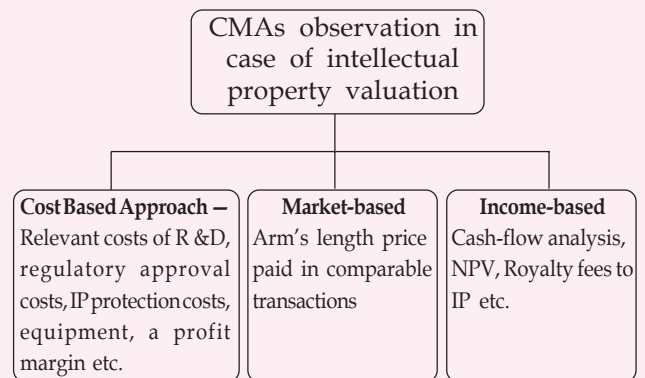
*Present value of the extra volume (with respect to a private label) due to the brand.

2. Franchise Valuation methods: Here the CMAs must try to determine the cost of franchisee, its set-up cost, advertisement costs etc.

3. Excess-earnings method: under this method CMAs should try to assess the increase in profit (or cash flow) attributable to the brand. Then it projects these cash flows over the useful life of the brand and does a discounted cash flow analysis, where each year's projected cash flow is discounted according to the jeopardy of the investment and how far away it will materialize. The sum of these cash flows plus the residual value of the brand at the end of the analysis gives the brand value.

Intellectual Property Valuation

The concept of valuation of intellectual property and other intangible assets of a company is new as compared to other concepts of intellectual property (IP) law. The value of an IP is a monetary compensation that is expected to be received from licensing of an IP or from sale or exchange of other intangible assets. The intangible assets of a company includes goodwill, trademark, technology, knowhow, trade secrets etc. So in this situation CMAs play a crucial role which has been shown through diagram :



Valuation in case of Mergers & Acquisition (M&A):

Both sides of an M&A deal will have different

thoughts about the worth of a target company: its seller will tend to value the company at as high of a price as possible, while the buyer will try to get the lowest price that he can. There are, however, many justifiable ways to value companies. In this case the CMAs help to determine proper valuation of business in so many ways. Here are just a few of them:

1. Price-Earnings Ratio (P/E Ratio) – With the use of this ratio, an acquiring company makes an offer that is a multiple of the earnings of the target company.

2. Replacement Cost – In a small number of cases, acquisitions are based on the cost of replacing the target company. This method of establishing a price certainly wouldn't make much sense in a service industry where the key assets—people and ideas—are hard to value and develop.

Conclusion

Our opinion on overall value of the business is usually given on a Going Concern basis, with

sustainability of earnings based on the historical and current earning capacity of the business. A complete report relative to all aspects of the business inclusive of the financial documentation supplied, the business customs and infrastructure and its relevance to its market sector. In this situation the CMAs must consistently demonstrate the overall reasonableness of their conclusions and to pay attention to provide input as part of business valuation process. □

References

- Anderson, Patrick L., "Value of Private Businesses in the United States," Business Economics (2009)
- http://en.wikipedia.org/wiki/Business_valuation
- http://www.business-valuations.biz/valuing_business
- Business Valuation Management, ICWAI, Final Study material, (2009)
- www.moneycontrol.com
- Understanding Intellectual Property Value, Simon Rowell, (2008)

ANNOUNCEMENT

The Management Accountant – January, 2012 will be a special issue on 'FINANCIAL INCLUSION'. Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th December, 2011.

The Management Accountant – February, 2012 will be a special issue on 'INNOVATIONS IN FINANCE'. Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 8th January, 2012.

The Management Accountant – March, 2012 will be a special issue on 'SUSTAINABLE GROWTH'. Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 8th February, 2012.



Fair Value Measurement under International Financial Reporting Standard 13

Dr. Gautam Mitra
Dr. Sumita Chakraborty

Associate Professor,
Department of Business Administration The University of Burdwan
Dy. Director, Research & Journal,
The Institute of Cost and Works Accountants of India,

Introduction

On 12th of May, 2011 the International Accounting Standard Board (IASB) has issued IFRS 13 which is to be effective for annual reporting periods beginning on or after January 1, 2013. Financial Accounting Standard Board, USA (FASB) and IASB have achieved the goal of establishing a single set of global accounting standard to measure value. It implies IFRS 13 is virtually identical to revised Accounting Standard Codification (ASC) Topic 820 (formerly known as FAS 157). IFRS 13 will (i) assist in improving consistency & comparability; (ii) help preparers and auditors in fulfilling their role and (iii) contribute to user's understanding what fair value is.

Prior to IFRS 13 there existed vast literature about fair value but IFRS 13 provides a new framework to estimate fair value in a consistent manner across standards. IFRS 13 defined fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The exit price notion emphasizes expectation about the future cash flows associated with the asset or liability under current market conditions.

Objective

The objective of this paper is to (i) highlight the features of IFRS 13 towards better understanding of fair value measurement & (ii) impact of IFRS 13 on valuation of real estate properties. On valuation of real estate properties we do have international valuation standard (IVS). As third objective, we have explored to distinguish between IVS and IFRS 13 in relation to valuation of real estate properties.

Features of IFRS 13

Fair Value vs. Transaction Price

In the real life transaction, there is a common belief that price at the transaction date (entry price) is equal to fair value (exit price). However, IFRS 13 has

emphasized that these two prices may not be the same in good number of cases like;

- Transaction between related parties
- Transaction has taken place in a situation when seller has been forced to accept a certain price under compulsion
- Unit of account of the transaction is different from the unit of account in which asset or liability is measured.
- The market where actual transaction takes place is different from the principal or most advantageous market.

Fair Value Measurement of Asset or Liability

Asset or liabilities which are required to be valued at fair value might be (i) stand alone asset or liability or (ii) group of assets or liabilities or (iii) group of assets and liabilities. For measurement purpose, whether the asset or liability is viewed as stand alone or as a group depends on its unit of accounts. For example, while valuing the equity interest in a publicly traded company, the unit of account may be the individual share (Ref: IAS 39 Financial Instrument) or the entire equity interest (Ref: IFRS 3 Business Combination).

Price

IFRS 13 is quite specific about the pricing. While determining the price of an asset, IFRS 13 stipulates that transaction cost is not required to be included in the total cost as the same is not entity specific. But transportation cost to be included provided most advantageous market demands that good to be transported from its current location.

Reference Market

The transaction is required to take place in the principal market or in the most advantageous market. In principal market we have highest level of activity or greatest volume of transaction. In most advantageous market, amount received by selling the asset is maximized or amount paid by transferring

the liability is minimized. It is irrelevant whether entity had transacted in that market earlier, provided it has access to such market at the measurement date. Unless there is any evidence to the contrary, it is to be presumed that principal market is the same in which the entity normally transacts. It is not necessary to take information about all possible markets.

Market Participants

Earlier to IFRS 13 there were several attempts by the national accounting standard setters to formalize who are market participants. For the first time, IFRS 13 mandates three essential attributes of a market participant. As per IFRS 13 buyers and sellers in the principal market or most advantageous market (explained earlier) must be (i) independent of each other; (ii) knowledgeable about the asset or liability; and (iii) able and willing to enter into a transaction for asset or liability. Fair value is determined on the basis of market participant's assumption and not entity specific assumptions. An entity's specific intention either to hold asset or to settle a liability is irrelevant in determining fair value. IFRS 13 further emphasizes that when measuring fair value it should be assumed that participants act to maximize their own value creation.

Fair value of Assets & Liabilities

IFRS 13 discriminates between financial and non-financial assets. The measurement of a non-financial asset should consider a market participant's ability to generate an economic benefit by using the asset in its highest and best use or by selling it to another market participant who will use the asset in its highest and best use. When determining the highest and best use of a non-financial asset, the entity must consider the physical, legal and financial feasibility. By physical feasibility we mean physical attributes like size and location of the asset. Legal feasibility warns us about any legal restrictions in connection with the asset. Financial feasibility ensures that market participants should earn reasonable return on investment.

Fair Value of Liabilities

IFRS 13 emphasis on transfer rather than settlement while determining fair value of liabilities. It requires that liability will be transferred to a market participant and such liability will not be cancelled or otherwise settled at the measurement date. IFRS 13 further assumes that non-performance risk is the same before and after the transfer. In other words transferee has the same credit standing as that of a transferor or the reporting entity.

Fair value Hierarchy

IFRS 13 sets the hierarchy based on the observability of the inputs used to measure fair value. The concept was first introduced in IFRS 7 *Financial Instruments: Disclosures*. Inputs to fair value

measurement should be used in the following order of priority, as depicted in Table A.

Level-1	Quoted prices (unadjusted) in an active market for identical assets and liabilities that the entity can access at the measurement date.
Level-2	Observable inputs other than quoted prices.
Level-3	Unobservable inputs.

The fair value hierarchy is based on the relative reliability and relevance of the information used in the valuation. Regardless of whether the valuation was compiled internally or externally, the reporting entity should therefore review and understand the inputs used in the valuation to determine to appropriate classification of those inputs in the fair value hierarchy. IFRS 13 requires that the significance of adjustments to observable data be considered in the context of the overall fair value measurement. When an observable input is adjusted to reflect differences between the asset being valued and the observed transaction, the adjustment may render the input a lower level in the fair value hierarchy.

Appropriate Valuation Techniques

IFRS 13 does not prescribe any specific valuation technique that must be used in any particular situation. The valuation technique used to measure fair value should be appropriate for the circumstances and should be the technique for which sufficient data is available. The valuation techniques that are typically used include the 'market approach', the income approach' and the 'cost approach' are summarized in Table B.

Table B : IFRS 13 & its IVS Equivalent

Approach	IFRS 13	IVS equivalent
Market approach	Valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets.	Market approach (or market a comparison approach)
Income approach Cost approach	Valuation technique that convert future amounts (e.g., cash flows or income and expenses) to a single current (discounted) amount.	(e.g., the income capitalization / Discounted cash flow method).
	Valuation technique that reflects the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost).	(e.g. the depreciated replacement cost method)

Conclusions

While many of the concepts in IFRS 13 are constant with current practice, certain principal and disclosure requirement could have significant impact on real estate and construction companies. In many cases, the concept of highest and best use and the valuation premises may not be significantly different from current practice. Careful consideration is required to identify those situations in which there is the significant impact.

Although the definition of valuation techniques are now brought in line with definition applied by IVS, there are still differences in fair value concept between IFRS and IVS.

For example IVS does not recognize a fair value hierarchy and IVS applies a different fair value definition. Management should be aware of these differences when assessing appraisals prepared pursuant to IVS.

Considerable judgments may be required when applying fair value measurement concept included in IFRS-13, such as determining what is highest and best use, valuing and alternative use, determining the valuation premise, and applying fair value hierarchy. Management will want to have a good knowledge of the concept when making judgments related to fair value measurements. □

Bibliography

- Ernest & Young (2011), IFRS 13 fair value measurement-21st century real estate values implications for the real estate and construction Industries.
- Duff & Phelps (2011), IFRS 13 Fair value Measurement what does it mean for valuation
- Financial accounting Standard Board (2008), Statement of Financial Accounting Standards No 157 Fair Value Measurements
- Choon Tuam Kwok & Kok Ng Kean (2011) Fair value Measurement: Implementation Issues and Challenges (Part 1)

Corrigendum

All concerned are requested to read Para 11(f) (Managing Committee) of the 'Cost Accountants' Chapter (amendment) Bye Laws, 2010, as has been published in The Cost and Works Accountants Act, Rules & Regulations (Updated upto 8th March, 2011) under Appendix 7 and in the monthly Journal of the Institute – The Management Accountant, Vol. 45 No. 9 (September, 2010), as follow :

“(f) There shall also be included in this Committee one Member of the Regional Council and/or Central Council operating in the area so long as such Member (s) is/ are locally available and is willing to act and who shall be no nominated annually for the purpose by the Regional Council concerned or the Central Council as the case may be and such nominated member(s) shall be an ex-officio member of the Managing Committee.”

(S. R. Saha)
Secretary
RCs & Chapter Coord, Comm.



Role of Management Accountants in Valuing Business

Arindam Ghosh
Asit Gope

Reader and Head, Department of Commerce, Panihati College
Life Member, Indian Economic Association & Bengal Economic Association.

Research Scholar, Department of Commerce, University of Kalyani

Introduction

Market Valuation and shareholders' value creation has become increasingly important for business. According to the principles of Value Management, firm must generate adequate returns for its owners, in line with the relative opportunity cost of investment. Companies whose returns exceed the opportunity cost to its owners create corporate value and hence shareholder's value. This means that an analysis of value and performance of a firm or one of its business units centers around two main indicators: Value, and Returns. Unlike larger firms, a major problem in measuring the value of entrepreneurial firms is that many are either privately owned or publicly traded in very thin secondary market. These firms are usually small in terms of investment; size of operations, and its market presence. In this study the terms such as entrepreneurial firms, small business firms and closely held firms are used interchangeably and assumed to be in the similar category of firms, which is a usual scenario in India. Business valuation is a measurement process. In order for any measurement process to be useful, the results must be consistent, precise, and accurate. Unlike ordinary physical measurements, the business valuation process involves multiple qualitative judgements, as well as quantitative procedures. To achieve greater precision and consistency, valuation professionals have attempted to make the valuation process more dependent on quantitative procedures and less dependent on qualitative judgements. Qualitative judgements often are thought to be inherently more subjective and prone to bias than quantitative procedures. Despite the fact that qualitative judgements are not necessarily biased in principle, in practice such judgements are often the source of biased and inconsistent appraisal results. Many users of business valuations have noted this problem. Business valuation is a process or a set of procedures that is used to estimate the economic value of the owner's interest in a business. Valuation is used by financial market participants to determine the price they are willing to pay or receive to consummate a

sale of a business. These firms in India are large in number, and they do contribute considerably to the aggregate industrial production and export revenues. In view of non-availability of market value, the alternative method for measuring the value of entrepreneurial firms can be done with the suitable valuation models.

Factors affecting value

In property, the generic valuation guide is dollars per square meter for various neighborhoods, but other factors need to be considered when assessing an individual property. In business the generic valuation guide is the earnings multiple for industries and business size. However, other factors need to be considered when assessing an individual business.

Type of Income

While a dollar is a dollar, when it comes to assessing a business, different income sources have different values. What potential owners are looking for is some assurance that this year's income can be repeated or improved into the future.

Profit Margins

Profit margins are an indication of the level of demand for a service, as well as the level of competition the business is facing. A low margin business also has a reduced margin for error, and, therefore, a higher risk.

Stability

A potential owner of a business is buying its future not its past and therefore there is a high degree of uncertainty. A business with a long and steady track record is a potentially more reliable generator of future income than one that has just started in the same industry. As such it may be valued at a higher earnings multiple. Stability may also be an external factor. For example, agriculture can be affected by weather patterns, while import and export business can be affected by currency fluctuations.

Competitive advantage

The key concern of the potential owner in this regard is the question of what is stopping a competitor

doing what I am doing and eating into my customer base and income streams. As a general rule of thumb, having something that is difficult to replicate adds value to the business.

Industry lifecycle

Each lifecycle stage will be regarded as having more or less value to different investors. As such it represents a factor that affects the earnings multiples applied to particular business in particular industries, but one without a consistent application.

Reliance on owner-operator

Many SME businesses are reliant on the owner-operator. As a general rule of thumb, the less a business is reliant on the owner-operator the higher the value of the earnings multiple.

Different Approaches to Business Valuation

A Business Valuator (or anyone valuating your business) will use a variety of business valuation methods to determine a fair price for your business, such as:

(1) Asset-Based Approach

It is used when a company is asset-intensive. The most common asset valuation techniques are:

Book Value Method

The book value is simply the business valuation based upon the accounting books of the business. Assets less liabilities equal the owner's equity, which is the "Book Value" of the business. The problem with book value business valuation is that the accounting records may not accurately reflect the true value of the assets in the business valuation.

Adjusted Book Value

Two types of adjusted book value business valuations are Tangible Book Value and Economic Book Value (also known as book value at market).

- *Tangible Book Value* is based on comprising the value of tangible assets only. Assets, such, goodwill, patents, capitalized preliminary expenses and deferred revenue expenses etc. are not considered.

- *Economic Book Value* is the value of the business that allows a book value analysis that adjusts the assets to their market value. This includes valuation of goodwill, real estate, inventories and other assets at their market value.

Replacement Value Method

It is quite closely similar to an adjusted book value analysis. Liabilities are deducted from the replacement value of the assets to determine the replacement value of the business. Replacement value of an asset is usually higher than its book value.

Liquidation Value Method

It is also similar to an adjusted book value analysis. Liabilities are deducted from the liquidation value of the assets to determine the liquidation value of the business. A liquidation asset-based approach determines the net cash that would be received if all assets were sold and liabilities paid off.

(2) Income/Earning-Based Approaches

These valuation methods are best used for non-asset intensive businesses like service companies. These business valuation methods are predicated on the idea that a business's true value lies in its ability to produce wealth in the future. The most common earning value approach is Capitalizing Past Earning.

Income Capitalizing Valuation Method

Earnings are divided by a capitalization rate (a rate of return required to take on the risk of operating the business). The earnings figure to be capitalized should be one that reflects the true nature of the business. When determining a capitalization rate one should compare with rates available to similarly risky investments.

Discounted Earnings Valuation Method

It determines the value of a business based upon the present value of projected future expected earnings, discounted by the required rate of return i.e. the capitalization rate. But the question is how well earnings are projected.

Discounted Cash Flow Valuation Method

When an entity is set up to accomplish a specific project, this technique is proved to be the most useful in valuing such an affair or business and when a certain time frame is set where an investor wishes to see his investment returned over a specific period of time. In discounted cash flow, the present value of liabilities is subtracted from the combined present value of cash flow and tangible assets, which determines the value of the business.

Discount Rate

In order to compute net present value, it is necessary to discount future benefits and costs. This discounting reflects the time value of money. Benefits and costs are worth more if they are experienced sooner. All future benefits and costs, including non-monetized benefits and costs, should be discounted. The higher the discount rate, the lower is the present value of future cash flows. For typical investments, with costs concentrated in early periods and benefits following in later periods, raising the discount rate tends to reduce the net present value.

Estimating the Discount Rate

Use of a discount rate to quantify systematic and unsystematic risk is part of the Capital Asset Pricing Model (CAPM). CAPM is firmly grounded in economic theory, and many texts contain summaries. However, it is also based on publicly-traded markets, which are not applicable to privately-held firms. Alternatively, some practitioners may use a “build-up” method. Although the use of this term is not consistent, some “build up” methods do not include a “beta.” This approach is not founded in economic theory and is instead based heavily on professional judgement. Damadoran (2002) recommends the CAPM approach, noting the failure of more contemporary models to significantly improve upon CAPM. Different methods for estimating a discount rate exist.

(3) Market Valuation Approaches

Market value approaches to business valuation attempt to establish the value of the business by comparing it to similar businesses that have recently sold. Obviously, this method is only going to work well if there are a sufficient number of similar businesses to compare. This approach compares similar companies on a set of variables. For instance the value of a business could be determined by using an “industry average” figure, such as sales, times a multiplier. This industry average number is based on what comparable businesses have sold for recently. As a result, an industry-specific formula is devised, usually based on a multiple of gross sales.

Price Earnings – Multiple Valuation Methods

The price-earnings ratio (P/E) is simply the price of a company’s share of common stock in the public market divided by its earnings per share. Multiply this multiple by the net income and you will have a value for the business. If the business has no income, there is no business valuation.

Dividend Capitalization Valuation Method

Dividend paying capacity based on average net income and on average cash flow is used.

To determine dividend-paying capacity, near term capital needs, expansion plans, debt repayment, operation cushion, contractual requirements, past dividend paying history of a business and dividends of a comparable company should be investigated. After analyzing these factors, percent of average net income and of average cash flow that can be used for the payment of dividends can be estimated.

Sales Multiple Valuation Method

This method is easy to understand and use. The sales multiple is often used as the business valuation

benchmark. The information required is annual sales and an industry multiplier, which is usually a range of .25 to 1, or higher. The industry multiplier can be found in various financial publications, as well as analyzing sales of similar concerns.

Profit Multiple Valuation Method

Profit and sales multiples are the most widely used business valuation benchmarks used in valuing a business. The information needed is pretax profits and a market multiplier, which may be 1, 2, 3, or 4, and usually a ceiling of 5. The market multiplier can be found in various financial publications, as well as analyzing the sale of comparable businesses.

The above-mentioned three main approaches are recognized by the Internal Revenue Service, accounting and appraisal authorities, and business valuation authorities. However, much recent research in the underlying economics of business valuation, as well as the trend in professional practice, has undermined this easy classification. In particular, there has been severe criticism of the improper use of accounting-based historical cost figures to estimate market value, the reliance on accounting income statements as the fundamental basis for forecasting future revenue, and the naive application of CAPM models to the discount rates for private firms.

Principles of Valuing a Business

The principles of valuing a business and components of a business are well-established. The seller wants to get as much as possible, the buyer wants to pay as little as possible, and the value lies somewhere in between. In very simple terms, the value is the best price you can get at a given time. However, this is not always an accurate guide, for example, at a given time, there may be no buyers or investors who have expressed an interest and, in this case one should not, therefore, conclude that the business is worth nothing. So how can you arrive at a reasonable asking price? Most businesses will request a valuation from their accountant or business advisor.

There are four generally accepted methods for business valuation :

Valuing a going concern

The capitalization of future maintainable earnings method is the most common way of valuing an existing business in good order, as it usually aligns reasonably well with the expectations of potential purchasers. This method involves multiplying an estimate of future maintainable earnings by the capitalization rate. The capitalization rate varies between industries and businesses and is usually expressed as a multiple of price/earnings ratio (PE).

Valuing new businesses

The discounted cash flow method is usually used

to value new or immature businesses or a business in which there is considerable variation in income or expenditure expectations.

This method estimates future cash flows and then applies a discount rate. The discount rate increases with the level of risk and the estimated time taken for the business to reach maintainable earnings.

Valuing the sum of the parts

The notional realization of assets is used to value a business which is not expected to continue in its current form. This is the case where the potential purchasers are interested in utilizing only parts of the business, so that various elements of the business are purchased by different parties. For example, an agribusiness may be dispersed in three separate sales: land; stock; and equipment.

Industry valuations

In some industries there are a sufficient number of business sales on an ongoing basis for a rule-of-thumb valuation to be applied to a business. For example, in publishing, magazines have historically been valued at around 6 times earnings and accounting practices have historically been valued at approximately 4 times earnings.

Combining valuation methods

Combining valuation methods is generally nonsense. One cannot reasonably take a value-based on an earnings multiple and then add the value of the assets—regardless of whether they are plant, stock, equipment or goodwill. To illustrate this point, it is the equivalent of looking at the PE Ratio of a publicly listed company, multiplying the earnings by the ratio to obtain the value, then adding the net assets to arrive at the price.

Comparing valuations by different methods

Comparing valuations by different methods can be quite informative, and a useful crosscheck of business value. If one method reveals a higher valuation than another, then it may reveal something about the business.

Here are some examples

1. If the notional realization of assets valuation is greater than the earning multiple valuation, it implies that the business is either over-capitalized or under-performing;
2. If the discounted cash flow valuation is greater than the earnings multiple valuation, it may imply that the business is expected to substantially increase profits;
3. If the industry valuation is less than the earnings multiple valuation, it implies that the business is either over valued, or an industry leader.

Role of Management Accountants in Business Valuation

Professionals within an organization who perform the managerial accounting function generally support two primary purposes. First of all, they generate routine reports containing information regarding cost control and the planning and controlling of operations. Second, managerial accountants produce special reports for managers that are used for strategic and tactical decisions on matters such as pricing products or services, choosing which products to emphasize or de-emphasize, investing in equipment, and formulating overall policies and long-range planning. Managerial accounting activities include some or all of the following : recognizing and evaluating transactions and economic events; quantifying and estimating the value of those events; recording and classifying appropriate transactions and events; and analyzing the reasons for, and relationships between, the transactions and events. Managerial accountants also assist decision-makers who use the information they generate, and evaluate the implications of past and future events on proposed plans or decisions. They also work to ensure the integrity of the information that they produce and strive to implement a system of reporting that contributes to the effective measurement of management's performance. The practical role of managerial accounting is to increase knowledge within an organization and, therefore, reduce the risk associated with making decisions. Accountants prepare reports on the cost of producing goods, expenditures related to employee training programs, and the cost of marketing programs, among other activities. These reports are used by managers to measure the difference, or "variance," between what they planned and what they actually accomplished, or to compare performance to other benchmarks. However, the role of a management accountant in valuing business is manifold. These can be summarised as :

Role as a Business Strategy Analyst

As a business analyst a management accountant is to identify key value-drivers and business risk, then assess the business's profit potential at a qualitative level. *Value drivers* are those economic activities that have the potential of generating future cash flows to the company. Business analysis involves analysing a firm's industry and its strategy to create a sustainable competitive advantage. Though qualitative, this is an essential first step as it gives the analyst enough room to frame the subsequent accounting and financial analysis better. The ultimate aim of business analysis is to enhance business decisions e.g., capital budgeting by evaluating available information about a

company's financial and non-financial situations—this includes its management, strategies, internal control, corporate governance, business risks, plans, and its business environment (micro and macro). The management accountant as a financial analyst makes sound assumptions in forecasting a company's future performance. The environment which the companies operate in is equally taken into account while carrying out strategy analysis.

Role as an Accounting Analyst

Accounting analysis is performed to determine the degree to which a company's accounting information system captures the business reality of the company that we are analysing. What the CMAs do here is to identify those places where there is flexibility in treating a particular item and appraise its appropriateness—taking into account the firm's unique or specific circumstance. Accounting policies and estimates can distort the economic reality of a business greatly, hence, they also assess the degree of distortion in an entity's accounting figure. Another important aspect in accounting analysis is to re-state the figures found in the financial statements of the company on more economically realistic basis. The essence of performing accounting analysis is to increase the reliability of the conclusion that the CMAs make from financial analysis. One of the importances of accounting is that it provides information that we use to carry out our analysis successfully.

Role as a Financial Analyst

Here, what the Management Accountants do is to use current and past financial data to assess a firm's ability to maintain and sustain her financial stand. Two important skills are needed here. First, the ability to systematically and efficiently carry out analysis. Second, the ability to use financial data in exploring business issues. The two most commonly used financial analysis tools that the analyst employ here are; ratio analysis and cash flow analysis. While ratios focuses on evaluating a firm's product market performance, cash flow analysis focuses on the flexibility and liquidity of a company from financial perspective—this can also be referred to as going concern analysis. Financial analysis consists of three broad areas—profitability analysis, risk analysis, and analysis of sources and uses of funds.

Role as a Prospective Analyst

In case of prospective analysis the management accountant focuses on forecasting a firm's future—typically earnings, cash flows or both. Prospective analysis draws on the findings from; accounting analysis, financial analysis, strategic and business environment analysis. The output here forms the basis of estimating company value.

Conclusion

Valuation is an important consideration, but the decision makers should also consider the structural fairness of the transaction and other factors. A fairness conclusion rendered to the board of directors should weigh the overall impact of a transaction on shareholders. An analyst rendering a fairness opinion should recognize that shareholders are the ultimate beneficiaries of the fairness conclusion and that the shareholders will be considering the fairness opinion in arriving at their transaction decisions. The CAPM is widely accepted for financial analysis, portfolio management, corporate planning, and other applications. However, its reliability in calculating the appropriate discount rate for an individual company is subject to question. Significant advances in automating routine transaction-related accounting tasks, combined with a strong corporate emphasis on value creation, have signaled new directions for managerial accounting. This trend had been building since the 1980s and accelerated in the mid-1990s. The thrust of the changes have been to make management accountants strategic partners and analysts in management decision making, rather than simply suppliers of data. Many companies now expect their managerial accounting staff to assist in developing strategies to enhance shareholder wealth and to participate on cross-functional teams with managers from operating departments throughout the organization, among other things. If the old analogy was supplying endless data for management to sift through, the new analogy has been providing value-added information that is directly to the point and suggests options that management might not otherwise have considered. Indeed, at some companies, the work of management accountants has increasingly been labeled "finance" rather than "accounting" to suggest a broader set of skills and expectations. □

Bibliography

- Waldron D and D Hubbard, (1991) "Valuation Methods and Estimates in Relationships to Investing Versus Consulting" *Entrepreneurship: Theory and Practice*, Fall Volume 16, November 1.
- Shanno P Prat (2001) "The Market Approach to Valuing Business" John Wiley & Sons Inc.
- Barth, M.E., W.H. Beaver and W.R. Landsman (2001). "The Relevance of the Value Relevance Literature for Accounting Standard Setting: Another View." *Journal of Accounting and Economics*, 31 : 77-104.
- Magni, C. A. (2007). Project valuation and investment decisions: CAPM versus arbitrage. *Applied Financial Economics Letters*, 3(1) (March), 137-140.
- Fernández, P. (2002). *Valuation Methods and Shareholders' Value Creation*. San Diego: Academic Press.



Changing Role of Management Accounting Practices in Business Valuation — an Accountant's Perspective

**Mahesha V
Sachindra, G. R**

M.Com, PGDHRM, Lecturer, Kuvempu University
Karnataka

M.Com, NET/JRF, Lecturer, Kuvempu University
Karnataka

Introduction

Management Accounting is one of the areas in the field and profession of accountancy that responds to the needs of business and follows developments in commercial activity. In the new environment created by the power of computing and the displacement of traditional accounting tasks, companies are looking to their financial experts to act as business partners with operations managers by providing information to support decision-making. 2006 claimed that accountants are increasingly involved in strategic management through the development and implementation of new accounting models integrating financial and non-financial information. With the increased automation of many accounting tasks, the Chartered Management Accountants will be asked to take a more proactive role in strategic business decision-making at an earlier stage in their careers. In addition, employers are beginning to demand that newly Qualified Chartered Management Accountants become more actively involved in the areas of strategic management and systems design (1998).

In recent years, the increasing level of global competition has intensified the challenges for managers and many experts have warned that if management accounting is to maintain its relevance, it needs to adapt to meet the changing needs of managers. In response to these concerns, a range of new management accounting techniques has emerged (Chenhall and Smith, 1998). Traditional management accounting techniques, such as absorption costing, standard costing, traditional budgets, CVP analysis and profit-based performance measures, focus on concerns internal to the organization. The more recent management accounting tools, such as activity based costing (ABC, BSC), target costing, value chain

analysis and benchmarking have affected the whole process of management accounting (planning, controlling, decision-making, and performance evaluation) and have shifted its focus from a "simple" or "naive" role of cost determination and financial control, to a "sophisticated" role of creating value through improved deployment of resources (Kaplan and Atkinson, 1998; Otley, 1995; Haldma and Laats, 2002). Briedley et al (2001) argue that "the notions such as "current practice" and "current state" are situated in time and space there is a continuous need for empirical studies to keep track of developments . . . and compare the [current] results . . . with prior research . . ." Very little is yet known about management accounting in tourism enterprises and especially in hotels (Pellinen, 2003). Research in management accounting has traditionally focused on accounting systems of large manufacturing companies. In addition, most accounting researchers interested in service production have conducted their research in nonprofit, public sector organizations (Olson et al, 1998). There is no question about the importance of the above mentioned surveys in accounting, but the number of studies on cost and management accounting of profit-seeking organizations other than auditing firms has remained very limited (Brignall et al, 1991; Sharma, 2002). Interestingly, however, there is an active interest in hospitality management and more specifically there is a lot of research in cost and management accounting practices of hotels and tourism enterprises (Harris and Brown, 1998). Potter and Schmidgall (1999) state that little innovation has occurred in hospitality cost and management accounting practices and there are many issues that deserve research attention. The aim of this research paper is to report the adoption rate and the benefits derived from traditional and contemporary

management accounting practices in the hospitality industry. The findings of this study are compared to earlier management accounting practices in the hotel industry.

The Indian hotel industry provides the context for this research. Tourism is one of the booming industries, along with Information Technology and Construction. The Indian tourism sector is a growth market and represents 3.339 per cent of the country's GDP, with annual arrivals projected at 25 million by 2020. (World Tourism Organization) India ranks in the top 38 destinations worldwide on the basis of tourist arrival. India is getting around 5.00 million tourists across the world every year reported by World tourism organization.

Literature review

In the traditional management accounting approach, costs are dominant and units have to report differences against the budget. Its prime orientation is in the past and not on the improvement of processes (2001). The traditional management accounting approach, which is economics based, is based on the notion of functionality and purposefulness of the firm. Under the economic approach, management accounting systems are designed and implemented to reduce transaction and interdependency costs associated with large-scale divisionalized organizations (1999).

Studies in cost and management accounting applied in the hotel industry have been conducted both in the fields of tourism management and accounting. They cover various aspects of the tourism industry. However, most of the studies have focused on hotels (Harris and Brown, 1998). As far as hotels are concerned, there are studies on cost structures and cost systems. Brignall (1997) concludes that most hotels have a high proportion of fixed cost with approximately three-quarters of the total cost of a hotel being fixed and uncontrollable. Fay et al (1976) showed the possible use of traditional costing systems in the hospitality services industry. Dunn and Brooks (1990) and Noone and Griffin (1997; 1999) document the implementation of customer profitability analysis (CPA) using (ABC). However, the use of ABC in the hotel industry is limited according to an informal survey by Graham (quoted in Tai, 2000). Schmidgall and Ninemeier (1987) studied operations budgeting practices in hotels chains in US and focused on coordination and control. The chains surveyed included the 47 largest lodging chains in the US. They determined that the majority of the hotels used a bottom-up approach to budgeting and also reported

on variance tolerations. Moreover, Schmidgall et al (1996) compared operations budgeting practices of lodging firms in the US with those in Scandinavia. A majority of hotel chains in both the US and Scandinavia use a bottom-up approach to budgeting. Reasons are reported for varying approaches. Budget revision approaches are reported, the point at which the revision starts, and what management level is responsible. Finally, budgetary control is studied including the different levels of variance toleration for various expenses. Lodging firms in the US have lower tolerance levels over food and beverage costs than their Scandinavian counterparts, while the reverse appears to be the case for other costs. Pellinen (2003) reports on a field study of pricing practices and their relationship to cost accounting in tourism enterprises located in Finnish Lapland. The results of the study suggest that only the companies with the strongest competitive position are able to use absorption pricing. Furthermore, as the majority of the studied enterprises use the prices set by the leading enterprises, the actual importance of cost accounting is rather limited. Haktanir and Harris (2005) explore performance measurement practices in the context of an independent hotel in Cyprus. The findings indicated six main themes, which are grouped under business dynamics and overall performance, employee performance, customer satisfaction, financial performance, and innovative activities performance measures. However, Atkinson and Brander Brown (2001) found that UK hotels are still focusing on traditional performance measures. This evidence suggests that although they appear to monitor performance in great detail, with few notable exceptions UK hotels do appear to emphasize only traditional measures. Collier and Gregory (1995), explore the use made of strategic management accounting in the hotel sector through case studies at six major UK hotel groups. The results demonstrate that the accounting function in hotel groups is becoming increasingly involved in strategic management accounting, both in planning and in ad hoc exercises on the market conditions and competitor analysis. The widespread adoption of strategic management accounting is consistent with the open and relatively homogeneous nature of the industry and the high degree of competitiveness among the hotel groups in the market. A significant body of management accounting research has been published in the field of management accounting practices.

Objectives

1. To examine the level of working and installation of advanced management accounting tools and techniques for business valuation especially in hotel industry.

2. To clarify how management accounting techniques support different strategic purposes in the hotel industry's (business) development.

3. To highlight the roles and expectations of the management accountant and to make conclusion that management accounting is changing in present scenario.

4. To identify the role of management accountants in organisational change.

Methodology

Sample characteristics and data collection

A survey was organized covering 65 leading Indian hotel industries, according to their sales revenues as well as their net profit. Pilot tests were undertaken with a group of managers and management accountants to refine the design and focus of the survey. More specifically, interviews were conducted with eight chief accountants who had long experience in cost and management accounting practices, in order to make sure that the questionnaires' content was easy to understand. Two of the accountants have had long experience in a hospitality accounting environment. Through this testing, we managed to account for omissions or vagueness in the expressions used to formulate the questions. In the survey, respondents were asked to indicate whether their business has adopted each management accounting practice and then for those having adopted them, to list the benefits gained over the past three years. Respondents were also asked to rank the degree of emphasis that their business would give to each practice over the next three years. A covering letter explained the purpose of the study and assured the confidentiality of the information provided. Demographic data of the business was obtained and is summarized in Table 1 and Table 2. Controls were put in place to avoid the same respondents answering the survey twice. The questionnaires were answered by 70 per cent executives in the financial departments (financial managers) that have firm knowledge of the cost and management accounting information provided and used within their companies. Thus, we believe that the answers are reliable. The 20 management accounting practices were classified in four groups according to Abdel-Kader and Luther (2006). These are: cost accounting, budgeting, performance evaluation and decision making.

Table 1 : Demographic data of hotels that participated in the survey

Geographic Area	Respondents (N)	(Percentage (%))
Bangalore	22	33.84
Kerala	18	27.69
Chennai	15	23.07
Hyderabad	10	15.38
Total	65	100.00

Source : Field Survey

Table 2 : No. of Beds and Star Category of hotels that participated in the survey

Number of Beds	Hotel Categories					
	5 Star		4 Star		3 Star	
	N*	%	N	%	N	%
Up to 200	05	35.17	06	37.5	15	42.85
200-250	02	14.28	05	32.25	12	34.28
250-300	04	28.57	03	18.75	05	14.28
Above 300	03	21.42	02	12.5	03	8.57
Total	14	100.00	16	100.00	35	100.00

Source : Field Survey

*N=Number of Respondents

Table 3 : Relative Adoption of Management Accounting

Particulars	N	%	Rank
Cost Accounting	30	46.15	2
Absorption Costing	23	35.38	4
Variable Costing Standard Costing	7	10.76	9
Activity Based Costing (ABC)	5	8.33	10
Budgeting			
Budgeting for annual operations	28	43.07	3
Budgeting for cost control	18	27.69	5
Budgeting for evaluating the performance of managers	10	15.38	6
Budgeting for long term plans	7	10.76	9
Flexible budgeting	2	3.07	12
Performance evaluation			
Profitability measures (operating profit and revenue growth)	30	46.15	3
Nonfinancial measures related to customers	08	12.30	8
Nonfinancial measures related to innovations	10	15.38	6
Nonfinancial measures related to employees	05	8.33	10
ROI	03	4.61	11

(contd.)

(contd.)

Residual income	05	8.33	10
Return on sales	02	3.07	12
Balanced scorecard	02	3.07	12
Information for decision-making			
Product profitability analysis	38	58.46	1
Customer profitability analysis	18	27.69	5
CVP analysis	9	13.84	7

Source : *Field Survey*

From absorption costing (ranked 2nd) and variable costing (ranked 4th), rather than ABC (ranked 10th) and standard costing (ranked 9th).

Cost Accounting

The adoption of cost accounting practices was measured using an instrument developed on this study and based on the literature (Zimmerman, 2000; Garrison. and Noreen, 2003; Bjornenak and Mitchell, 1999; Bjornenak, 1997; Drury et al., 1993; and Lucas, 1997). It comprises four item binary (dichotomous) variables. Past benefits and future emphasis of cost accounting tools were measured with a four item five-point

Budgeting

The adoption of budgeting practices was measured using an instrument developed on this study and based on the literature (Hansen and Mowen, 2002; Hilton, 2002; Atkinson et al, 2001; Drury, 2000; and Horngren et al, 2002). It comprises eight item binary (dichotomous) variables. Past benefits and future emphasis on budgeting tools was measured with an five item five-point Likert-scaled instrument adopted from Chenhall and Smith (1998a). The scales used to assess benefits were anchored at no benefit (score 1) to high benefit (score 5) and future emphasis anchored at, no emphasis (score 1) to high emphasis (score 5).

Performance evaluation

The adoption of performance evaluation techniques was measured using an instrument developed on this study and based on the literature (Ittner et al, 1997; Kaplan and Norton, 1996; Shields, 1997; Kaplan and Norton, 1996; Elnathan et al, 1996; and McNair and Leibfried, 1992). It comprises ten item binary variables. Past benefits and future emphasis of budgeting tools were measured with a ten item five-point Likert-scaled instrument adopted from Chenhall and Smith (1998a). The scales used to assess benefits were anchored at no benefit (score 1) to high benefit (score 5) and future emphasis anchored at no emphasis (score 1) to high emphasis (score 5).

Information for decision-making

The adoption of management accounting

techniques for short-term decision-making was measured using an instrument based on the literature (Drury, 2000; Hansen and Mowen, 2002; Hilton, 2002; Needls and Crosson, 2002). It comprises three item binary variables. Past benefits and future emphasis of management accounting techniques for short-term decision-making was measured with a three item five-point Likert-scaled instrument adopted from Chenhall and Smith (1998a). The scales used to assess benefits were anchored at no benefit (score 1) to high benefit (score 5) and future emphasis anchored at, no emphasis (score 1) to high emphasis (score 5).

Table 4 : *Past benefits of management accounting practices*

Particulars	N	%	Rank
High Benefits			
Product profitability analysis	38	58.46	1
Profitability measures (operating profit and revenue growth)	30	46.15	2
Absorption costing	30	46.15	2
Budgeting for annual operations	28	43.07	3
Variable Costing	23	35.38	4
Moderate Benefits			
Budgeting for control cost	18	27.69	5
Customer profitability analysis	18	27.69	5
Budgeting for evaluating the performance of managers	10	15.38	6
Nonfinancial measures related to innovations	10	15.38	6
CVP analysis	13	13.84	7
Nonfinancial measures related to customers	08	12.30	8
Low Benefit			
Standard Costing	07	10.76	9
Budgeting for long term plans	07	10.76	9
Activity Based Costing (ABC)	05	08.33	10
Nonfinancial measures related to employees	05	08.33	10
Residual income	05	08.33	10
ROI	03	04.61	11
Flexible budgeting	02	03.07	12
Return on sales	02	03.07	12
Balanced scorecard	02	03.07	12

Source : *Field Survey*

Findings

In Table 3, each management accounting practice is ranked in order of the percentage of respondents

The Management Accountant | December 2011

who indicated their business has adopted their practice. The left portion of Table 4 lists items in order of the average benefit derived from using each practice during the past three years, while the right-hand section details the future emphasis. To assist further discussion, the items listed in Table 4 are in three groups:

- (1) High benefit;
- (2) Moderate benefit; and
- (3) Low benefit.

Based on the ranking of past benefit. The classification scheme is not meant to imply that benefits are either high or low in any absolute sense.

Cost Accounting

The findings of the current study show that the majority (58.46 per cent) of Indian hotel enterprises use absorption costing, while 30 companies use variable costing. Standard costing has been reported only by a few of the respondents (10.76 per cent). A contemporary management accounting tool, ABC costing (8.33 per cent), is not particularly used by the Indian Hotel Sector (Table 3). The importance of these methods is examined using the reported benefits received from these techniques. The data reported in Table 4 indicate that relatively high and moderate benefits are derived.

Budgeting

In our survey, the data presented in Table 3 indicates that four traditional planning techniques were identified as relatively highly adopted. Moreover, the majority of the India hotels use budgets for planning annual operations (43.07 per cent), controlling cost (27.69 per cent) and evaluating the performance of managers (15.38 per cent). A rather significant proportion uses Strategic plans developed with budgets were moderately adapted (10.76 per cent) while results on flexible budgeting (3.07 per cent) reveal low adoption rates. Regarding reported benefits in our survey, budgeting for planning annual operations was ranked 1st, controlling cost was ranked 5th followed by evaluating the performance of managers (ranked 6th). Relatively moderate benefits were reported to be derived from strategic plans (ranked 9th) and low benefits for flexible budgeting (ranked 12th). These findings suggest that traditional budgeting practices seem to provide higher benefits, rather than contemporary budgeting tools.

Performance evaluation

The findings in the current study confirm the importance, in Indian hotels, of financial and nonfinancial measures of performance. Table 3 indicates relatively high adoption rates for profita-

bility measures (46.15 per cent) for nonfinancial measures related to customers (12.30 per cent), to innovations (15.38 per cent) and to employees (08.33 per cent). The management tools ROI (4.61 per cent), RI (8.33 per cent) and ROS (3.07 per cent) reveal medium adoption rates. The important contemporary management accounting Balanced Score Card seem to be used in relatively lower degree (3.07 per cent) than other performance evaluation techniques. Profitability measures (ranked 2nd) and nonfinancial measures related to customers (ranked 8th) were important to most of the firms surveyed. Relatively moderate benefits were reported for nonfinancial measures related to innovations (ranked 6th), related to employees (ranked 13th), for ROI (ranked 17th), RI (ranked 18th), EVA (ranked 20th), and ROS (ranked 10th). However, BSC (ranked 12th) provided lower benefits.

Information for decision-making

The data presented in Table 3 indicates that product profitability analysis (58.46 per cent) and CPA (27.69 per cent) were identified as relatively highly adopted. The benefits from these techniques are also in the relatively high category (Table 4). Nine (13.84 per cent) hotels in the survey used cost-volume profit analysis. Respondents rank this tool in the moderate category of benefits (ranked 7th).

Conclusions and discussion

The central aim of this study was to report on the relative adoption and benefits obtained from both traditional and more recently developed management accounting practices in large hotel enterprises in India. The analysis of the survey data from 65 leading Indian hotel enterprises indicates that the adoption rates for many recently developed practices are very satisfactory, while overall traditional management accounting techniques were found to be more widely adopted than recently developed tools.

Almost all Indian hotels use traditional budgets for planning annual operations, for controlling cost and for coordinating activities of the various parts of the hotels. Half of the companies that participated in the survey use flexible budget. These findings are in line with the results of similar surveys (Jones, 1998; De Franco, 1997; Schmidgall et al, 1996). It is argued that flexible budgeting is more accurate and leads to all costs having to be justified and avoids budget allocations purely on the basis that "it was needed in the past, so will be needed in the future".

Very few hotels develop budgets for strategic plans, a conclusion that confirms the findings of the survey conducted by Schmidgall et al (1996) for the Scandinavian hotel sector, unlike US hotels that prepare budgets for five or more years. The survey

results demonstrate that the majority of hotels use traditional financial measures (profitability measures) for performance evaluation. This conclusion is also in line with the findings of similar surveys by Mia and Patier (2001), Atkinson and Brown (2001) and Haktanir and Harris (2005). Nevertheless, the adoption of traditional nonfinancial measures (related to customers, to innovation, to employees) is considered satisfactory.

We ascertain that while the traditional financial measures continue to have a significant position for performance evaluation, hotels are starting to use nonfinancial measures, as noted in previous research. Two of ten hotels in India have adopted the balanced scorecard. When balance scorecard is cross-tabulated, we found that the majority of hotels that have adopted BSC. Dugdale and Lyne (2004) noted that whilst the importance of the BSC had increased over the last five years. Another important finding of our research is that traditional absorption costing is the most used cost accounting technique followed by variable costing, which use is statistically significant related to the use of CVP analysis that has been adopted by less than half hotels of our survey. The high rate of traditional absorption costing can be justified by the fact that this method is required by Indian legislation for the preparation of the annual published financial statements.

Variable costing is mainly used for short-term decision-making. Hotels use standard cost accounting less frequently than other cost accounting techniques, confirming the Brignall (1997) findings that standard cost accounting is more appropriate for manufacturing industries.

The use of ABC in the hospitality industry in India is considered very satisfactory. This research reports higher adoption rates than presented in previous studies in the hotel industry (Tai, 2000). Our findings confirm the increasing pace of ABC adoption in India in recent years (Cohen et al., 2005). When the use of ABC was cross-tabulated, We found that the majority of hotels that have adopted ABC use (CPA). This conclusion confirms the findings that appear in the literature (Noone and Griffin, 1997; 1999; Dunn and Brooks, 1990). We conclude the same results when ABC and ABB where cross-tabulated. It may be that hotels start implementing ABC and then use the activities analysis performed during ABC implementation to prepare their budgets.

Strategic management accounting tools have a less adoption rate than the other cost accounting techniques. The widespread adoption of strategic management accounting is consistent with the open

and relatively homogeneous nature of the hotel industry and the high degree of competitiveness among the hotel groups in the market. These findings do not oppose those of the Collier and Gregory (1995) survey, which concluded that strategic management accounting is being increasingly used in UK hotel groups.

The survey results demonstrate that hotels which have adopted more recent management accounting practices, such as activity based costing techniques (ABC, ABB, ABM, BSC) and benchmarking, face a higher percentage of indirect costs, higher sales revenue, and higher price competition than those that do not adopt them. The trend is consistent with commentators who have predicted a decreasing use of traditional techniques (Johnson, 1992; Kaplan, 1994). Another important finding is that hotels that are planning to pay more attention to recently developed management accounting tools in the future, such as activity based costing techniques (ABC, ABB, ABM) and BSC, face a higher level of competition compared to the hotels facing less competition. This conclusion is also in line with Khandwalla (1972) and Mia and Clarke (1999), who report that output market competition is associated with greater use of management controls and more recently developed management accounting practices.

Several limitations of this study should be mentioned. First, the study examined a large array of items and as with all surveys, it is possible that respondents may have misinterpreted some items. This probability is considered limited as care was taken to ensure that the questionnaires were answered by individuals with knowledge of the hotel's accounting and management practices. Secondly, as the sample selected was not random, the findings of this study should be interpreted as relating to the largest hotels, not to the general population of hotel enterprises. Since, size may be associated with the availability of resources to experiment with new accounting techniques, it is likely that the sample included a greater proportion of hotels employing new management accounting practices than the total population of hotels. Finally, in this survey, current practices regarding capital investment decisions were not examined. The study, contributes to current knowledge in cost and management accounting practices in the hospitality industry and also in cost and management accounting practices in India. In future, the findings of this survey could be compared to management accounting practices in the hotel industry in other countries. □



Role of CMAs in Business Valuation

Vinay Tandon

B. Sc., PGDCA, PGDBA, FICWA, MIIA(USA)

The terminology “business” refers to the state of being busy in doing commercially viable and profitable work, in the context of an individual as well as the community or a society. In other words, it is a social science of managing people to organize and maintain collective productivity toward accomplishing particular creative and productive goals, usually to generate profit with some exceptions in predominantly capitalist economies, business are formed to earn profit and grow the personal wealth of their owners. Similarly, “Valuation” means the act or process of assessing value or price of both tangible and intangible assets. Business valuation is a process and a set of procedures used to estimate the economic value of an owner’s interest in his/her business. Valuation is used by financial market participants to determine the price they are willing to pay or receive to consummate a sale of business.

In the wake of economic liberalization, companies are relying more on the capital market, acquisitions and restructuring are becoming commonplace, strategic alliances are gaining popularity, employee stock plans are proliferating and regulatory bodies are struggling with tariff determination. In these exercises a crucial issue is “How should the value of a company or a unit or a division of a company be appraised?” The goal of such appraisal is essentially to estimate a fair market value of a company. The fair market value is the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell.

A business valuation generally begins with a description of national, regional and local economic conditions existing as of the valuation date as well as the conditions of the industry in which the business operates. Before the value of a business can be measured, the valuation assignment must specify the reason for and the circumstances surrounding the business valuation. They are formally known as the business value standard which is the hypothetical conditions under which the business will be valued, and premise of value which relates to the assumptions such as assuming that the business will continue

forever in its current form, or that the value of the business lies in the proceeds from the sale of all of its assets minus the related debt. Business valuation results can vary considerably depending upon the choice of business value standard and premise of value.

Need for valuation

Valuations can be arranged for many and varied purposes. It can be arranged for family matters, sales, finance, insurance, probate and forward planning. Business or their assets are valued for a variety of reasons. Some of the most noticeable purposes for valuation of MSME business are :

- Buy/Sell agreements;
- Addition or retirement of a partner, dissolution of partnership, succession planning;
- Ownership disputes;
- Sharing on family separations and related family disputes;
- Mergers and acquisitions;
- Allocation of purchase price;
- Recapitalization/Restructuring the business/Raising funds;
- Business planning and value added management;
- Investment decisions/divestitures;
- Planning for initial public offering;
- Financial reporting;
- Wealth planning;
- Tax planning;
- Will planning;
- Goodwill impairment;
- Litigation issues involving lost profits or economic damages;
- Applying for loan;
- Liquidation/filing for bankruptcy;
- Creating a company’s stock-option plan.

Engagement of professional accountants

Valuers estimate the value of the business, tangible and intangible assets along with its liabilities such as contracts and intellectual property and securities such as debt, equity and derivatives. While engaging

professional accountants for business valuation, the organization usually adopts the following steps:

- The competence and experience to perform the engagement is to be examined;
- Whether the professional accountants has sufficient resources to perform the work within the stipulated time frame;
- Determine whether the professional accountants have a conflict of interest with the organization. Explore the situations which might give rise to conflict of interest. Usually a conflict arises if there is a relationship with a member of the governing body or related to the interested third party. In addition, other potential conflicts of interest may distract or undermine the work to be done;
- The criteria to be used for measurement of the work should be determined and laid down in the agreement and/or letter of appointment along with the confidentiality clause, if any, as well as the report format which would be required for submission;
- Finally the scope of the work to be performed along with other issues including incidental expenses to be incurred along with the remuneration to be charged by professional accountants is to be finalized.

Skills required by professional accountants

During the last few years changes had been made in accounting standards, rules and regulations and corporate governance practice which have changed the traditional roles of professional accountants and require them to acquire new skills for business valuation. The skills required by them may be summarized as :

- To understand the concept and purpose of valuation within the accounting profession;
- Knowledge of taxation aspects;
- Knowledge of accounting standards related to business combinations, intangible assets, employee options and financial instruments;
- To understand employee performance measurement criteria in case of valuation for stock options;
- Awareness of issues which would impact client with the ability to provide advice so that necessary actions can be taken by the client on the relevant issues.

Research and data gathering

Upon receipt of the appointment for the assignment of business valuation, the professional accountant would require certain information and/or data which are available within the organization.

Some of the areas which are considered in valuation may be illustrated as :

- Nature and history of the business;
- Economic outlook of the industry;
- Management of the company/business;
- Corporate documents such as Certificate of Incorporation, Memorandum & Articles of Association, Resolution of Directors, etc.;
- Governance body minutes;
- Organization chart along with details of the strength of the employees;
- Contracts/leases;
- Budgets/forecasts;
- List of services and/or products;
- Marketing and advertising information;
- Marketing materials including price lists;
- Major competitors;
- Customer lists;
- Tax returns;
- Financial statements;
- Book value of the stocks;
- Sales figures for past few years;
- Accounts receivables and payables;
- List of liabilities, loans and mortgages including taxes, insurance policies, etc.
- Dividend paying history of the company/business;
- Dividend paying capacity of the company/business;
- Market price of comparable publicly traded company/business;
- Goodwill and trademarks of the company/business.

Apart from the aforesaid internal source, information from some external sources may also be required to analysis the situation, such as:

- Business valuation publications;
- Industry information;
- Economic data including economic forecast resources, bond yields and interest rates as well as inflation and cost of living data;
- Market transaction data comprising of cost of equity capital and equity risk premiums;
- Tax regulations;
- Case laws.

Business valuation methods for analysis

The financial statement analysis generally involves ratio analysis such as liquidity, turnover, profitability, etc., trend analysis and industry comparative analysis. By comparing a company's financial statements in different time periods, the valuation expert can view growth or decline in revenues or expenses, changes

in capital structure, or other financial trends. How the subject company compares to the industry will help with the risk assessment and ultimately help determine the discount rate and the selection of market multiples. For analyzing, normalization of financial statements may be required. The most common normalization adjustments fall into the following four categories :

- **Comparability adjustments**

These adjustments are intended to eliminate differences between the way the published industry data is presented and the way that the subject company's data is presented in its financial statements.

- **Non-operating adjustments**

If a business is sold in a hypothetical sales transaction, the seller would retain any assets which are not related to the production of earnings or price those non-operating assets separately. As such, those non-operating assets are usually eliminated from the balance sheet.

- **Non-recurring adjustments**

The subject company's financial statements may be affected by events that are not expected to recur, such as purchase or sale of assets, a lawsuit, or an unusually large revenue or expense. Such non-recurring items are to be adjusted so that the financial statements will better reflect the management's expectations of future performance.

- **Discretionary adjustments**

The owners of private companies may be paid at variance from the market level of compensation that similar executives in the industry might command. In order to determine fair market value, the owner's compensation, benefits, perquisites and distributions must be adjusted to industry standards.

Following are the three different approaches commonly used in business valuation. Within each of these approaches, there are various techniques for determining the value of a business using the definition of value appropriate for the appraisal assignment.

- The income approach determines the value by calculating the net present value of the benefit stream generated by the business i.e., discounted cash flow;
- The asset based approach determines the value by adding the sum of the parts of the business i.e., net asset value; and
- The market approach determines the value by comparing the subject company to other companies of same size in the same industry and/or within the same region.

A number of business valuation models can be constructed that utilize various methods under the aforesaid three business valuation approaches. In determining which of the approaches are to be used, the valuation professional must exercise his discretion. Each technique has its merits and demerits which must be considered when applying to a particular subject company. Finally the professional accountant would have to decide on business valuation method to be used based on the nature and requirements of the engagement which would also involve analyzing the company/business information in conjunction with the industry and other comparable data.

Some of the business valuation methods are :

- **Discounted Cash Flow Method**

This method works on the premise that the value of a business is measured in terms of future cash flow streams, discounted to the present time at an appropriate discounted rate. It is used to determine the present value of a business on a going concern assumption. It recognizes that money has a time value by discounting future cash flows at an appropriate discount factor. In other words, it expresses the present value of a business as a function of its future cash earnings capacity.

The objective is to determine a net present value of the free cash flows which includes all inflows and outflows associated with the project prior to debt services such as taxes, amount invested in working capital and capital expenditure, arising from the business over a future period of time. The longer the period covered by the projections, the less reliable the projections are likely to be. As such, this is used to value businesses where the future cash flows can be projected with a reasonable degree of reliability.

The discount rate applied to estimate the present value of explicit forecast period free cash flows as also continuing value is taken at the Weighted Average Cost of Capital. The principal elements of WACC are cost of equity, the post-tax cost of debt and the target capital structure of the company. In turn, the cost of equity is derived on the basis of capital asset pricing model as a function of risk-free rate, Beta and equity risk premium assigned to the subject equity market. The advantage of this approach is that it permits the various elements that make up the discount factor to be considered separately so that the effect of the variations in the assumptions can be modeled more easily.

- **Net Asset Value Method also known as Balance Sheet Method**

This method is normally used to determine the minimum price a seller would be willing to accept

and thus serves to establish the floor for the value of the business. It takes into account the net value of the assets of a business or the capital employed as represented in the financial statements. This method is pertinent where the business has been recently setup and the value of intangibles is not significant. It does not consider the earnings potential of the assets and is therefore seldom used for valuing a going concern. This method is not considered appropriate particularly in the following cases –

1. when the financial statements do not reflect the true value of the assets being either too high on account of possible losses not reflected in the balance sheet or too low because of initial losses which may continue in future;

2. where intangibles such as brand, goodwill, marketing infrastructure and product development capabilities form a major part of the value of the company;

3. where due to the changes in industry, market or business environment, the assets of the company have become redundant and their ability to create net positive cash flows in future is limited.

- **Market Multiple Method**

This method is based on the past/current transaction values of comparable companies in the industry and benchmarks it against certain parameters like sales, earnings before interest, taxes, depreciation and amortizations, etc., and does not reflect the possible changes in future of the trend of cash flows being generated by the business and neither takes into account the time value of money.

- **Asset Valuation Method**

This method estimates the cost of replacing the tangible assets of the business. Under this method, the replacement cost takes into account the market value of various assets or the expenditure required to create the infrastructure exactly similar to that of the company being valued. Since the replacement methodology assumes the value of business as if a new business is set, it may not be relevant in a going concern. Instead it will be more realistic if asset valuation is done on the basis of the new book value of the assets. Alternatively, this methodology can also assume the amount which can be realized by liquidating the business by selling off all the tangible assets of a company and paying off the liabilities.

- **Liquidation Value**

Under this method, liabilities are deducted from the liquidation value of the assets to determine the liquidation value of the business. Liquidation value can be used to determine the bare bottom benchmark value.

- **Income Capitalization Method**

Firstly, rate of return – also known as capitalization rate – is required to take on the risk of operating the business (the riskier the business, the higher the required rate of return). Earnings (figures that reflect the true nature of the business for past years) are then divided by the calculated capitalization rate and compared with rates available to similar risky investments.

- **Dividend Capitalization Method**

Professional accountants first determine dividend paying capacity of a business which depends on net income and on cash flow of the business. To determine dividend paying capacity, near future capital requirements, expansion plans, debt repayment, operation cushion, contractual requirements and past dividend-paying history of the business should be studied. After analyzing these factors, percent of average net income and of average cash flow that can be used for the payment of dividends can be estimated.

- **Valuation report**

When valuing a business or an asset, a valuation professional may express the determined value using various reporting requirements based on the nature and scope of the engagement. A valuation engagement requires that a member apply valuation approaches or methods deemed in the member's professional judgment to be appropriate under the circumstances and results in a conclusion of value. Based on the valuator's credentials and related accreditation organization, the valuation reports are being referred to by different names. Reports derived from a valuation engagement will typically be referred to by one of the following titles :

- **Summary report**

A summary report – also known as letter valuation report – is a shortened version of the formal valuation report. It is not as rigorous as a formal appraisal and is designed to give a guideline or benchmark rather than a formal determination value. This type of valuation is typical for business owners who have a need for knowing the worth of the business for some immediate activity, whether be that of legal or sale. The valuation may not conform to all requirements but is still guided by most of the recognized standards of the business valuation industry. Such reports are only to be used in its entirety and for the purpose for which it had been prepared.

- **Detailed report**

A formal valuation report is a detailed report and involves detailed analysis with market research to

support the end result. It is typically used by a business owner who is analyzing the company and looking to improve the business in some capacity. A formal valuation works from the top down process. In the first stage, global and national economies are analyzed. The subject company's industry is then analyzed to understand the future expectation which helps to understand the subject's growth potential. Finally, in the third stage, the company's overview is created which is a useful tool for the business owner. A formal valuation report is an in-depth analysis of the company which can be used to develop future growth strategies.

As inferred by the names of the reports, a Summary Report provides an abridged version of the information that would be provided in a Detailed Report. Others names of reports that fall under a Valuation Engagement include—but are not limited to—Appraisal Report, Comprehensive Report, Full Report or Formal Report.

However, the contents of the report should include :

- **Description of valuation engagement**

1. Details of the client;
2. Engagement—purpose for valuation;
3. Form of valuation—In which function the valuation is being carried out;
4. Valuation effective date.

- **Description of business being valued**

1. Legal background;
2. Financial aspects;
3. Tax matters/documents.

- **Description of the information underlying the valuation**

1. Availability and quality of the underlying data;
2. Analysis of past results;
3. Budgets with underlying assumptions;
4. Review of budgets;
5. Statement of responsibility for information received.

- **Description of specific valuation of assets used in the business**

1. Procedure carried out;
2. The principles used in the valuation;
3. The valuation method used;
4. The procedures involved in making projections;
5. The scope and quality of underlying data;
6. The extent of estimates and assumptions together with considerations underlying them;
7. The confidential figures must be summarized in a separate exhibit;

Conclusion

In the valuation report, the professional accountant must set out a clear value or range of values for the business and explain the values. The normal professional principles with respect to working papers are to be applied for business valuations. The working papers must enable a knowledgeable third party to understand the results of the valuation and estimate the effects on the business valuation of any assumptions made.

Role of CMAs in business valuation

When entering an accounting career, CMAs have the option to move into auditing, taxation, transaction or advisory services. The valuation professionals' central role as well as major responsibility is due to their function as an independent pivotal point for all valuation related information. They have the role of information managers in a market where the distribution of information is traditionally considered asymmetrical. Business valuation falls under the subset of transaction advisory or management accounting, which focuses on the financial health of companies. They assist individuals and corporations by calculating the net worth of their businesses and supplying clients with financial data that help them make well-informed business decision. They help clients cut costs and generate profit from the sale or purchase of property and other tangible assets. CMAs performing business valuations identify issues and devise strategies for managing client mergers and acquisitions. Being business valuation associates and managers, they also create financial models and reports that outline clients' tax and regulatory compliance activities.

Valuers do have a responsibility to reflect changes in the market and, unless they do so, they are vulnerable to legal action for negligence. In addition, seniors in the field of valuation as well as academics can and should be thought leaders about the future as well as experts in current technicalities and competences. So, even if a case is not made for such negligence, given the widespread acceptance of the status quo—both within and outside the profession—valuers are certainly professionally liable to serve the best interest of their clients by accurately interpreting the market to which CMAs stand at par with other professionals.

One of the most overlooked assets in many estate plans is the family business and its impact on an owner's estate and the resulting tax obligations. The law requires that the fair market value of a decedent's interest in a closely held business be included in his or her estate. Too often, however, it is only after the

(contd. to page 1154)



Special Audit by a Cost Accountant under Section 14A and 14AA of Central Excise Act, 1944

M. Govindarajan

ACS, AICWA, MBA,
Accounts Officer (TR-Comp.), BSNL,
Thanjavur, Tamil Nadu

Introduction

There are many avenues for Cost Accountants in Practice. In the website of the Institute of Cost and Works Accountants of India it is indicated that the Central Board of Excise and Customs (CBEC) authorizes Cost Accountants in Practice for doing special audit under Section 14A and 14AA of the Central Excise Act, 1944. The scope of the Cost Accountants in Practice by virtue of the above two sections is discussed in this article.

Special Audit

Sec. 14A of the Central Excise Act, 1944 ('Act' for short) deals with causing special audit in certain cases. The said section provides that –

(1) If at any stage of enquiry, investigation or any other proceedings before him, any Central Excise Officer not below the rank of an Assistant Commissioner of Central Excise, or Deputy Commissioner of Central Excise having regard to the nature and complexity of the case and the interest of revenue, is of the opinion that the value has not been correctly declared or determined by a manufacturer or any person, he may, with the previous approval of the Chief Commissioner of Central Excise, direct such manufacturer or such person to get the accounts of his factory, office, depots, distributors or any other place, as may be specified by the said Central Excise Officer, audited by a **Cost Accountant** or Chartered accountant, nominated by the Chief Commissioner of Central Excise in this behalf.

(2) The **Cost Accountant** or Chartered accountant so nominated shall, within the period specified by the Central Excise Officer, submit a report of such audit duly signed and certified by him to the said Central Excise Officer mentioning therein such other particulars as may be specified:

Provided that the Central Excise Officer may, on an application made to him in this behalf by the manufacturer or the person and for any material and sufficient reason, extend the said period by such further period or periods as he thinks fit; so, however, that the aggregate of the period originally fixed and the period or periods so extended shall not, in any case, exceed one hundred and eighty days from the date on which the direction under sub-section (1) is received by the manufacturer or the person.

(3) The provisions of sub-section (1) shall have effect notwithstanding that the accounts of the manufacturer or person aforesaid have been audited under any other law for the time being in force or otherwise.

(4) Omitted.

(5) The manufacturer or the person shall be given an opportunity of being heard in respect of any material gathered on the basis of audit under sub-section (1) and proposed to be utilized in any proceedings under this Act or rules made there under.

Explanation 1 – For the purpose of this section, "**Cost Accountant**" shall have the meaning assigned to it in clause (b) of sub-section (1) of Section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959).

Explanation 2 – For the purpose of this section, "Chartered Accountant" shall have the meaning assigned to it in clause (b) of sub-section (1) of Section 2 of the Chartered Accountants Act, 1949 (38 of 1949).

Sec. 14AA of the Act deals with special audit in cases where credit of duty availed or utilized is not within the normal limits etc.

The said section provides that –

(1) If the Commissioner of Central Excise has reason to believe that the credit of duty availed of or utilized under the rules made under this Act by a manufacturer of any excisable goods –

(a) is not within the normal limits having regard to the nature of the excisable goods produced or manufactured, the type of inputs used and other relevant factors, as he may deem appropriate;

(b) has been availed of or utilized by reason of fraud, collusion or any willful mis-statement or suppression of facts, he may direct such manufacturer to get the accounts of his factory, office, depot, distributor or any other place, as may be specified by him, audited by a **Cost Accountant** or Chartered accountant nominated by him.

(2) The **Cost Accountant** or Chartered accountant so nominated shall, within the period specified by the Commissioner of Central Excise, submit a report of such audit duly signed and certified by him to the said Commissioner mentioning therein such other particulars as may be specified.

(3) The provisions of sub-section (1) shall have effect notwithstanding that the accounts of the said

manufacturer aforesaid have been audited under any other law for the time being in force or otherwise.

(4) Omitted.

(5) The manufacturer shall be given an opportunity of being heard in respect of any material gathered on the basis of the audit under sub-section (1) and proposed to be utilized in any proceeding under this Act or rules made there under.

Explanation 1 – For the purpose of this section, “**Cost Accountant**” shall have the meaning assigned to it in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959).]

Explanation 2 – For the purpose of this section, “Chartered Accountant” shall have the meaning assigned to it in clause (b) of sub-section (1) of Section 2 of the Chartered Accountants Act, 1949 (38 of 1949).

In both section the terms ‘Cost Accountant in practice’ have not been mentioned. Only the term ‘Cost Accountant’ has been mentioned. The Explanation to both sections provides that ‘Cost Accountant’ shall have the meaning assigned to it in Sec.2(1)(b) of the Cost and Works Accountants Act, 1959 (23 of 1959). Sec.2(1)(b) of the Cost and Works Accountants Act, 1959, defines the term ‘Cost Accountant’ as a person who is the member of the Institute.

Recent Supreme Court case law

Recently the Supreme Court interpreted the terms ‘Cost Accountant’ utilized in the above-said sections in ‘**Commissioner of Central Excise, Belapur, Mumbai V. RDC Concrete (India) Limited**’ - 2011 - TMI -204921 - (Supreme Court of India) and held that the Department Officer, who is the member of the Institute, can be appointed as Cost Accountant for the purpose of Sec.14A of the Central Excise Act. The facts of the case run as follows:

The assessee is a manufacturer of ‘Unipaved Interlocking concrete Blocks (pavers), being excisable goods. The Department officers visited the factory premises on 13.02.2002 on receipt of specific information with regard to evasion of the duty by the assessee. On verification the Departmental Officers found that the assessee valued the pavers at Rs. 250/- per sq. meter and accordingly excise duty was paid by the company. The said pavers were sold to a related person or its interconnected company M/s Unitech Limited (UTL) for Rs. 531/- per sq. meter and thereafter UTL was selling the same for Rs. 826.50/- per sq. meter to Seniorita Builders Private Limited. According to the Department the goods manufactured by the assessee were shown at substantially a low value only for the purpose of evasion of excise duty.

Therefore a Cost Accountant was appointed to ascertain the value of the goods manufactured by the assessee. The Department appointed the Assistant Director (Cost) of their own Department, who was a Cost Accountant. The assessee objected to the appointment of Departmental Officer who was not in

practice as Cost Accountant to ascertain the value of the goods manufactured by the assessee before the CESTAT. **The CESTAT rejected the above-said contention of the assessee for the reason that the Act or Rules nowhere provides that only a Cost Accountant, who is in practice, should be appointed to ascertain value of goods**, when the Revenue feels that the value of the goods shown by the concerned manufacturer is required to be ascertained.

The assessee again filed an application for rectification of order before CESTAT. Once again the assessee raised the objection that an officer of the Department, though a Member of the Institute of Cost and Works Accountants of India, could not have been entrusted with the work of ascertaining the value of the goods because the person so appointed was in service of the department and not in practice. The CESTAT now accepted the submission of the assessee and the valuation done was not accepted by CESTAT and the order was modified.

Aggrieved against this order the Department filed appeal before Supreme Court. The Department among other submissions contended that the interpretation with regard to the provision relating to the appointment of the Cost Accountant, which the CESTAT had accepted at an earlier point of time, could not have been changed by the CESTAT while deciding the rectification application because by changing the legal view, the CESTAT was not rectifying any mistake apparent from the record but the CESTAT was changing its view altogether, which is not permissible under the provision of Section 35 C(2) of the Act.

The respondent assessee contended that it was open to CESTAT to change its view because it apparently noted its mistake which had been committed while passing its earlier order. The CESTAT did not exceed its power and rightly rectified the mistakes which were apparent on the record while deciding the rectification application.

The Supreme Court in regard to the appointment of Cost Accountant by the Department was considered by CESTAT as just and proper. But later in the rectification application the CESTAT came to the conclusion that an officer of the department, who was working as Assistant Director (Cost) and who was also a Member of the Institute of Cost and Works Accountants of India was not competent as a Cost Accountant to ascertain the value of the goods. **It is strange as to why the CESTAT came to the conclusion that it was necessary that the person appointed as a Cost Accountant should be in practice.** There is no reason as to how the CESTAT came to the conclusion that the Cost Accountant, whose services were availed by the Department, should not have been engaged because he was employee of the Department and not in practice. The above-said facts clearly show that the CESTAT took a different view in pursuance of the rectification application. There was no mistake apparent on record.

From the above verdict it may be possible to appoint –

- A practicing Cost Accountant;
- An Executive of the Private Company, who is a member of the Institute;
- Officer of the Government who is a member of the Institute; (which has already been done)
- Other professionals such as Advocates, Company Secretaries who are also member of the Institute for special audit under Section 14A and 14AA of the Central Excise Act.

Members may be in the hope that such type of audit work should be carried out by the Cost Accountant in practice. The Institute shall get the terms 'Cost Accountant' in the said sections to be amended as 'Cost Accountant in Practice' and try to get this type of work as the exclusive work of Cost Accountant in practice.

Special Audit under Sec. 14AA

Under Sec. 14AA special audit may be done on the manufacturer of final products. This section is also applicable to the provider of output service. After the introduction of CENVAT Credit Rules, 2004, the amount paid towards the duty on 'input', 'capital goods' and 'input services' may be taken credit and utilized against the payment of excise duty or service tax. The taking and utilizing of CENVAT credit is subject to conditions as stipulated in the provisions.

Many a litigation arises on the –

- Interpretation of the definition of the terms 'input', 'capital goods' and 'input services';
- Taking and utilizing credit;
- Documents for taking credit;
- Transfer of credit;
- Unutilized credit, etc.

Such cases are pending before various authorities,

(contd. from page 1151)

owner's demise that the true understanding of this asset's magnitude comes to light. In many cases, the tax liability is so exorbitant that other family assets must be liquidated, leaving heirs with nothing more than a non-liquid business and no one to run it. Estate planning is the process of developing and coordinating the transfer of an individual's property to designated beneficiaries in a manner that will minimize or even eliminate the transfer taxes, if any. Accordingly, there should be a conscious effort in the estate planning to focus on the value associated with a retained or, for that matter, continued ownership interest in the family business. By conducting a periodic valuation of the business operations, the owner, family members and even key employees can better understand the nature of the estate tax concerns. The valuation also provides a basis whereby the business owner can evaluate the appropriateness of ownership transfers, and provides a basis for the valuation of gifts and can even guard against future conflicts.

appellate authorities, Tribunals, High Courts and Supreme Court. The audit wing of the Department brought out many cases through audit. The Department could not audit all the accounts of the manufacture of final products and the providers of output service. The amount to be collected by the Department by this reason is also huge.

The provisions of CENVAT Credit Rules, 2004, are complex and many cases have arisen for resolution. Therefore it is suggested that in case of the manufacturer of final products or provider of output service who avails more than Rs.25 lakhs (the amount may be fixed by the Government) in a year as CENVAT credit the Department may require to the Cost Accountant in practice who will scrutinize all the bills used for CENVAT credit and audited the accounts and submitted to the report to the Department as to the correctness of compliance of the CENVAT Credit Rules, 2004. Being expert in the field the Cost Accountant in practice may do this job in a better way by which the time of the Departmental Officers will be saved on auditing and the revenue will be assured in case of wrong taking and the litigation will be much reduced. The Department, in consultation with the Institute, may keep a panel of Cost Accountant in Practice for this purpose and may utilize their services in a better way.

Conclusion

The above are the suggestions put forth before the Institute and members which will increase the area of Cost Accountant in practice. GST is to be introduced in the next financial year in which the provisions of special audit for these purposes will definitely found place. Some confusion will prevail at the time of introduction of GST. The professionals of our kind should render better services in this aspect for the smooth implementation of GST. □

Like estate planning, business succession planning is equally emotional. Succession requires change, and such change is often met with resistance. The business valuation exercise often forces the business owner to rethink for who will carry on the operations once they are gone or no longer able to maintain the leadership role. In order to preserve the family wealth, business owners must either find an outside manager to carry on with operations or seek a buyer. To do nothing, however, would tragically deplete an otherwise valuable asset, one which took a lifetime of sacrifice and effort to build. The most successful estate and succession plans are designed by a team of specialized professionals. The business valuation exercise is an integral part of these plans and should not be overlooked. Here, too, CMAs are not lagging behind. Rather, they are equally competent with other professionals and can serve the industries in multifarious ways. □



The shape of things to come : Revised concept paper on Service Tax

P. Ravindran

B.Sc, PGDM (Germany), M.L, (PhD)
Advocate-Indirect Taxes & IPRs

**“The old order changeth, yielding place to new, And God fulfils himself in many ways,
Lest one good custom should corrupt the world.**

– Alfred Tennyson

If you have visited the salubrious, garden city of Bangalore, you are unlikely to have missed seeing the Vidhan Soudha, the magnificent-looking legislative assembly building. If you enter inside (as a visitor, of course, for politics in our country is for the hard-boiled politicians), on the cross beam of the portal you would notice these immortal lines inscribed in golden bronze color: “Government’s work is God’s work”. Such is the hope ingrained by our immemorial cultural legacy. The Lord declares in the Gita that among men (including women of course) he is the King (or the Queen, as it may have to be). So, anyone connected with government work may, if they want, aspire to claim a speck of special divinity in themselves, though in a republican liberal democracy, the ruling classes are the delegates of the citizens who can, in theory atleast, make or unmake any one connected to the government. The obedience to the King and God that every religion demands of its adherents is not one-sided. The rulers should attend to the best and beneficent interests of the citizens whose tax money props up the State. That is the unavoidable bargain or the Social contract.

The above-stated adage of Alfred Tennyson about old order and change seems to have been taken seriously by the department of service tax. Within a short duration of bringing out a concept paper on paradigm shift in the service tax, the government has changed its mind and revised the concept paper. The irony is that the minds of the tax payers continue to be transfixed by the present ills of the tax they are forced to put up with! Nothing of worth seems to have been done to redress their plight. It is doubtful if the previous concept paper has registered much on the minds of the various stakeholders. Now we have another paper. The previous proposed definition of “service” for tax purposes was defined as follows: (refer my article in the *Management Accountant* issue dated October, 2011).

“A ‘service’ means anything which does not constitute supply of goods, money or immovable property.

Now, the new paper proposes a two-tier lock on an open-ended scope.

“There shall be levied a tax (hereinafter referred to as service tax) at the rate of ... per cent of the value of services provided or to be provided by a taxable person to another person and collected in such manner as may be prescribed.”

Taxable person may be defined as: “any person who independently carries out any economic activity, whether or not for a pecuniary profit”.

The revised concept paper seems to guarantee unproductive potential litigation by using such words as “independently...” & “economic activity”. The lack of clarity even on the part of the department is clear by the following paragraphs in the revised paper :

Quote

“Economic activities are such activities as are carried out for consideration, whether or not the consideration is adequate or provided by the recipient of the service, or leads to profit at the end of a period. The taxable activities will thus exclude transactions carried out free of charge or gratis, without any direct or indirect commercial advantage, or as recreation or hobby. Statutory fines and penalties will also not constitute “economic activities”. However, commercial demurrages, by whatever name called, for extended use of a service will be taxable. Moreover the presence of profit motive is not necessary while carrying out economic activity. Thus the activities of political parties, religious bodies, in so far as they carry out religious activities, decorations and awards for excellence and not as reward in lieu of recognition for services rendered, will fall outside the charging section.

It is further clarified that by virtue of Article 366 of the constitution certain supplies are deemed to be supply of goods. They will thus be excluded from the definition of “service” but only to the extent of the value of goods.

As stated in the previous Paper, having regard to its characteristics and with a view to remove any

ambiguity, the Central Government shall have powers to declare an activity as a provision of service or otherwise and such activity, notwithstanding anything to the contrary, be considered as a provision of service. The inclusions and exclusions given under the definition of service in the earlier Concept Paper can be clarified under this provision and need not form a part of the main definition”.

(Unquote)

Now, let us have a look at the proposed negative list of services qualifying for exclusion from service tax:

Revised Negative List of Services

Sector	Sl. No.	Negative List
1. By specified persons	1.	All services other than notified services provided by government Proposed notified services : 1. Business promotion or business support services 2. Construction/works contract 3. Insurance services 4. Port or airport services 5. Postal services other than under Universal Service Obligations (post card, inland letter and money order) 6. Renting of an immovable property or right to enter or use an immovable property 7. Security 8. Trade fairs and exhibitions 9. Transport of goods and passengers 10. Warehousing
	2.	Services by international bodies and diplomatic missions under diplomatic and consular arrangements as per laid down conditions
2. Social welfare and public utilities	3.	Services by organizations registered as non-profit entities under the Income Tax Act 1961 (DTC 2012) in matters relating to public and social welfare activities substantially at or below the costs (excluding health & education)
	4.	Funeral, burial, crematorium and mortuary services
3. Financial Sector	5.	Sale, purchase or acquisition of securities, debts, mutual funds and actionable claims on principal-to-principal basis excluding (1)services in relation to such transactions and (2) when acquired in lieu of a service
	6.	Interest or discount on cheques, promissory notes, bills of exchange or debt instruments
	7.	Dividend on investments
	8.	Sale and purchase of foreign currency amongst banks and/or authorized dealers of foreign exchange

(contd.)

(contd.)

Sector	Sl. No.	Negative List
4.Transport	9.	Transport of passengers with accompanied belongings by : (a) Non-AC second class of passenger travel by railway and any class by metro and mono-rail; (b) Public transport buses on a point-to-point basis (except tourist buses) and stage-carriage basis; (c) Public transport in ship or vessel of less than 15 net tonnage on a point-to-point basis (except tourist purposes); (d) Metered cabs or three-wheeler auto-rickshaw
	10.	Construction, works-contract, repair, alteration, renovation or restoration of : (a) Specified infrastructure for larger public good; (b) Residential building comprising a single dwelling unit
5. Construc-tion & Real Estate	11.	Renting of personal dwellings in excess of Rs 1 lakh per month per dwelling
	12.	Pre-school, school and recognized education** and vocational training recognized by NCVT except placement services and donations or similar charges in relation to admission
6. Education	13.	Services by clinical establishments except in relation to health & fitness, weight reduction programmes, health check-up and cosmetic or plastic surgery;
7. Health	14.	Copyright services of original literary, dramatic, musical and artistic works.
8. Others	15.	Services provided by independent journalists, PTI & UNI for providing news
	16.	Services provided by sportspersons, as a player, coach or referee/umpire and performing artists in that capacity (excluding as brand ambassadors)
	17.	Services provided by a trade union to its members
	18.	Representational services provided by an advocate to individuals
	19.	Services to own members by an exempt entity by way of reimbursement of charges
	20.	Tolls except services in relation to collection of tolls
	21.	Betting and gambling except services in relation to promoting, marketing or organizing games of chance, including lottery services
	22.	Advertisements other than advertisements published in newspapers or broadcast by radio or TV or displayed in other electronic media

(contd. to page 1158)



Portfolio Diversification through Alternative Investments

Dr. V. Gopalan

FCA, AICWA, ACS, PhD

Director, Janhar Management Consultancy Pvt Ltd, Chennai

Traditionally investments are made in only few types of assets such as Stocks, Bonds, Forex etc or safely kept in the form of cash. In view of limited choice of investment options, there is compulsion to invest only in these assets; thereby not only the returns are limited but the risks increase considerably as well. Portfolio diversification is the only key to overcome these limitations.

Portfolio diversification is nothing but investing in assets other than conventional assets and with different characteristics so as to reduce risk and increase returns. Portfolio diversification is achieved by considering 'Alternative Investments'. Alternative Investments also help to diversify the risks. For those who prefer to have several investments in different funds, some of their investments might be alternative.

The most common types of alternative investments include Commodities, Private Equity, Futures, Options, Hedge Funds, Venture Capital, Exchange Traded Funds (more commonly called as ETFs), Gold, Metals, Art, Watches, Real Estate, Antiques, Coins, Stamps etc. Investing money in wine, for example, is yet another option. Though not very popular in India, investments in fine wine have yielded healthy returns over the past few years and remained relatively insulated from the 2007-08 credit crunches.

Let us understand some of the above-mentioned alternative investments :

Private Equity

'Private Equity funds' (also commonly known as PE funds) typically make investments in unlisted companies. Due to their due diligence expertise, they generally get good returns on their investments in such closely held companies. They are known for their dynamism and their ability to create value to the stakeholders of the companies assisted by them. Therefore, partnering with such PE funds provide opportunity to earn better returns. But, past experience also shows that they are not risk-free. The term private equity has different interpretations in different countries and among the most common are Leveraged Buy Outs (LBOs), Venture Capital (VC), growth capital, distressed investments and mezzanine capital. In the case of LBOs, the PE firm buys majority control of an existing firm while in the case of VC or growth capitals

the PE firms invests in start-up enterprises and rarely obtain majority control. Capital for private equity is raised primarily from institutional investors.

Hedged funds

Hedge funds invest in a broad range of investment options such as stocks, bonds and commodities. Hedge funds basically offset potential losses and hedge their investments by using methods such as short-selling.

Managed Futures

Managed futures are generally managed on the basis of technical analysis and involves going long or short in futures contracts in areas such as metals, grains, equity indexes and commodities of all kinds. Currency futures are also commonly traded. It is done through the use of futures, forwards and options.

Futures & Options

A futures contract is a contract between two parties to exchange a specified asset of specified quantity and quality for a price (called strike price) agreed today with delivery occurring at a specified future date. The contracts are traded on a 'futures exchange'. As the buyer's expectation is that the price will increase he is said to be 'long' and the seller is said to be 'short' as he expects the price to decline. While the futures contract specifies a trade taking place in the future, the purpose of the futures exchange institution is to act as intermediary and minimise the risk of default by either party. As the futures price changes daily, the profit or loss is settled daily from the 'margin' account by the respective parties to the account of the other party through the exchange. Margin account is replenished in case of shortfall by the concerned party to the contract. This is called 'marking to market'. Therefore, the amount exchanged on the delivery date is the 'spot rate' and not the contract rate. Options are similar to futures. The only difference is that the holder of an options contract is under no obligation to buy or sell the underlying asset and can just let the contract expire.

Exchange Traded Funds (ETFs)

ETFs hold assets such as stocks, bonds, commodities and precious metals. These ETFs are listed and traded in stock exchanges at the net asset value (NAV) of the underlying asset. The most common ETFs used as alternative investments are gold and oil.

Art

Art as an alternative investment rose significantly following the financial crisis of 2008 as stocks and bonds became unattractive due to volatility and lower interest rates in the market. This is not very prevalent in India. However, as investment in art is a profitable option in India it is growing manifold over the last few years.

Gold

Gold as a defensive investment is popular during periods of prolonged economic and political disturbances and is considered to be a safe haven. Gold is regarded as one of the best hedging tools against inflation, currency, stocks or fixed income as it can retain its value in times of hyperinflation and currency weakness. Gold is known to have a low correlation with other asset classes such as equities and debt. Economic factors do affect other assets whereas it has insignificant impact on Gold as a portfolio.

Real estate

Real Estate has long been considered the most

tangible source of wealth accumulation. With land growing increasingly scarce in India, the value of real estate also has been growing steadily.

Commodities

Commodity investing has been a potentially rewarding option and provides the diversification to the portfolio. Commodity exposure can be taken either directly through the commodity exchange or through various mutual funds with a mandate of investing in commodities.

The limitations of alternative investments are: it provides limited liquidity compared to stocks, bonds and cash; the fee structures are generally higher; it requires expertise; as alternative investments are subject to less regulation there is inadequate performance data limiting the informed decision-making.

With the world markets getting integrated and the financial world becoming more and more complex and demanding, many new investment opportunities are emerging—resulting in several new alternative investment products. □

(contd. from page 1156)

***Government** means the Union, State and local self government and government regulatory bodies established under an act but shall not include any other entity established under the Companies Act 1956 or any other law for the time being in force.

****Recognized education** means education leading to the award of a certificate or degree recognized by a body established by an Indian law.

The idea of *territorial justice* under the GST which may be implicit in the revised concept paper calling for place of supply rules for the new service tax:

The revised paper has alluded to the prospect of a new set of rules determining the *place* where the service tax should be paid. The present Point of Taxation Rules set the *time* for payment of service tax. How tough and novel the new tax regime could prove to be will be understood from this example in the Canadian GST law whose model we may in the end come to adopt substantially. Suppose a software company headquartered in Delhi receives an order from a customer in Mumbai who wants the service to be delivered in its office at Hyderabad. Assume that the company outsources the development of the software to its units in Gurgaon and Bangalore. At present, the payment of service tax is no problem. The company can take centralized or single registration, say at Delhi, and pay the tax from there, irrespective of what it does where to service its order. Under the example of Canadian tax law, such tax will have to be paid at the place where, say, 90% or more of the service was carried out. The GST is different from all the taxes when it seeks to ensure *territorial justice*. When the state of Haryana or

Karnataka has provided public amenities which the company's units have benefited from, why should the value of the services developed substantially in either of these states not be taxed in the state concerned and why should tax revenue accrue to the tax administration of Delhi where no service work was done? This is the rationale behind the concept of territorial justice in the proposed place of supply rules. The ninety percent quantum is for reasons of easy practical convenience coupled with justice for the state. Ok, what if the rule cannot be adhered to and the percentages vary less than the stipulated percentages? The Canadian GST has a tie-breaker. The tax should be paid at the place, in such circumstances, at the place where the tax was negotiated! The hinted-at new rules may have an impact on the pattern of outsourcing that we have seen in our country.

Problems galore in the road map to the GST

The concept papers put out by the government relate to a tax which rightly belongs to the Goods and Services Tax era. The time for implementing these novel ideas ahead of the GST has not come. However, the prospect of enhanced revenues may induce the government to take the new service tax route to funding the government out of its fiscal blues. The tax knife is a like a Swiss army knife with multiple edges. Care and caution on the road to the new GST are needed. We need a best-in-the-class GST for our country and not a business spoiler. The concept deserves not just a paper but a thorough and deep consultation in the real sense of the term at all levels of the stake-holders. Whether it is the picture at present is not easy to tell. No debate on tax is harmless enough to be left alone to the government and the tax experts. □



Performance Appraisal Report— Form III — Check List

V. R. Kedia
Dipti Kejriwal

Practicing Cost Accountants, Mumbai

As per the Companies (Cost Audit Report) Rules, 2011, PERFORMANCE APPRAISAL REPORT (PAR) – FORM III has been prescribed. This has to be **furnished to the company**, along with the Cost Audit Report submitted on or after 1st April, 2012.

The indicative list of areas to be covered in the PAR is given in the format prescribed in the above referred Rules. When we look into the list of areas to be covered in the PAR, it can be concluded that it is nothing but Management Audit.

The term 'Management Audit' may be defined as 'an audit to appraise and evaluate the quality and performance of management in leading the organisation towards goals and objectives set for the organisation'. The Management Audit is a total examination of an organisation or parts of it, and includes in it aspects of operational audit. Operational audit concentrates on seeking out aspects of operations in which waste, inefficiency and excessive costs would be subject to reduction by the introduction of improvement of operative controls.

Comparison and trend analysis are important techniques in Management Audit. The auditor can compare the performance within the organization i.e. with past, other units/departments, budget or even with performance of the competitors or certain industry/public norms (developed by Industry Research Associations).

Cost Audit deals with many strategic functions of an organization and can be developed into Management Audit.

The opinions, observations and suggestions expressed in this Form shall be based on verified data and included after the company has been afforded an opportunity to comment on them.

Check list, financial as well as non-financial, which may be considered useful for preparation of PAR are listed :

1. Capacity Utilization Analysis

- working paper for calculation of installed capacity.
- plant utilization percentage for major (Key) machines.

- major reasons for under-utilization of capacity under controllable and non-controllable causes.
- controllable causes should be analysed into internal and external factors.
- any statutory directions for capacity utilisation.
- steps required to be taken to eliminate controllable causes for under-utilization.
- in case of more than 100% utilization of plant capacity – justification.
- any imbalance/bottleneck affecting optimum utilization of plant capacity.
- list of idle/surplus machines and a note on how to make them usable/disposal.
- numbers of orders in backlog.

2. Productivity/Efficiency Analysis

- machine efficiency percentage of major (Key) machines – comparing the same with standard/industry norms and with previous year.
- major reasons for loss in efficiency percentage, and corrective action required to improve the same.
- input/output ratio (yield %) and comparing the same with standard/industry norms and with previous year.
- quantity of goods returned by customers due to quality problem, late delivery etc.
- measure Key Performance Indicators (KPIs) more frequently – quality deviations should be monitored and measured in real time; operational metrics such as shipment performance and schedule compliance should be measured daily; metrics that measure assets such as inventory should be measured weekly.

3. Utilities/Energy Efficiency Analysis

- type of utilities used – boiler, power (generation and outside purchase) AC plant, DM plant, ETP, Humidification plant etc.
- individual utility consumption (in units) per unit of production or per machine shift etc and comparing the same with standard/industry norms and with previous year.

● energy audit check list of various areas of utilities is given in **Appendix**.

4. Key-Costs & Contribution Analysis, and

5. Product/Service Profitability Analysis

● product/activity/service contribution analysis.
 ● changes in ratio of inputs/product mix and output.

● major product-wise contribution based on variable cost to key limiting factors e.g. machine shift, % of sales, % of raw material costs, per kg of raw material etc and comparing the same with standard/industry norms and with previous year and benchmarking with the best of industry.

● product-wise contribution of newly introduced products v/s product dropped/replaced and justification for lower contribution of newly introduced products, if any.

● inter-firm comparison of product-wise sale price with best of industry competitor. Justification for lower sales price, if so.

● scope for reverse engineering technique to compare with competitors' product and scope for cost reduction.

● value analysis of process and product to reduce cost.

6. Market/Customer Profitability Analysis

● profitability analysis – market-wise (export, domestic, government supply etc), customer-wise (distribution channel wise – distributor, wholesaler, retailer, direct bulk sale, franchise sale etc).

● profitability/contribution analysis of customer wise/country-wise/invoice-wise.

● reasons for lower profitability v/s expected profitability and corrective action taken.

● steps required to replace less profitable segment by higher profitable segment.

- amount of repeat business.
- no. of new customers and retention rates.
- sales trend by major customers.
- increase in sales by sales persons.
- sales to existing customers and new customers.
- no. of orders executed late.
- no. of customer complaints.
- profit from new products or business operations.
- value added/employee.
- customers lost (No. or percentage).
- ratio of new products to full company catalogue (%).

● balance cost reduction efforts against customer satisfaction – as acceptable customer service levels are achieved, work specifically to reduce inventory levels.

● warranty cost.

● goods returned due to expiry/product defects/delay in executing orders, etc.

● after-sales service cost.

7. Working Capital & Inventory Management Analysis

● Para 9 'Financial Position and Ratio Analysis' of the Annexure to the Cost Audit Report will be useful for the preparation of this para.

● what is the average **cost** for borrowing of term loan and working capital loan? And, how to optimize these rates.

● treasury/forex management – exchange rate optimization and use of F&O instruments.

● investment of surplus funds, if any.

● prepayment to suppliers and obtaining maximum discounts in case of availability of unused CC limit and other surplus funds.

● application of latest inventory management techniques – ABC analysis, JIT, disposal of slow-moving and nonmoving inventory.

● new supplier added (%).

8. Manpower Analysis

● this para will be worth analyzing, provided manpower cost is significant.

● proportion of fulltime workers, temporary labour employment, contract labour etc.

● analysis of personnel utilisation and surplus, if any.

● category of activities outsourced – securities, maintenance, housekeeping, transportation, canteen, warehousing, material handling, production etc.

● suggested improvements/employee (no.).

● competency development expenses/employee (Rs.)

● employee turnover (%).

● time in training (Days/year)(No.)

● temporary employees/permanent employees (%).

● average absenteeism (No.).

● per capita annual cost of trainee (Rs.).

9. Impact of IFRS on the Cost Structure, Cash-Flows and Profitability

Since IFRS has not become effective so far, this aspect has been dealt with in brief only.

- the steps taken by the company for first time introduction of IFRS, where it may be applicable in near future.

- significant changes in accounting policies and consequent impact on profit and loss account.

- impact on assets and liabilities due to fair valuations incorporated in financial statements including intangible assets.

- impact on depreciation.

- impact on cost of inventories due to fair value adoption or realizable value against cost of inventory as required under Cost Accounting Records Rules and Cost Audit Report Rules, 2011. Recognition of expenses and write-offs or crediting back.

- impact on work-in-progress, specially where contracts require long time to execute an order like engineering industry/construction contracts etc – provision for expected losses.

- impact on borrowing costs due to provisions in complying with IFRS.

- impact on government grants and deferred payment assistance from authorities like sales tax/VAT deferral, likely interest costs.

- provisions for contingent events and non-recognition of contingent assets.

- impact of future liability/service costs for customer warranties/incentives/returns after expiry bad debts, etc.

- fair valuation of leases.

- insurance claims.

- fair valuation of investments and consequent impairment of assets.

- impact on valuation of non-current assets and discontinued operations.

- fair value measurement of joint ventures/collaborations and partnerships.

- remuneration to employees, especially stock options/retirement schemes/incentives schemes, etc.

- impact on direct and indirect taxes on inventories or revenues.

- financial impact on tax liability, minimum alternate tax (MAT), carried forward stocks.

- impact on related party disclosures, particularly for long term contracts.

- fair value of revenue, barter of goods, elimination of finance costs from revenue. Sale under repurchase agreement/consignment sales.

- serviced sector contracts – special financial costs/revenue

- reconciliation of Balance Sheet and Profit and Loss Account due to impact brought about by IFRS.

10. Application of Management Accounting Tools

- which of the management accounting techniques are in vogue in the company – ABC, TCM, Balance Score Card, Six Sigma, Value Analysis/Value Engineering, Reverse Engineering, Zero Base Budgeting, Budgetary Control System, Costing MIS and their effectiveness.

Appendix

Energy Audit – Check List

1. Power

- Improve power factor by installing capacitors to reduce KVA demand charges and also line losses within plant.
- Improvement of power factor in the range of 0.96 to unity.
- Avoid repeated rewinding of motors.
- Replace under-loaded/overloaded motors with proper size motors & replace the motors with energy efficiency motors.
- Optimize the tariff structure with utility supplier.
- Shift loads to off-peak times, if possible.
- Minimize maximum demand by tripping loads through a demand controller.
- Stagger start-up times for equipment with large starting currents to minimize load peaking.
- Relocate transformers close to main loads.
- Export power to grid, if you have any surplus in your captive generation

2. DG Set

- Maintain diesel engines regularly.
- A faulty nozzle increases fuel consumption.
- Measure fuel consumption per KWH of electricity generated regularly.
- Use waste heat to generate steam/hot water/power an absorption chiller or preheat process or utility feeds.
- Clean air filters regularly.

3. Illumination

- Use of electronic ballast in place of conventional choke.
- Use of CFL lamp in place of GLS lamp.
- Clean the lamps & fixtures regularly.
- Use of 36W tubelight instead of 40 W tubelight.
- Use of sodium vapour lamps for area lighting in place of mercury vapour lamps.
- Change exit signs from incandescent to LED.
- Provide more transparent sheet instead of asbestos sheets to use natural light.
- Install energy saver for reducing the lighting load.

4. Fuel – Coal and Oil

- Prepare a hard ground for stacking coal and avoid carpet loss.
- Sprinkle water on the coal before use to make it moist.
- Substitute coal by PET coke or lignite or baggas to reduce the effective cost of steam/power.
- Quality (calorific value) and size of coal should be tested regularly.
- Cost benefit analysis of various types of oil – Furnace Oil, LSHS Oil, HS Oil, LD Oil etc. should be evaluated from time to time for using as fuel for boiler and DG set.

5. Boiler for Steam

- Use only treated water in boilers.
- Stop steam leakage.
- Maintain steam pipe insulation.
- Clean burners, nozzles, strainers, etc.
- Inspect oil heaters for proper oil temperature.
- Inspect for scale and sediment on the water-side.
- Add an economizer to preheat boiler feed water using exhaust heat.
- Ensure condensate is returned or re-used in the process.
- Reduce hot water wastage to drain.
- Preheat boiler feed-water.
- Inspect steam traps regularly and repair malfunctioning traps promptly.
- Use waste steam for water heating.
- Cleaning of tubes should be carried out periodically.

6. Water

- Consider the installation of a thermal solar system for warm water for use in canteen etc.
- Use of water harvesting system.

7. Air Conditioning

- Use of double doors, automatic door-closers, air curtains, double glazed windows, polyester sun films etc. reduces heat ingress and air-conditioning load of buildings.
- Consider reducing ceiling heights.

8. Cooling Towers

- Replacement of inefficient aluminum or fabricated steel fans by moulded FRP fans with aerofoil designs.
- Instal automatic ON-OFF switching of cooling tower fans.
- Turn off unnecessary cooling tower fans when loads are reduced.

9. Room Air Conditioners

- One will use 3 to 5 percent less energy for each degree air conditioner is set above 22°C (71.5°F),

so set the thermostat of room air conditioner at 25°C (77°F) to provide the most comfort at the least cost.

- Using ceiling or room fans allows you to set the thermostat higher because the air movement will cool the room.
- A good air conditioner will cool and dehumidify a room in about 30 minutes, so use a timer and leave the unit off for some time.
- Keep doors to air-conditioned rooms closed as often as possible.
- Clean the air-conditioner filter every month. A dirty air filter reduces airflow and may damage the unit. Clean filters enable the unit to cool down quickly and use less energy.

10. Compressed Air

- Change the oil filter regularly.
- Stop use of compressed air for floor/machine cleaning.
- Check for compressed air leakage.

11. Furnace

- Recover & utilize waste heat from furnace flue gas for preheating of combustion air.
- Control excess air in furnaces.
- Reduce heat losses through furnace openings.
- Improve insulation if the surface temperature exceeds 200°C above ambient.
- Proper design of lids of melting furnaces and training of operators to close lids.
- Match the load to the furnace capacity.

12. Computers

- Turn off your home office equipment when not in use. A computer that runs 24 hours a day, for instance, uses more power than an energy-efficient refrigerator.
- If your computer must be left on, turn off the monitor; this device alone uses more than half the system’s energy.
- Setting computers, monitors, and copiers to use sleep-mode when not in use helps cut energy costs by approximately 40%.
- Battery chargers, such as those for laptops, cell phones and digital cameras draw power whenever they are plugged in and are very inefficient. Pull the plug and save.
- Screen savers save computer screens, not energy. Start-ups and shutdowns do not use any extra energy, nor are they hard on your computer components. In fact, shutting computers down when you are finished using them actually reduces system wear – and saves energy. □

References

- Bureau of Energy Efficiency, New Delhi.
- PCRA – Energy Audit.



Reporting Intangible Assets : The Accounting Quandary

Dr. Sujit Kumar Roy

Associate Professor,
Goenka College of Commerce and Business Administration,
Kolkata

Introduction

The three decades of planned economic development till the early 1980s saw the Indian economy growing at an average rate of 3.5%. But since the early 1990s, India has become the centripetal force of globalisation to usher in a new era of economic growth – about 8–9 percent on a sustained basis. As the Indian economy is poised to grow as the second largest economy after China, the sign of transition is visible in the trajectory of its service sectors, which now contributes as much as fifty-five percent of its GDP. Apace with the growth of the service sectors, there is also a commensurate change in the composition of India's top 50 private sector companies. As many as 25 companies in this list are either in the service sectors or in the sunrise industries – comprising Air transport (1), Banking and Finance (6), Computer/software services (7), Drug and pharmaceuticals (8) Media broadcasting (1) and Telephone services (2).

Decomposition of the financial data of these companies shows that compared to Reliance Industries (RIL), (ranked #1 with a total market capitalization of Rs. 88,281 crores, total assets of Rs. 78,223 crores and net profit of Rs. 5,137 crores), Tata Consultancy Services (TCS), ranked # 2, had a market capitalization of Rs. 62,462 crores (about 71% of that of RIL), but with lesser amount of total assets (Rs. 4,759 crores or only 6% of the total assets of RIL). The third largest company in the group, Infosys Technologies, had similar statistics. For example, the total market capitalization of the company was about 68% of that of RIL with a capital base of about 8% compared with RIL. The figures for "net profit to total assets" for these companies were about 10%, 38% and 29% for RIL, TCS and Infosys respectively.

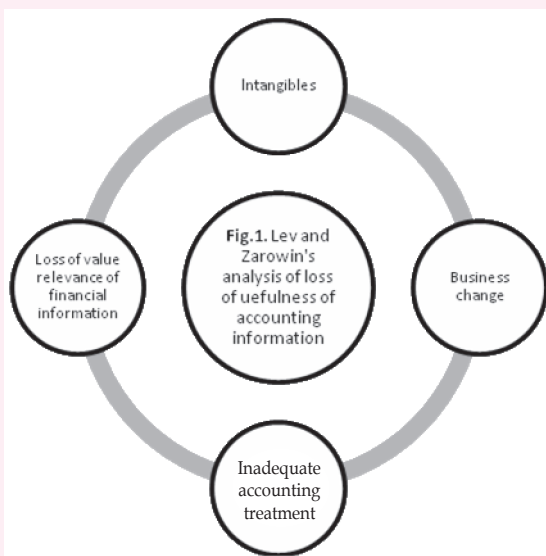
Five years later, in 2010, companies in the service sector steadily trended upwards. For example, the latest *Business Today* survey of India's most valued private sector companies shows that, amongst the top ten, eight companies are in the IT and Banking/financial services sectors. In this list, while RIL continues to occupy the top rank with a market capitalization of Rs. 3,36,778 crores, the company ranked # 2 (Infosys; TCS slipped to the 3rd rank) had a market capitalization of about 47% of that of RIL with an asset base as small as 10% of the asset base of RIL. The corresponding figures

of "net profits to total assets" in the case of these two companies are 6% and 22%, respectively.

The message appears to be clear that the catalyst for value creation is not the physical assets, as they used to be in the industrialized society. In this age, hailed by many as the *new economy*, companies are investing phenomenal sums in assets that are not visible. Nakamura (2003, p.19) reports that between 1993 and 1998 Gillette Inc. has invested US\$ 700 million to develop its famous Mach3 razor blade to become the top seller in the USA – having secured 10 percent of the entire razor blade replacement market. Similar feat was achieved by AOL/Time Warner that spent around US\$ 100 million for the celluloid version of J.K. Rowling's *Harry Potter and the Sorcerer's Stone*, which had grossed US\$ 100 million in the box office in just a week's time. Examples galore, there is indeed new value driver in the new economy – where the growth basis is not as much influenced by investments in bricks and mortar or physical machinery as by knowledge that heralds the advent of knowledge economy (K-economy). Prior to this K-economy, the world had an industrialized or production economy (P-economy). In the P-economy, the wealth production factors are physical assets such as land, labour, money, machines, etc. The use of knowledge as a production factor was quite small. In K-economy, however, knowledge assets as wealth production factor takes precedence over physical assets. For instance, in 2000, private firms in the United States have invested at least US\$ 1 trillion in intangible assets – a level of investment that roughly equals to the gross investment in corporate tangible assets in the United States (Hand and Lev 2003, p.4). A similar picture worldwide is indeed the mark of an unmistakable trend of the twenty-first century business and economy, which is about investments in information, IT, Internet, e-commerce, software, brands, patents, rights, research and innovations, product break-throughs, globalisation, global reach, and global customers base and worldwide network. These are the intangible assets or intellectual capital – also taken as a synonym for knowledge capital – embodied in the skills, knowledge and experiences of people and in organizational procedures, systems and routines. These are indeed the new lingua franca that describes the business landscape of the information and knowledge society.

Reporting

Accounting is fundamentally a measurement-communication device. Accountants measure something and then communicate the result of their measurement to the interested parties. The income statement and the balance sheet – two end products of the accounting system, along with its satellites like Cash Flow Statement, Management Discussion and Analysis/ Operating and Financial Review, are the principal vehicle for communication between the company and its financial stakeholders. The whole model of financial accounting is geared towards achieving this goal – furnishing dependable information to help people make informed decisions. Within the accounting profession, however, there has been growing debate over whether accounting has lived up to its reputation in fulfilling the stated goals; that whether the current accounting treatment towards intangibles, which forms the backbone of k-economy, are adequate in guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, process, technology and innovation – collectively creating the core competencies of the modern organization. Contrary to much of the cliché about the usefulness of financial reporting, Baruch Lev and his co-author Zarowin (2003, p.508) have put forward compelling evidences on the steady decline in the usefulness of financial information to the investors over the past twenty years in terms of a weakening association between capital market values and key financial variables like earnings, cash flows and book values. Lev and Zarowin have ascribed such loss of usefulness to a nexus among business changes, intangible assets and inadequate accounting treatment for the changes (Fig. 1).



Source : Author's presentation based on Lev and Zarowin (2003)

Behind their analysis Lev and Zarowin have the support of a robust database of 3,700 - 6,800 firms spanning over 1977- 1996 (Ibid, p.489). A subsequent analysis by Lev (2001, pp.8-9) has shown that in the case of top 500 US companies the values of net assets recorded in the accounts constituted only 17 percent of the market values. The hiatus between the market value and book value becomes pronounced in view of the restrictive accounting standards around the world (IAS 38 and its country variant, for example), which do not recognize much of what is commonly regarded as Intellectual Capital (a term wider than most commonly cited examples of intangibles). When such a large portion of the firm value is outside the balance sheet, this not only trivializes accounting information into a joke (Sveiby 1997), but the information asymmetry created as a result of "reporting gap" has been responsible for many a social ill, including the following (Lev and Zarowin 2003; Leadbeater 2000) :

First, the accounting profession has a negative view on money spent on Intellectual or knowledge-based Capital. Rather than seeing it as a "productive investment" for future innovations and growth, they see it as a loss and the more a company spends for its Intellectual Capital development, the greater the loss would be. As a result, the stock of the companies with high R&D relative to market value show strong signs of under pricing.

Second, in consequence of (1), firms spending more on technology, knowledge and other intangibles tend to have a high cost of capital imposed on them by the capital market, thereby impeding their investment and growth.

Third, as Lev and Zarowin have demonstrated, the commonly used performance measures like return on equity, return on total assets become less effective in intangibles-oriented firms, because major investments are missing from the denominator. Likewise, human capital assets of the firms – their reserve of skills, competencies, and know-how and the resources being expended to sustain them – are beyond the spectrum of information that is typically available to the investors.

Fourth, a corollary of the above is an information asymmetry between the managers/insiders and the investors. For instance, in a biotechnology company, with several drugs under development, it is far easier for the executives to assess whether trials will be successful than outside investors who may be ignorant of the science involved. As a result the insiders may be able to trade on this information which is not available to outsiders. This kind of information asymmetry is harder to sustain in companies which depend more on tangible, observable assets.

Fifth, the current approach to accounting for intangible assets makes it difficult to unravel the contribution that different people and occupations

make to a business. As a result it is difficult for knowledge workers to assess their true worth to a business and assess what rewards they should be paid.

Clearly, there is strong advocacy for reforms of the rules of accounting to permit it work in the emerging new economy. In fact, the advocacy for the change goes beyond the rules of accounting, urging for a paradigm shift – or invention of a new accounting system. Unfortunately, the radical critique of accounting does not extend to sufficient elaboration of this new system which would take care of the needs of the so-called new economy. Instead, there is a plethora of piecemeal ideas that offer the palliative if not the remedy. These ideas can be broadly classified as :

- (A) Inclusion in the balance sheet
- (B) Supplementary information.

Inclusion in the balance sheet

This involves recognition of intangibles and other Intellectual Capitals as asset within the rules of accounting. Prof. Baruch Lev has mooted several proposals to deal with intangibles, out of which capitalization is just one. Lev argues that such capitalization will not only help intangibles to be reported in the balance sheet alongside the tangible assets, but will also improve the periodic matching of costs and benefits and will lead to reported earnings that meaningfully reflect enterprise performances than currently measured enterprise earnings. Lev's principal contention in this respect is that the large investments that generally drive change, such as restructuring costs and R&D expenditures, are immediately expensed, while the benefits of change are recorded later and are not matched with previously expensed investments. Consequently, the fundamental accounting measurement process of periodically matching costs with revenues is seriously distorted, affecting the informativeness of financial information (Lev and Zarowin 2003, p. 487). Lev and Zarowin posit their views: "We argue that it is the accounting for intangibles that the present system fails most seriously to reflect enterprise value and performance, mainly due to the mismatching of costs with revenues. We demonstrate that adverse informational consequences of accounting treatment intangibles by documenting a positive association between the rate of business change and shifts in R & D spending" (Lev and Zarowin 2003, p. 488). Given the uncertainty and reliability concerns, Lev and Zarowin, however, propose that the capitalization of intangibles should be separately disclosed in the financial statements so as to allow the unwilling users and analysts to reverse them, if they wish.

The second proposal offered by Lev and Zarowin is the systematic restatement of financial reports to accommodate the other change-drivers which are not

covered by the capitalization proposal. Here Lev has in mind items like corporate restructuring involving extensive employee training, plant reorganization, acquisition of technology and know-how, which, given their uncertainty of benefits, require immediate expensing under the existing accounting regime. Such expenses, Lev and Zarowin argue, understate current earnings and book values and overstate subsequent earnings, if the planned efficiencies materialize. This provides rationale for capitalization of restructuring charges and subsequent amortization over the period of expected benefits. However, Lev and Zarowin do not provide details of how the restatements will be calculated nor is it made clear what proportion of costs should be capitalized in light of some good but not conclusive and reliable news of commercial success.

Supplementary disclosure

Balance sheet recognition of intangibles or Intellectual Capital is fraught with many obstacles and due to their subtlety, as well as lack of reliability, of their measures it has been accused of "monkeying with the financial statements" (Rutledge, 1997). However, supplementary disclosure of information related to the Intellectual Capitals strikes a balance between relevance and reliability. For instance, IAS 38 specifies that a company can only recognise an asset if :

- it is identifiable;
- it is controlled by the enterprise;
- it is probable that future benefits specifically attributable to the asset will flow to the enterprise;
- its cost can be reliably measured.

These criteria apply to both purchased and self-created assets. In fact, IAS 38 does not forbid recognition of internally generated intangibles. It is laid out in such a way, however, that it is difficult to imagine Intellectual Capitals or its variants meeting the recognition criteria. IAS 38 is just one example where conservative accounting treatment puts reliability before relevance and it never minds if balance sheet as a statement of financial position becomes irrelevant. However, financial accounting, even though constrained by stringent recognition criteria, sets no limit upon supplementary disclosures. For example, IAS 38 requires disclosure of the amount of research and development expenditures and encourages the companies to provide a brief description of intangibles that are controlled but not recognized (Benston et al, 2006, p. 280). In fact, supplementary disclosure is at the heart of most Intellectual Capital measurement methods in much the same way as it is the case with corporate social and environmental disclosures. Skandia's Navigator, Sveiby's Intangible Asset Monitor or Lev's Value Chain Blueprint – are all exercises in supplementary

disclosures – providing a rich tapestry of financial, non-financial and narrative disclosures to tell the story that is blurred by the odd rules of accounting: Lev says in dismay : “If you develop something, it’s immediately expensed; if you buy the same thing, it’s not expensed and you have an asset. This is nonsense” (Cited by Condon, 1999).

However, until we have the desideratum to take on this nonsense, Leadbeater (2000) provides the synthesis of the various ideas paving the way forward.

Incrementalist Approach

Under this proposal the traditional financial accounts would remain the focus of corporate reporting, but in respect of the intangible assets, which traditional balance sheets overlook, it seeks to gradually fill in the vacuum by relevant, robust information on intangibles, with a proven track record for being linked to market valuations: patent citations, brand values, customer loyalty and so on.

This approach, as a first step, would be based on non-financial measures which were relevant, relatively easy to collect and with a proven, robust relationship with market value. But, ultimately, companies should provide safe havens in their accounts where intangibles could be valued as assets without putting them on the fully-fledged balance sheet. These safe havens would allow companies to adopt a more flexible approach than the balance sheet *per se*, by stating possible ranges for intangible asset values. The safe haven would be a way of putting valuations of intangibles in “quarantine” before allowing them to migrate onto the balance sheet

Radical Approach

The radical approach is to devise entirely new balance sheets for companies – Intellectual Capital Balance Sheets – which put intangible assets at the heart of the accounts. Financial information is included but as a measure of success and as a resource for investment. The generation and deployment of intangible assets such as human capital, customer relationships and organisational competences form the core of these new models. The best known examples of this approach are the intellectual capital report set out by Skandia, the Intangible Asset Monitor by Karl Eric Sveiby and the Intellectual Capital Index developed by Goran and Johan Roos and Edvinsson (1997).

Hybrid Approach

The hybrid approach advocates that more reliable values for intangibles will only emerge if there are more open, active and thick markets to trade them or at least financial instruments which are linked to intangibles. But intangible assets create a problem for

accountants because they are difficult to disaggregate and so as a result they are hard to trade. Thus, to value intangibles, accountants either need to acquire radically new skills to value assets which are not traded, or we need to create open markets and a trade in intangibles which accountants can record.

This hybrid approach, therefore, argues for the creation of new financial markets which would allow the trade of options on intangibles. This would allow investors to invest in companies, as combinations, but also on a disaggregated basis. To illustrate the point, Leadbeater cites example that an investors may wish to invest in a company such as Nestle’, which holds many consumer brands, but it may also wish to invest in a particular brand as well, say, for example, Kit Kat.

Leadbeater has many innovative and radical ideas, all of which may not be practicable, but he underscores the necessity for going beyond the traditional spheres of accounting. This mismatch between the value which investors put on a company and the value which accountants record on formal balance sheets is not simply the product of the scale of investment in intangibles. The accounting system *per se* was not designed to deal with companies which invest heavily in intangible assets (Leadbeater 2000, p.41). However, if accounting for Intellectual Capital is all about explaining the divergence between book values and market values, an attempt for reconciliation, without much regards for the rules of accounting and hence, with considerable risk of subjectivity, may be undertaken along the following lines (Table 1) :

Table 1 : A Reconciliation Between Book Value and Market Value

1. Accounting book value	XXX
2. + Market assessment of differences between accounting measurement and underlying value of recognized assets and liabilities	XXX
3. + Market assessment of the underlying value of items that meet the definition of assets and liabilities but are not recognized in financial statements (e.g., patents developed through internal research and development)	XXX
4. + Market assessment of intangible value drivers or value impairs that do not meet the definition of assets and liabilities	XXX
5. + Market assessment of the entity’s future plans, opportunities, and business risks	XXX
6. + Other factors, including puffery, pessimism, and market psychology	XXX
7. Market Capitalization	XXX

Source : Upton (2003, p. 470)

Conclusion

The critiques of financial accounting are many and sobriquets like 'postmortem operation' or analogy to 'driving a car by looking at the rear view mirror' are commonplace. But accounting for the intangibles is an attempt in taking much subtle and forward-looking information into accounts. However, in doing so, much of what has emerged in the name of accounting for intangibles departs substantially from the prevailing notion of accounting. The use of non-financial measurement techniques underlying many intangibles and Intellectual Capital measurement methodologies challenges many a standard assumption of accounting. The merit of such a less restrictive approach to measurement lies not in their reliability but in their relevance. Roslender (2000) thus argues that the dispute about whether intangibles should appear on the balance sheet is too limited and that there is indeed a broader strategic management significance to consider: "A creative, highly motivated workforce... is likely to command a high asset value in the capital market. However, there is far less to be gained by attempting to put people on the balance sheet than by identifying the most effective means of providing relevant information in support of promoting continued employee development" (Roslender 2000). More radical approaches to accounting for intangibles presently evolving thus commend the incorporation of greater narrative content, reflecting an acceptance of the necessity of developing a more holistic view of reporting than those warranted by the monolithic financial measures. Unless accounting ventures to go beyond the confines of prevailing accounting theory, the prospects for a successful outcome out of the current morass over accounting for intangibles appear to be remote. The advocacy for such a radical approach is not, however, without its precedence. The social and environmental accounting literature has in fact advocated for such a non-financial measurement approach since early 1970s. For instance, Ullmann (1976) suggested a framework, called the Corporate Environmental Accounting System (CEAS), which used a non-monetary measurement known as the "equivalent factor", in conjunction with physical measures of environmentally relevant inputs and outputs to derive CEAS units. Ullmann's model remains an interesting and perhaps an early attempt at a different form of accounting: non-financial disclosures aimed at reporting environmental impacts. Practical articulation of such a model is evidenced in the most recent developments involving the environmental reporting model by GRI, auditable standard for social accountability : SA 8000, Stakeholder Engagements

Guidelines: AAA1000 and International Auditing and Assurance Board's Assurance Engagements in areas other than Audits or Reviews of Historical Financial Information: ISAE 3000. The experience of the social and environmental accounting research may be an invaluable guide to the researchers in the field of intangible assets in giving it the much needed credence and respectability. □

References

- Benston G J, Bromwich M, Litan R E and Wagenhofer A (2006), *Worldwide Financial Reporting: The Development and Future of Accounting Standards*, OUP: Oxford.
- Condon, B (1999), "Gaps in GAAP", <http://www.forb.com>.
- Drucker P (1999): *Management Challenges for the 21st Century*, Collins Business, New York.
- Hand M and Lev B (2003), "Introduction and Overview" in John R. M. Hand and Baruch Lev (eds), *Intangible Assets: Values, Measures and Risks*, OUP: Oxford.
- Leadbeater C (2000), *New Measures for the New Economy*, The Institute of Chartered Accountants: London.
- Lev B and Zarowin P (2003), "The Boundaries and Financial Reporting and How to Extend Them", in John R. M. Hand and Baruch Lev (eds), *Intangible Assets: Values, Measures and Risks*, OUP: Oxford.
- Roos J, Roos G, Dragonetti N C and Edvinsson L (1997), *Intellectual Capital : Navigating in the New Business Landscape*, Macmillan: London.
- Roslender R (2000), "Accounting for Intellectual Capital: A Contemporary Management Accounting Approach", *Management Accounting*, Vol. 78, No. 3: pp. 34-37.
- Rutledge J (1997), 'You're a Fool If You Buy into This: Changing Financial Statements to Reflect Intellectual Capital', *Forbes*, April, Vol. 159, No. 7: pp. 42-45.
- Sveiby K E (1997), *The New Organizational Wealth: Managing and Measuring Knowledge-based Assets*, Barrett-Kohler Publishers: San Francisco.
- Sveiby K E (1997), *The New Organizational Wealth: Managing and Measuring Knowledge-based Assets*, Barrett-Kohler Publishers: San Francisco.
- Upton W S (2003), "Challenges From New Economy for Business and Financial Reporting", in John R. M. Hand and Baruch Lev (eds), *Intangible Assets: Values, Measures and Risks*, OUP : Oxford.
- Ullmann A E (1976), "The corporate environmental accounting system: a management tool for fighting environmental degradation", *Accounting, Organizations and Society*, Vol.1 No.1: pp. 71-79.



Revenue Approach to Human Resource Accounting

Dr. Biraj Kumar Mohanty
Vijayalaxmi Hiremath

Associate Professor in JK Lakshmipat University, Jaipur, Rajasthan
Researcher in Human Resource Accounting, Mysore University

Man, money and material are three basic factors of production for any business enterprise. Management consistently tries to increase their profitability by reducing the cost and increasing the productivity of these three components of production. In recent times it has become quite challenging due to the intense competitive situation around the world. At strategic level we see numerous mergers and acquisitions, procurement of fund through innovative instruments, diversification in products and territory and all possible measures to synergize capabilities. At operational level a persistent nurturing of these factors of production leads to better results.

When we say a continuous attention on those factors, the underlying belief is that they are possessed and utilized by the organisation for years to come. In accounting, we find both money (in terms of capital and debt) and material (in terms of inventory and assets) are projected in the balance sheet fulfilling the going concern concept. But human resources are shown as an expense and don't get its due worth in the financial statements. So need of the hour is considering human resources as an asset to get the best out of it in terms of value creation. This is the core of Human Resource Accounting (HRA).

HRA Defined

The American Accounting Society Committee has defined "HRA as the process of identifying and measuring data about human resource communicating this information to interested parties".

R.G. Barry Corporation of USA was one among the foremost adopters of HRA. Woodruff Jr., Vice President, of the company, defines HRA as, "An attempt to identify and report investments made in human resources of an organisation that are presently not accountable for in conventional accounting practice. Basically, it is an information system that tells the management what changes over time are occurring to the human resources of the business".

HRA is viewed as an information system that recognises all data relating to human resources and treats it as an investment.

M N Baker defines : "HRA is the word used by the accountancy profession to quantify the cost and value of employees to their employing organisation".

We will observe later on that various methods of HRA evolve from this definition focusing on cost. The value of the human resources recognises the cost incurred on acquiring and training and developing the human resources as an investment; record and communicate the worth of organisation in terms of Human capital.

Importance of HRA

HRA considers human resources as an asset instead of an expense. The primary focus of HRA is

1. With a better information system and valuation model it facilitates effective and efficient management of human resources.
2. Find out changes in the structure and value of work force.
3. Relate cost involved in the human resources to output.
4. Find out ROI on human capital.
5. On the basis of information, reorient, redeploy and properly utilise and allocate the human resources in organisation.
6. Improve the quality of the human resources.

Challenges in HRA

Although HR is regarded as the most important component of any organisation, there is widespread disagreement on its valuation and recognition.

(i) The major criticism is : whether human resources should be measured? 'Assets represent expected future economic benefits, rights which have been acquired by the enterprise as a result of some current or past transactions.' Human resources are neither acquired nor owned and the management is not sure of its future benefits. Moreover, legally, human resources have not been accepted as an asset.

(ii) Relating cost involved with the manpower to revenue generated is a daunting task.

(iii) Distinguishing between managerial and operational manpower is also not an easy task.

(iv) When we consider the output generated by the individual employee it also involves the kind of environment and opportunity we provide him. It is not uniform always.

(v) Legal provisions do not allow human resources to be capitalised and amortised over a period of time.

(vi) Sometimes management is afraid of losing the employee by providing the later, employee specific data of revenue and cost.

(vii) Multiplicity of valuation models has enhanced the complexity of HRA. There is little agreement on what is to be measured.

(viii) From financial figures it is difficult to find out usefulness and value of the employee to the organisation. Job satisfaction, growth and stability in a job cannot be measured easily.

All the above arguments pose problem areas while measuring human resources. But the primacy of HRA in organisational management and development necessitates consistent research in this body of knowledge.

Indian Experience

In India the concept of HRA was first introduced by BHEL in 1974. Mostly companies managed by the government, due to their social responsiveness, adopted HRA. Some of them are: Minerals and Metals Trading Corporation (MMTC), Oil and Natural Gas Corporation (ONGC), Neyvil Lignite Corporation (NLC), Cement Corporation of India (CCI), Project and Equipment Corporation of India, Engineers India Limited, Electrical Limited, Hindustan Shipyard Limited, Steel Authority of India Limited (SAIL) and Oil India Limited.

In the last two decades, due to higher focus on corporate governance, private sector companies have also started adopting HRA. Infosys is the pioneer among the private sector companies adopting the HRA. Tata Iron and Steel Company (TISCO), Southern Petrochemicals Industries Corporation (SPIC), Tata Motors, DSQ Software, Reliance Industries, and Satyam Computers have also adopted HRA. But the concept is primarily focused on informing the public about the human resource of the company through their annual reports.

Lev and Schwartz Model is followed by most of the companies in India to compute human asset value. They by and large adopt the following considerations :

- Group dynamics are not considered
- Human asset value is treated as an integral part of the accounting system

– Standard discount rates are adopted for the calculation

– Uncertainty of human behaviour and qualities are not considered

– The cost on personnel is capitalized

– Discounting rate of 12% to 15% is taken to calculate HRA in India.

As per Sec 217 (2A) of the Indian Companies Act of 1956, Indian organisations do not have compulsion to disclose the details regarding their human resources, only except for the particulars of their employees who earn more than Rs12,00,000 pa . Indian companies are expected to furnish the information relating to their employees such as their name, age, qualification, designation and nature of the duties, remuneration, data of commencement of employment, experience, etc.

Although IFRS does not have any specific provisions for HRA, it allows valuation of assets through non-traditional methods and fair value. So, in future, it is expected that Human Resources will be valued as asset with fair value consideration when IFRS is fully adopted in India.

Methods

Determining human asset value is a difficult task due to the subjectivity involved in it. Analyst and researchers have tried their own viewpoints to develop models and explain the value of human resource by different means. Broadly, it is divided into three categories :

1. Human Resource Cost Accounting Methods

- a. Cost based model
- b. Replacement cost model
- c. Opportunity cost model
- d. Standard cost
- e. Current purchasing power model.

2. Human Resource Value Accounting Methods

- a. Giles and Robinson model
- b. Human Resource Valuation Model (Jaggi and Lev)
- c. Net benefit model (Morse Model)
- d. Human asset multiplier method (Robbinson and Giles).

3. Economic Models

- a. Adjusted discounted future wages model (Hermanson model)
- b. The present value of future earnings model (Lev and Schwartz model)
- c. Stochastic rewards valuation model (Flamholtz model) .

The above models are as varied as their names. They consider either cost or value, and value may be

absolute value or present value. Their interpretations are also quite different from each other. We will discuss the basis and criticism of Lev Schwartz model as it is widely followed in India.

Lev Schwartz model

Lev and Schwartz model states that the human resources of a company is the summation of value of all the Net Present Value (NPV) of expenditure on employees. Under this model, the following steps are adopted to determine human resource Value :

(i) The entire labour force is classified under homogeneous groups like skilled, unskilled, semiskilled etc. and in accordance with different classes and age. (Classification is based on software professionals and support staff etc.in Infosys).

(ii) Construction of average earning stream for each group (At Infosys Incremental earnings based on group/age have been considered.)

(iii) Discounting the average earnings at a predetermined rate in order to get present value of human resources of each group. Aggregation of the present value of different groups are capitalized to arrive at the wealth of human resource as a whole. (Discounting factor of 12% is considered at Infosys)

$$V_r = \frac{I(t)}{(1+r)^{t-r}}$$

where, Vr = the value of an Individual r years old

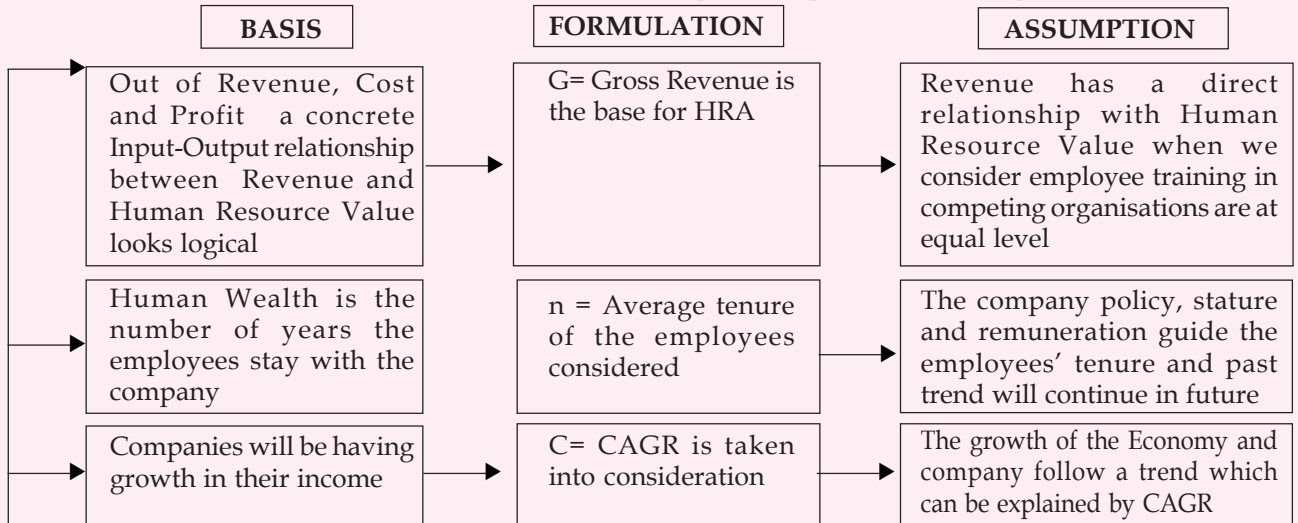
I (t) = the individual’s annual earnings up to retirement

t = retirement age

r = a discount rate specific to the cost of capital of the company.

Criticism of Lev Schwartz Model

Lev Schwartz model has several shortcomings :



(contd.)

First of all, it does not have a sector specific approach to HRA.

Secondly, cost is taken as the base of human wealth. But should we not include the profit also? Let us take an example : An investor invests Rs. 100/- in shares in 2010. Price of the share has increased to Rs. 120/- in 2011. Generally we will consider value of the share as Rs. 120/- instead of 100/-. So profit is also part of the value.

Thirdly, Productivity or output of the employee is more important than the cost involved. Highly paid employees will not necessarily bring better results. Rather, an organisation which uses its workforce effectively to get better returns in low cost is more efficient. So we advocate putting revenue earning or output generated by the employees as the base for human wealth.

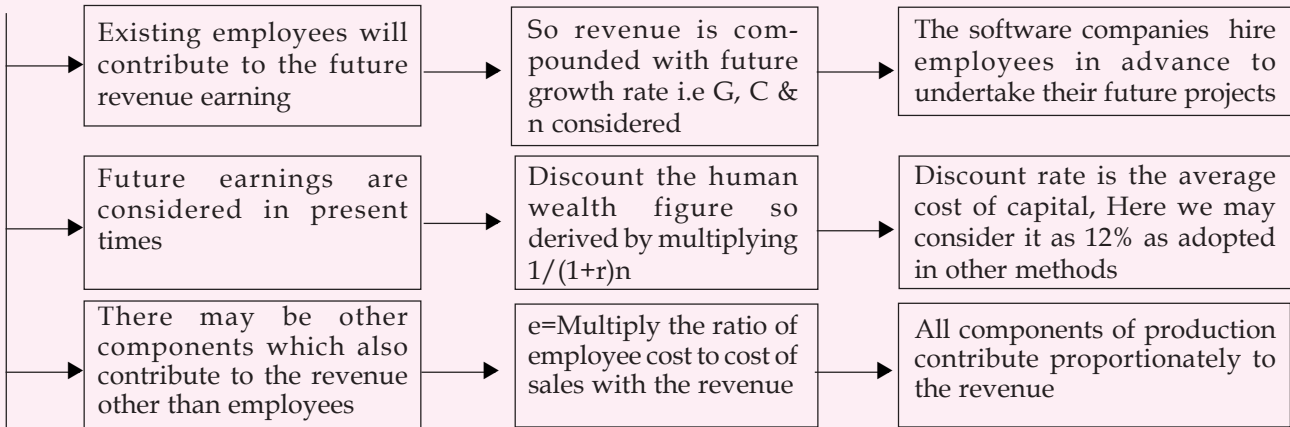
Fourthly, salary earned by the employee for his lifetime cannot be considered as the base of the human value. In IT sector the attrition rate of employees is quite high. So when the service of the employee is not available to the company after a period of time, how can we consider it as wealth?

Lastly, there are two ways of calculating human wealth. First, calculating the overall human wealth of company and thereafter disseminating it to find individual human wealth. The other approach is to calculate the individual human wealth and summing it up for finding out the overall human wealth. We advocate the former approach. Because, human wealth can have a synergy value which is not taken into consideration when we put the individual value first.

Revenue Based Approach to HRA

We have suggested a Revenue based approach to HRA on the demerits of Lev Schwartz model. It can be more appropriate to IT sector. The following table explain the process of development of our model :

(contd.)



$$W = \frac{\sum(G(1+c)^n e)}{(1+r)^n}$$

W = Human Asset Value of the whole company
 G = Gross Revenue of the company
 n = Average Retention period of the employees
 c = CAGR of the company over five-year period of time
 r = Discount rate of or cost of capital
 e = ratio of employee cost to total cost of sales

Example

Let us take a hypothetical example of finding out total human value of an IT company. The revenue of the company in the year 2009-10 is Rs. 1,233.25 crores and 2005-06 is 448.80 crores. In the year 2009-10, ratio of its employee cost to total sales value is 74.40%. Average retention period of employees is 3 years. Cost of capital in the industry is 12%. Operating profit of the company for the year is 177.95 crores.

G = 1,233.25 crores.

$$C = \text{CAGR} = \left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{1/5} - 1$$

$$= \left(\frac{1,233.25}{448.80} \right)^{1/5} - 1$$

$$= \left(2.75 \right)^{1/5} - 1 = 1.224 - 1 = .224 = 22.4\%$$

n = 3 years

e = .744

r = .12

Particulars	1st Year	2nd Year	3rd Year
$(1+C)^n$	$(1+.224)^1 = 1.224$	$(1+.224)^2 = 1.50$	$(1+.224)^3 = 1.83$
$G(1+C)^n$	1509.49	1849.88	2256.84
$(G(1+C)^n)e$	1123.06	1376.31	1679.09
$1/(1+r)^n$.887	.788	.701
$\sum(G(1+c)^n e)$	996.15	1084.58	1177.04
$(1+r)^n$			
Total discounted human wealth = 3,257.77crores. (sum of three years figure)			
Operating margin on human capital employed = $\text{PBIT} / \text{Total discounted human capital} = 177.95 / 3,257.77 = 5.46\%$			

Our proposed model has the advantage of considering

1. Output instead of input

2. Effective tenure of the employee instead of life time remuneration
3. growth of the organisation
4. Present value of wealth.

Revenue Approach as an appraisal tool

Human Resource Value so found out is the sum total of the human wealth of the company. In order to find out the human wealth of individual employee, the HRA figure so found out can be effectively used.

1. Develop a 10 parameter five point likert scale evaluation sheet.
2. It should be based on basic attributes like i.e. experience, knowledge, skill, ability to complete project in time, special achievements etc.
3. The evaluation sheet may be classified in terms of the categories and hierarchy of employees in the organisation giving higher weightage to marketing personnel and project heads.
4. Find out individual score of the employee exercising the evaluation process.
5. Add up scores of all the employees.
6. Divide it with the total human wealth and find out human wealth for one point.
7. Multiply it with the score of the employee to find out the individual human wealth.

This can provide a very good control measure for appraising and rewarding the employees.

Conclusion

Financial reporting system all over the world has not incorporated HRA in the presentation of their balance sheet due to the obvious reason of subjectivity and multiplicity of interpretation. But in the coming years, we will find more acceptability to HRA as IFRS is allowing fair value representation of intangible assets. Gradually, accountants will adapt to this complexity. Meanwhile, HRA can be extensively used as internal information for control and development of human resources. This can be possible if efforts are made to make HRA tailor-made for individual organisations. □



Global Debt vs India's Debt— India is Better than Globe

Dr. Badar Alam Iqbal
Shakeb Arsalan

Former Dean and Chairman, Department of Commerce
Aligarh Muslim University, ALIGARH, U.P.

Chartered Accountant, Deputy Finance Officer
Aligarh Muslim University, ALIGARH, U.P.

The clock is ticking. In every second, world over someone takes on some debt. Global figures for all government debts worldwide are in dollar terms. Overall outstanding debt worldwide has more than doubled during the last ten years. Does it matter? After all, world over governments owe money to their own citizens, not to the Martians. But the rising total debt is strategic for two reasons. First, when debt rises faster than economic output – as global economy has been experiencing in recent years, higher government debt results into more state interference in the economy and increased taxes in the future. Second, debt and its servicing always require its rolling over at regular basis. This leads to a recurring popularity test for individual Governments. For instances, the Greek Government did it in early 2010, and the country can be plunged into imminent crisis. So the higher is the global government debt total, the larger is the risk of fiscal crisis and the bigger the economic impact such crises will have on the global economy in general and individual nations in particular.

Worldwide, overall outstanding debt has more than doubled during the last ten years. In the year 2000 global outstanding debt amounted to US \$ 78 trillion. In 2010 this figure touched three digit amounts of US \$ 158 trillion. Global Debt also grew faster than world's GDP over ten year period. The ratio of world debt to global GDP went up from 218 per cent to 266 per cent between 2000 and 2010.

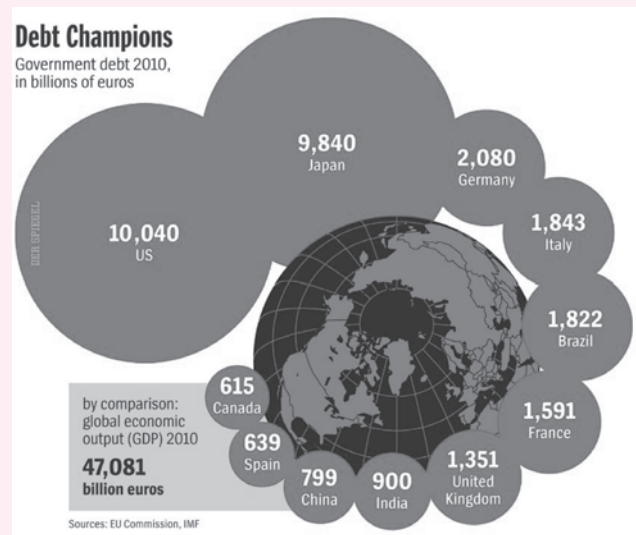
According to an estimate, nearly US \$ 48 trillion of the total outstanding debt belong to governments and financial institutions. In two global players – the US and the EU – the ratio of public debt stood at more than 70 per cent of the GDP. Developed world may need to undergo years of spending cuts and higher taxes in order to get fiscal deficit in order. In the last two years, global public debt has gone up by US \$ 9.4 trillion which comes to 13 percentage points of the world's Gross Domestic Product (GDP). In the year 2010 alone global public debt accounted for nearly 80 per cent of the overall growth in total outstanding debt.

Many governments world over, particularly in the developed countries, were compelled to take massive

stimulus steps to accelerate the growth rate in their respective economies due to the beginning of financial crisis of 2008. Global public debt outstanding amounted to US \$ 41.1 trillion at the end of the year 2010, a rise of about US \$ 35 trillion since 2000. The major debited countries in the world are given in **Chart 1**.

Developed economies may need to undergo years of spending cuts and higher taxes in order to get fiscal house in order. The largest public debt is on the United States of America and the lowest among major debited countries is Canada. India's rank stood at 8th. These trends are indicators that in years to come global debt may increase further and many countries may face debt crisis on the lines of the European Union. In US and Western Europe during 2010, the ratio of public debt constituted more than 70 per cent of the GDP.

Chart 1



In 2010, governments' debt constituted 80 per cent of the overall rise in total debt outstanding. According to McKainsey report, world over governments' total debt amounted to US \$ 31.7 trillion. The major contributory factors have been budget deficit, increased stimulus packages, and loss of revenues because of anemic growth.

Pension and health care costs are rising as the dynamics of population is changing in terms of population age and unfunded pension and health care liabilities are not properly reflected in current governments' debt data. Without having fiscal consolidation the governments' debt would continue to increase in coming years.

With budgets under heavy odds from both short-term crisis related measures and long-term pressures on growth and calls on public purse or pocket, developed economies may need to undergo years of spending cuts and higher taxes. This step may result into decline trend in the popularity of the Governments governing the economies world over.

US the biggest Debited Country

US debt is pretend debt that doesn't need to be paid back since we borrowed money that we create for free from ourselves. (Also see UK, Japan, China, Canada, and Australia). ALL loans are backed by collateral which is why student loans are not dischargeable and credit card interest rates are so high. Your fiat is Monopoly money thesis is utter crap and based on a complete fabrication of whatever fantasy world in which you abide.

Look at total credit vs gdp then you will see excess credit which must be defaulted and written off. It will mean a monstrous but brief (3 - 5 years) depression but there is literally no better alternative to this point. All loans are backed by collateral – this is why student loans are not dischargeable and credit card interest rates are so high. The dollar is backed by the productive capacity of the American worker. The figures are \$15 trillion/year and \$280 trillion since Second World War (1939-1945). What collateral is behind the National Debt? The liability lies on the Government. How would the government pay it?

Indian Debt Scenario

India's key indicators of external debt are given as :

Select Indicators of External Debt

(i) The ratio of external debt to GDP declined to 18.9 per cent as at end-March 2010 from 20.5 per cent as at end-March 2009.

(ii) The debt service ratio increased to 5.5 per cent during 2009-10 as compared to 4.6 per cent during 2008-09.

(iii) India's foreign exchange reserves provided a cover of 106.7 per cent to the external debt stock at the end of March 2010 as compared to 112.2 per cent as at end-March 2009.

(iv) The share of concessional debt in total external debt declined to 16.8 per cent as at end-March 2010 from 18.7 per cent at end-March 2009 reflecting the sustainable increase in non-concessional private debt in India's external debt stock.

(v) The ratio of short-term debt to foreign exchange reserves at 18.8 per cent as at end-March 2010 was higher than that of 17.2 per cent in the previous year.

(vi) The share of short-term debt in total debt increased to 20.1 per cent at end-March 2010 from 19.3 per cent at end-March 2009.

Major Highlights in 2011

i. India's external debt, as at end-March 2011, was placed at US \$ 305.9 billion (17.3 per cent of GDP) recording an increase of US \$ 44.9 billion or 17.2 per cent over the end-March 2010 level on account of significant increase in commercial borrowings, short-term trade credits, bilateral and multilateral borrowings.

ii. Excluding the valuation effects due to depreciation of US dollar against other major international currencies and Indian Rupee, the stock of external debt has increased by US\$ 38.4 billion over the stock as at end-March 2010.

iii. The share of commercial borrowings stood highest at 28.9 per cent as at end-March 2011 followed by short-term debt (21.2 per cent), NRI deposits (16.9 per cent) and multilateral debt (15.8 per cent).

iv. The debt service ratio declined to 4.2 per cent during 2010-11 as compared to 5.5 per cent during 2009-10.

v. Based on residual maturity, short-term debt accounted for 42.2 per cent of the total external debt as at end-March 2011. Whereas the share of short-term debt, by original maturity, was 21.2 per cent of the total external debt stock.

vi. The ratio of short-term debt to foreign exchange reserves at 21.3 per cent as at end-March 2011 was higher compared to 18.8 per cent as at end-March 2010.

vii. The US dollar accounted for 59.9 per cent of the total external debt stock as at end-March 2011 followed by Indian rupee (13.2 per cent) and Japanese yen (11.4 per cent).

viii. India's foreign exchange reserves provided a cover of 99.6 per cent to the external debt stock at the end of March 2011 as compared with 106.9 per cent as at end-March 2010.

India's external stock has gone up a margin of 17.2 per cent US \$ 305.9 billion at the end of March 2011. The increase is of US \$ 44.9 billion over the March 2010 level when it stood US \$ 261 billion. This rise is mainly due to large commercial borrowings as well as short-term trade credits which is falling in line with the higher growth of Indian economy resulting into the required strong internal demand during 2010-11.

Major Components of Debt

India's composition of debt has gone a radical change due to globalization of Indian economy (See **Table 1**). There has been a considerable rise in the share of commercial borrowing in total India's debt. At the end of March 2005 the share of commercial borrowing in India's total debt was 19.7 and this share has touched a figure of 28.9 per cent at the end of March 2011. The emerging of commercial borrowing as a major component of India's total debt is an indicator that Indian economy has emerged as mature market

economy as well as increase role of corporate sector in sustaining the required higher growth.

Table 1 : External Debt by Component
(US \$ million)

Item	End- March							
	1991	1998	2005	2006	2007	2008	2009	2010 P
1	2	3	4	5	6	7	8	9
1. Multilateral	20,900	29,553	31,744	32,620	35,337	39,490	39,538	42,733
	(24.9)	(31.6)	(23.7)	(23.4)	(20.5)	(17.6)	(17.6)	(16.3)
2. Bilateral	14,168	16,969	17,034	15,761	16,065	19,708	20,613	22,596
	(16.9)	(18.1)	(12.7)	(11.3)	(9.3)	(8.8)	(9.2)	(8.6)
3. IMF	2,623	664	1,029	981	1,029	1,120	1,018	6,041
	(3.1)	(0.7)	(0.8)	(0.7)	(0.6)	(0.5)	(0.5)	(2.3)
4. Trade Credit	4,301	6,526	5,022	5,420	7,165	10,328	14,490	16,878
	(5.1)	(7.0)	(3.7)	(3.9)	(4.2)	(4.6)	(6.5)	(6.5)
5. ECBs	10,209	16,986	26,405	26,452	41,443	62,334	62,413	70,986
	(12.2)	(18.2)	(19.7)	(19.0)	(24.0)	(27.8)	(27.8)	(27.2)
6. NRI Deposits	10,209	11,913	32,743	36,282	41,240	43,672	41,554	48,092
	(12.2)	(12.7)	(24.4)	(26.1)	(23.9)	(19.5)	(18.5)	(18.4)
7. Rupee Debt	12,847	5,874	2,302	2,059	1,951	2,017	1,527	1,657
	(15.3)	(6.3)	(1.7)	(1.5)	(1.1)	(0.9)	(0.7)	(0.6)
8. Long-term Debt (1 to 7)	75,257	88,485	116,279	119,575	144,230	178,669	181,153	208,983
	(89.8)	(94.6)	(86.8)	(86.0)	(83.7)	(79.6)	(80.7)	(79.9)
9. Short-term Debt	8,544	5,046	17,723	19,539	28,130	45,738	43,362	52,471
	(10.2)	(5.4)	(13.2)	(14.0)	(16.3)	(20.4)	(19.3)	(20.1)
Total (8+9)	83,801	93,531	134,002	139,114	172,360	224,407	224,515	261,454
	(100)	(100)	(100.0)	(100)	(100)	(100)	(100)	(100)

P: Provisional

IMF: International Monetary Fund; ECBs: External Commercial Borrowings; NRI: Non-Resident Indian

Note: Figures in parentheses are percentage to total external debt.

Source: Ministry of Finance, Government of India and Reserve Bank of India

India's total long-term debt in 2010 amounted to US \$ 208.7 billion and this amount went up to US \$ 240.9 billion registering an increase of more than 15.4 per cent in 2011. In case of short-term debt the increase is of 24.2 per cent i.e. from US \$ 52.3 billion to US \$ 65 billion during the same period. This means short-term debt has increased faster than long-term debt during the period. The relative share of long-term debt in India's total debt stood at 78.8 per cent and the relative share of short-term debt has been at 21.2 per cent.

India's Government sovereign external debt amounted to US \$ 78.2 per cent till the end of March 2011 as compared to a figure of US \$ 67.1 billion in 2010 recorded a rise of US \$ 11.1 billion or an increase of 16.5 per cent. Whereas this constituted 25.6 per cent of the total Indian's external debt, the figure 2010 was almost the same at 25.7 per cent. Indian Government guaranteed external debt we pegged at US \$ 8.6 billion in 2011 as compared to US \$ 7.8 billion in 2010 till the end of March 2011.

The most revealing trend is that the rise in India's total debt stock as well as changing pattern in segments, external debt remained within manageable

limits. This could be testified from the fact that external debt to GDP ratio stood at 17.3 per cent and debt service ratio also stood at 4.2 per cent. These show that there is an improvement in India's external debt scenario. These trends and situations in regard to India's external debitedness has been because of necessary prudent external debt management policy adopted by the Indian Government. This could have been possible for proper and effective monitoring of long and short-term debt, raising sovereign loans on concessional terms, along with long maturity, regulating commercial borrowings through end-use all-in-cost restrictions, and rationalizing interest rates on non-resident Indian deposits.

Debt service ratio

This is also an important segment of India's total debt scene. Whereas the ratio of debt stock in respect of GDP is taken out by scaling the total outstanding debt stock in terms of rupee at the end of financial year by the GDP in rupees at current market prices during fiscal, the debt service payments that include principal repayment as well as interest on principal to current receipts minus official transfers of the Balance of Payments (BPO). In particular, the debt service ratio shows the claim that servicing of external debt makes on current receipts and is, therefore, a measure of the strain on the economy's BOP because of servicing of debt service obligations.

Currency composition

The currency components of India's external debt indicate that the US dollar continues to remain the dominant currency, hence accounting for 53.5 per cent of the total external debt till the end of March 2011. The share of Indian rupee stood at 19.5 per cent occupying second place, followed by Japanese yen with a share of 11.4 per cent and Special Drawing Rights units of IMF constituted 9.7 per cent.

The valuation effect, because of depreciation of the greenback against major international currencies, has contributed US \$ 6.5 billion to the total increase of US \$ 44.9 billion till the end of March 2011 over the figures recorded in 2010.

According to the report of Global Development Finance released by the World Bank, India's global ranking in terms of absolute debt stock is 8th in the world and among top 20 developing countries is 5th.

Conclusion

Foregoing analysis reveals that in the present decade, global debt has increased enormously – especially in case of the US and EU. As a result these economies are facing debt crisis. In case of India, the trends and situation is better as compared to global debt trends and situation. India's external debt has also increased considerably – especially in the component of commercial borrowings. In order to avoid any possible situation of debt crisis, India has to consolidate its fiscal deficit. □



Foreign Institutional Investments and Direct Tax Code

**Dr. Martina R. Noronha
Aishwarya R. Kulkarni**

P.G. In-Charge, Vice-Principal
S.P.B. English Medium College of Commerce, Surat
Head, Department of Accountancy
Assistant Professor, Department of Accountancy, Surat

Introduction

Foreign Institutional Investment is one of the modes to attract foreign exchange in the economy. The volume of FII is affected by number of variables like Gross Domestic Product of the country, various policy initiatives and transaction costs. The taxability of income earned by FII and income earned by investors through FII is proposed to change after implementation of DTC in 2012.

The Direct Taxes Code Bill, 2010, was presented to the Parliament on 30 August 2010. The revised proposed Code is based upon the 2009 draft of Direct Tax Code and related discussion papers. The effective date of the new Direct Taxes Code is deferred to 1 April 2012. The code proposes that Income earned by FII from transactions in securities would be treated as income from capital gains. The code also proposes change in rate of capital gain tax on individual investors.

Objectives

The objectives of this study are :

- To study the role of FII investment in the Indian stock market
- To know the trend of FII investments in India
- To discuss the benefits and costs of FII investments
- To know the variation in FII investment in India as per the global events and stock market trends
- To analyse the impact of the direct tax code on the foreign institutional investors.

Literature Review

Chakrabarti (2001) found that the FII net inflows were more likely the effect than the cause of equity market returns, with the FIIs not having informational disadvantages compared to domestic investors. Mukherjee et al (2002) found that the FII activities had a strong demonstration effect and was driving the domestic market suggesting that the FII flows tend to be caused by return in the domestic market.

Chakrabarti (2002) and Rao et al (1999) point out the fact that due to existing inter-linkages, the source of the FII investment might not be the country from where the institution operates. Kohli (2003) examines how capital flows affect a range of economic variables such as exchange rates, interest rates of foreign exchange reserves, domestic monetary condition and financial system in India during the period 1986 to 2001. Gayathri Devi R (2003), conducted a study on "Causal Relationship between FIIs and Stock Market: A critical study" which revealed that there was long-run relationship between net FII investment and sensex. Selen Serisoy Guerin (2006) in "The Role of Geography in Financial and Economic Integration: A comparative Analysis of foreign direct investment, Trade and Portfolio Investment Flows" found support for the argument that most FDI among Industrial countries were horizontal, whereas most FDI investment in developing countries was vertical and our results indicated that portfolio investment flows, compared to FDI, were highly sensitive to change in GDP per capita, which implied that if there was a negative output stock, portfolio investment flows would be more volatile than FDI.

A. Julia Priya, D. Lazar and Joseph Jeyapual (2005), conducted a study on "Role of Foreign Institutional Investors on stock market development in India". The results revealed that Sensex, market capitalization of NSE, turnover of BSE and NIFTY without market capitalizations were influenced by Foreign Institutional Investors. Parthapratim Pal (2004) in the study entitled "Recent volatility in stock markets in India and foreign institutional investors" indicated that Foreign institutional investors had emerged as the most dominant investor group in the domestic stock market in India, particularly, in the companies that constitute the Bombay stock market sensitivity index. J. S. Pasricha and Umesh. C. Singh (2001) tried to analyze the impact of FIIs investment on Indian capital market. Their study revealed that FII are here to stay and have become the integral part of Indian capital market and their entry has led to greater

institutionalization of the market. S. Kumar (2001) attempted in his study to find the effect of FIIs on the Indian stock market. The inference analysis of the paper suggests that FII investments are more driven by market fundamentals rather than by short term changers or technical position of the market. K. Seethapathi and V. Subbulakshmi in "Foreign investment: Need for focus", concluded that the flows have to pick up. The political will is to be demonstrated by the government. In addition, the regulators have to identify the reasons for failure in converting approvals into actual investments and those issues are to be addressed immediately. E. Han Kim and Vijay Singal (1997) in "Are open market Good for Foreign Investors and Emerging Nations?" concluded that integrating the emerging stock markets into world markets has had benefits, and will continue to have benefits for both global investor and host countries.

Significance of the Study

The Direct Tax Code which is to replace the Income Tax Act, 1961, has created a stir in the country. None of the studies focus on the impact of Direct Tax Code on FII and a need was felt to study DTCs impact on FII.

Research Methodology

Data was collected from secondary sources i.e. published reports of SEBI and RBI. Policy papers were referred to understand the conditions relating to investment and taxability in India. Various research papers were reviewed to understand the trends and position of FII in India.

In this study, we have divided the time period 1993-2011 in five phases as per the global events and stock market trends.

The first phase consists of time period from 1993 to 1998. In this time period Asian currency crisis (1998) took place. The second phase is from 1999 to 2003, when market remained dampen because of technology meltdown (2000), WTC and SARS impact. The third phase (2004 - 2006) is characterized by the revival of private foreign capital flows to emerging market economies in an environment of liberalization, flexible exchange rates and strong economic growth, commonly known as bull-run period. Fourth phase (2007-09), also known as bear phase, shows how severely stock market fell after the global crisis. The fifth phase from 2010 onwards shows the revival stage.

Statistical tools such as mean, standard deviation and coefficient of variation are used to know the variation in FIIs investment in India since 1993 to 2011.

Foreign Institutional Investors

The term Foreign Institutional Investors is most commonly used to refer the companies that are established or incorporated outside India and are investing in the financial markets of India by registering themselves with the Securities & Exchange Board of India (SEBI). FIIs include overseas pension funds, mutual funds, investment trusts, asset management companies, nominee companies, banks, institutional portfolio managers, university funds, endowments, foundations, charitable trusts, charitable societies, a trustee or power of attorney holder incorporated or established outside India proposing to make proprietary investments on behalf of a broad-based fund.

Foreign institutional investors such as pension funds or mutual funds were allowed to invest in the domestic capital market subject simply to registration with the Securities and Exchange Board of India. Guidelines issued by the Reserve Bank of India permitted such foreign institutional investors to invest in the secondary market for equity subject to a ceiling of 5 per cent (subsequently raised to 10 per cent) for individual foreign institutional investors in a single Indian firm with an overall limit at 24 per cent of equity (later relaxed to 30 per cent of equity at the option of the firm) for total foreign institutional investment in a single Indian firm.

Under the regulations an FII may invest only in securities in the primary and secondary markets including shares, debentures and warrants of companies; units of schemes floated by domestic mutual funds including Unit Trust of India, units of scheme floated by a collective investment scheme; dated government securities; derivatives traded on a recognised stock exchange; commercial paper; security receipts.

Table 1: No. of Registered Foreign Institutional Investors in India

January 2006	833
January 2007	1,059
January 2008	1,279
January 2009	1,609
January 2010	1,697

Source: www.bseindia.com

From the above table it can be seen that there has been a phenomenal growth in the number of registered FIIs in India. In January 2006 the number of registered FIIs were only 833 which increased to 1,697 in January 2010. The number has increased by more than 200%.

Table 2 : Net Investments by FIIs in India

Year	FII (Rs. in cr.)
1993	2,595.10
1994	6,791.20
1995	3,853.80
1996	10,803.60
1997	6,207.3
1998	-1,479.9
1999	1,054.80
2000	4,479.60
2001	7,902.10
2002	3,365.20
2003	2,376.60
2004	12,987.10
2005	16,819.00
2006	16,622.60
2007	6,874.20
2008	-7,861.90
2009	-12,457.20
2010	42,213.10
2011(up to Jan)	7,407.40

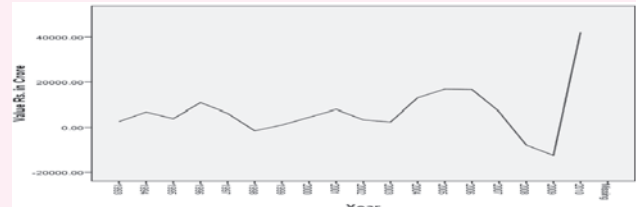
Source: www.Sebi.gov.com

The FIIs investment in Indian securities market has shown a fluctuating trend year after year. From the above table it can be observed that, the net investments made by the FIIs were Rs. 2,595 crores in January in 1993 and they rose to 42,213 (approx) in the year 2010. This shows an increase of 39,618 crores. The financial crises in East Asian countries weakened the sentiment of foreign investors towards emerging markets including India, because of which foreign inflows declined in 1998-99.

India, the second fastest growing economy after China, has recently seen positive foreign institutional investor (FII) inflows driven by the sound fundamentals and growth opportunities. The upward revision of economic growth from 5.8 per cent to 6.1 per cent, better-than-expected performance of companies in the quarter ended-June 30, the proposed new direct taxes code that might lead to higher savings in the tax payer's money, and the trade policy with an ambitious target of US\$ 200 billion exports for 2010-11 have all revived the confidence of FIIs investing in India. The liberalization policies had the desired expansionary effect and had increased the mean level of FII inflows. On the other hand, the restrictive measures aimed at achieving greater control over FII

flows also did not show any significant negative impact on the net inflows, it had found that these policies mostly render FII investment sensitive to the domestic market returns and raise the inertia of the FII flows.

The following chart graphically depicts the movement of Foreign Institutional Investment in India since 1993 till 2010 :



India opened her doors to foreign institutional investors in September 1992. Since then, FII flows which form a part of foreign portfolio investments have been steadily growing in importance in India. Other than in the year 1998, the net flows have been positive. The nuclear tests and East Asian crisis did slow down the flows but as stated by Gordan and Gupta (2003), their effects were short lived. The percentage of total net turnover of BSE, the share of average of FII sales and purchases increased from 2.6 percent in 1998 to 5.5 percent in 2002. The cumulative net FII investment in India as on August 2003 is approximately \$17400 million. As of August 2003 net FII investment was 9 percent of the BSE market capitalization which is small compared to the size of the market. However, in the words of Banaji (2002), it is not the market capitalization that matters but what is important is the level of the free float, that is, the shares that are actually publicly available for trading. With floating stock in the Indian market being less than 25 percent, about 35 percent of the free float available has been bagged by FIIs – despite the fact that they invest in just a few highly liquid stocks.

Descriptive Statistics

	Phase I	Phase II	Phase III	Phase IV	Phase V
Coefficient Variation	0.8708	0.6777	0.1394	2.253	0.50
Std. Deviation	4175.703	2599.71	2157.888	10099.28	2750.398
Average	4795.183	3835.66	15476.23	-4481.63	5462.575
Max	10803.6	7902.1	16819	6874.2	42213.1
Min	-1479.9	1054.8	12987.1	-12457.2	7407.4

Standard Deviation and Coefficient of Variation shows that there was more variation in FIIs investments in Phase IV (bear phase after the global crisis) and Phase I (Asian currency crisis) and Phase II (technology meltdown, WTC and SARS) while there

was less variation in FIIs investment in Phase III (bull-run period due to environment of liberalization, flexible exchange rates and strong economic growth) and Phase V (revival stage).

FIIs by adopting a bottom-up approach seem to invest in top-quality, high growth, large cap stocks (Gordan and Gupta, 2003). Sytse et al (2003) provide empirical evidence that foreign institutional investors in India, invest in large, liquid companies which enable them to exit their positions quickly at relatively lower cost. Banaji (2000) emphasizes that the capital market reforms like improved market transparency, automation, dematerialization and regulations on reporting and disclosure standards were initiated because of the presence of the FIIs. But FII flows can be considered both as the cause and the effect of capital market reforms. The market reforms were initiated because of the presence of FIIs and this, in turn, has led to increased flows.

Benefits of FII Investments

Reduced cost of equity capital

FII inflows augment the sources of funds in the Indian capital markets. FII investment reduces the required rate of return for equity, enhances stock prices, and fosters investment by Indian firms in the country.

Imparting stability to India's Balance of Payments

For promoting growth in a developing country such as India, there is need to augment domestic investment, over and beyond domestic saving, through capital flows. The excess of domestic investment over domestic savings result in a current account deficit and this deficit is financed by capital flows in the balance of payments. Prior to 1991, debt flows and official development assistance dominated these capital flows. This mechanism of funding the current account deficit is widely believed to have played a role in the emergence of balance of payments difficulties in 1981 and 1991. Portfolio flows in the equity markets, and FDI, as opposed to debt-creating flows, are important as safer and more sustainable mechanisms for funding the current account deficit.

Knowledge flows

The activities of international institutional investors help strengthen Indian finance. FIIs advocate modern ideas in market design, promote innovation, development of sophisticated products such as financial derivatives, enhance competition in financial intermediation, and lead to spillovers of human capital by exposing Indian participants to modern financial

techniques, and international best practices and systems.

Strengthening corporate governance

FIIs with their vast experience with modern corporate governance practices are less tolerant of malpractice by corporate managers and owners. FII participation in domestic capital markets often lead to vigorous advocacy of sound corporate governance practices, improved efficiency and better shareholder value.

Improvements in market efficiency

A significant presence of FIIs in India can improve market efficiency through two channels. First, when adverse macroeconomic news, such as a bad monsoon, unsettles many domestic investors, it may be easier for a globally diversified portfolio manager to be more dispassionate about India's prospects, and engage in stabilising trades. Second, at the level of individual stocks and industries, FIIs may act as a channel through which knowledge and ideas about valuation of a firm or an industry can more rapidly propagate into India.

Costs of FII investments

Herding and positive feedback trading

There are concerns that foreign investors are chronically ill-informed about India, and this lack of sound information may generate herding (a large number of FIIs buying or selling together) and positive feedback trading (buying after positive returns, selling after negative returns). These kinds of behavior can exacerbate volatility, and push prices away from fair values. FIIs' behavior in India, however, so far does not exhibit these patterns. Generally, contrary to 'herding', FIIs are seen to be involved in very large buying and selling at the same time. Gordon and Gupta (2003) found evidence against positive-feedback trading with FIIs buying after negative returns and vice versa.

Balance of Payment vulnerability

There are concerns that in an extreme event, there can be a massive flight of foreign capital out of India, triggering difficulties in the balance of payments front. India's experience with FIIs so far, however, suggests that across episodes like the Pokhran blasts, or the 2001 stock market scandal, no capital flight has taken place. A billion or more of US dollars of portfolio capital has never left India within the period of one month. When juxtaposed with India's enormous current account and capital account flows, this suggests that there is little evidence of vulnerability so far.

Possibility of takeover of companies

While FIIs are normally seen as pure portfolio investors, without interest in control, portfolio investors can occasionally behave like FDI investors, and seek control of companies that they have a substantial shareholding in. Such outcomes, however, may not be inconsistent with India's quest for greater FDI. Furthermore, SEBI's takeover code is in place, and has functioned fairly well, ensuring that all investors benefit equally in the event of a takeover.

Complexities of monetary management

The problems of monetary management in general, and maintaining a tight exchange rate regime, reasonable interest rates and moderate inflation at the same time in particular, have come to the fore in recent times. The Government had to introduce a Market Stabilization Scheme (MSS) from April, 2004. With a rapid rise in foreign exchange reserves and the need for having an MSS-based sterilization involving costs, questions have been raised about the desirability of encouraging more foreign exchange inflows in general and FII inflows in particular. All modern market economies have evolved policies to reconcile prudent monetary management with the benefits of a liberal capital account. There is no scope for any diffidence in India also moving in the same direction.

FIIs and Direct Tax Code

A major area of dispute is whether the income from transactions in the capital market should be characterized as business income or as capital gains. This has ramification for taxation in the case of FIIs. A foreign company is not allowed to invest in securities in India except under a special regime provided for Foreign Institutional Investors provided by SEBI. The majority of FIIs are reporting their income from such investments as capital gains. However, some of them are characterizing such income as "business income" and consequently claiming total exemption from taxation in the absence of a Permanent Establishment in India. This leads to avoidable litigation. It is therefore, proposed that the income arising on purchase and sale of securities by an FII shall be deemed to be income chargeable under the head capital gains. This would simplify the system of taxation, bring certainty, eliminate litigation and is easy to administer. According to new DTC (2010), the term 'asset' has been defined to mean a 'business asset' or an 'investment asset'. Any security held by a FII is an investment asset. Income arising on transfer of investment asset shall be computed under the head "Capital Gains".

Taxation of FIIs under the current regime

Gains on sale of shares are generally characterized as capital gains taxable as under :

Type of Capital Gain	Tax Rate
Long term Capital Gains arising on shares sold on recognised stock exchange	Nil
Long term Capital Gains arising on shares sold off recognised stock exchange	10 %
Short term Capital Gains arising on shares sold on a recognised Stock Exchange	15 %
Short term Capital Gains arising on shares sold off a recognised Stock Exchange	30 %

The Government of India gave preferential treatment to FIIs till 1999-2000 by subjecting their long term capital gains to lower tax rate of 10 percent while the domestic investors had to pay higher long-term capital gains tax.

Taxation of FIIs under the DTC

Type of Capital Gain	Tax Rate
Long term Capital Gains arising on shares and units sold on recognised stock exchange after holding for more than one year	Nil
Long term Capital Gains arising on shares and units sold on recognised stock exchange after holding for one year or less	15 %
Capital gains arising on sale of other investment assets after holding for 1 year from end of the financial year of purchase	30 % (gain computed after indexation)
Capital gains arising on sale of other investment assets before holding for 1 year from end of the financial year of purchase	30 % (no indexation)

The implications of DTC are :

- Income from derivative transactions, which are currently treated as business income, will now be taxed as capital gains. Considering that most derivative contracts have a maturity period of between 30-90 days, the income from the derivative transactions will be subject to tax at 15%.

- The Indo-Mauritius Double Taxation Avoidance Convention 2000 (DTAC) exempts Mauritius-based entities from paying capital gains tax in India – including tax on income arising from the sale of shares. This gives an incentive for foreign investors to invest in Indian markets taking the Mauritius route.

- For FIIs investing from favourable treaty jurisdictions, all capital gains will be tax exempt. Though, structures without much commercial substance are likely to face challenges with the advent

(contd. to page 1181)



Cost & Management Accountants and IAS 41 : Agriculture

Sharad K. Marathe

Cost Accountant, M. Com., FICWA

Introduction

Agricultural scene in developing countries is characterized by small and uneconomical farm size, lack of innovative methods, shortage of capital, shortage of adequate marketing and infrastructure and disguised unemployment. The professional accountants did not pay enough attention to Agriculture. Some persons were using historical cost and calculating gains or losses on sale of their produce.

International Accounting Standards Board felt it necessary in 1994 to formulate International Accounting Standard No. 41 on this basic industry i.e. Agriculture.

Needless to say that IASB has introduced Fair Value model in agriculture in line with its philosophy.

Application of IAS 41 : Agriculture

IAS 41 applies to biological assets, agricultural produce at the point of harvest and Government Grants for agricultural activities. Let us understand the meaning of these terms to know the exact scope of this standard.

Biological asset is a living animal or a plant, e.g. cattle, trees & plants, vines, sheep etc. if they are being used for agricultural activity.

Agricultural activity is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce, or into additional biological asset. Biological transformation means the process of growth, degeneration, production and procreation that causes qualitative or quantitative changes in a biological asset. The agricultural produce means the harvested product of the entity's biological assets. Harvest means detachment of produce from a biological asset or the cessation of a biological asset's life process.

The standard applies to biological assets like plants, fruit trees, dairy cattle, sheep, cotton plant etc. and to agricultural produce like sugarcane, fruits, milk, wool, cotton etc. It does not apply to products like sugar, jams, juices, butter, cheese, pullovers, cloth etc. which are the result of processing of agricultural produce.

It also takes care of Government Grants which is a common feature in agriculture in many countries.

Everything necessary has been defined in a concise and non-ambiguous manner. This is the beauty of International Accounting Standards. Efforts of subject experts in working groups, multi-stage critical review and appraisal, expertise of members of Interpretation Committee and Advisory Council duly supervised by the IASB, IFRS Foundation and Monitoring Board play a crucial role in having a well-structured and meaningful standard which is supposed to be followed worldwide.

Recognition and measurement

A biological asset or agricultural produce can be booked in accounts only if all the following conditions are fulfilled :

- i. Its fair value can be measured reliably.
- ii. Future benefits related to the asset must flow to the entity.
- iii. The asset is controlled due to some past events like legal purchase, birth of new animals etc.

These assets are assigned the values on the basis of fair value initially and at the subsequent year-end every year. The fair value for this purpose is fair value less estimated point of sale costs at the point of harvest. These costs include brokers' commission, levies by regulatory bodies, transfer taxes and duties but exclude the transportation costs and other expenses to carry assets to the market.

The determining fair value definitely poses problems. Fair value depends on the assets present location and condition. So the fair value to be considered should be that fair value at the concerned point of sale. The standard permits grouping of biological assets or agricultural produce as per significant attributes like age, quality etc. The entity should go by attributes used in the market for pricing. If an active market is available for these products in their present location and condition, then the market quotation will be used as the fair value. An active market is a market which is uniform and where there are willing buyers and sellers for these products.

If active market is not available, the entity should

use the latest transaction price, market price of similar assets or benchmark like value of cattle expressed per kg of meat as fair value. If market price is not available, then the entity should use the present value of the expected net cash flows from the asset, discounted at a current market based rate. Contract rates in sale contracts should not be used as fair values.

The standard has noted that fair value of every biological asset or agricultural produce cannot be reliably measured. The alternative estimates may not be reliable. In such cases, these assets shall be measured at its cost less any accumulated depreciation and impairment losses. Once the market rates are available, the entity has to measure these assets at fair value less estimated point of sale cost.

At the time of initial booking of the asset and at the time of subsequent measurement at every year-end, definitely a gain or loss arises. This has to be transferred to Profit & Loss Account.

The readers will be surprised to see that there is no talk of land which is the most scarce and so most costly input for agriculture. A separate IAS 16 Property, Plant & Equipment is already there to take care of the land used for agriculture and also of Plant and Machinery used in farming operations.

Indian Scenario & Role of Cost & Management Accountants

Though our economy has been an agricultural economy, we have not prepared a suitable accounting standard for Agriculture yet. That is why a tremendous job of preparing the standard which can suit us and which will fit in the philosophy of IFRS in

broad terms has to be undertaken by our accounting professionals. It is a good idea to converge with the IAS 41 Agriculture and also to go some steps further to make improvements in the scope of the standard. It has to be a teamwork of agricultural scientists, farmers representatives, and Cost and Management Accountants.

We have to consider various possibilities after thinking out-of-the-box. New techniques like taking multiple crops on rotational basis, taking crops below the soil level, above the soil level and even soil-less farming, making the judicious use of enormous power of land to provide good output to the mankind, selecting the appropriate crops for diverse climate zones etc. should be properly studied in all perspectives. Some progressive farmers have used new methods whereby they have taken higher output from the same piece of land. The renowned agricultural scientist M. S. Swaminathan suggested Bihar farmers who suffered from floods to go for some crops like sweet potato.

This has helped them to get quick benefit from such cash crop which gets ready in a short period.

It will be a good idea to develop an integrated standard on Agriculture which will cater to the needs of farmers, government agencies, general public as well as financial accounting, cost accounting, pricing, comparison of cost and profitability for different alternatives, changes in land use, usage of different fertilizers, different crop mix, changing climatic conditions, different marketing channels etc.

This is going to be a challenging job for our professionals. □

(contd. from page 1179)

of general anti-avoidance rule ('GAAR'). As per the proposed GAAR, if the structure has been set up to obtain an unintended 'tax benefit' or involves treaty shopping, the Indian tax authorities will have the ability to disallow tax benefits.

- The significant impact on the FIIs will be as regards the taxation of their investors. The Bill deviates from the current law and has sought to tax offshore transfer of shares in companies which hold at least 50% or more investment in the form of Indian assets.

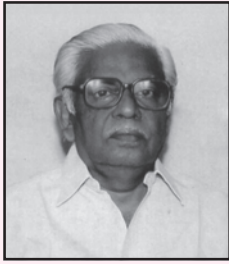
- The offshore derivative instruments may not be caught in the tax net as generally participatory notes issued by FIIs are neither shares nor considered as 'interest' in the issuer. Therefore it may be possible to

contend that income from participatory notes continues to remain outside the purview of the Code and hence not taxable in India.

- Security Transaction Tax (STT) will continue to apply.

Conclusion

The overall impact of the Bill on FIIs seems to be positive and restoring the current capital gains tax regime is certainly a welcome move. The potential taxation of investors and the uncertainty on tax treaty availability due to GAAR are dampeners. Detailed rules and safe harbours will need to be reviewed to assess the potential impact. The present study has shown that FIIs have had a significant impact on GDP growth of Indian economy during the period of study. □



Tax Tibits

S. Rajaratnam

Advocate & Tax Consultant, Chennai

Tax Accounting Standards

The Central Board of Direct Taxes has issued a discussion paper on Tax Accounting Standards (TAS) along with two draft standards, one on construction contracts and the other on Government grants.

Power to issue standards was vested in the Board under section 145(2) of the Income-tax Act, 1961 for any class of assessee or in respect of any class of income. The first two standards (AS 1 and 2) on disclosure of accounting policies and disclosure of prior period and extraordinary items issued by the Institute of Chartered Accountants of India (ICAI) and what were issued under section 145 on Tax Accounting Standards (TAS) are identical. It was then expected that more will follow for resolving existing controversies in assessments of income from sale-cum-lease back, development agreement, time share, chit business, money circulation, prize scheme, etc.

After the first two standards in 1995, a Committee was constituted as late as in 2002 for notification of further standards, but the Committee recommended standards issued by ICAI to be notified on the wrong reasoning, that if they are different, taxpayers would have to keep two sets of accounts to accord with the two standards, overlooking the purpose of the powers of notifications under section 145. After further lapse of nearly a decade, it is now realised, that separate books need not be maintained, since computation of taxable income alone has to be made on the basis of notified TAS. It is in this view, that the first two draft accounting standards for construction contracts and Government grants are published with indication of one more on foreign exchange fluctuations.

A comparison between AS-7 (Revised) and Tax Accounting Standards (TAS) on construction contracts indicate many deviations. Retention amounts are taxable only on actual receipt subject to expenses on

construction as held in judicial precedents, but the TAS would not allow this treatment in recognition of taxable income. It is a major deviation. Principles of allocation of common cost between different contracts and as between the income from contracts and other activities of the assessee have not been spelt even to the extent indicated in AS-7. While borrowing cost in AS-7 has to depend upon AS-16, accounting for borrowing cost in TAS will be issued in due course, so that the standard is not complete in this regard. Income even at the infant stage before the accrual of right to recover the contract amounts is required to be recognised proportionate to the cost incurred, once 25% contract is completed. Treatment of cost to match either receipts or to realisable profit is not satisfactory. The provisions relating to contingencies and expected losses are not listed for deduction. Disclosure requirements are incomplete. Deviation are too many in TAS with judicial precedents nullified with taxable income significantly larger than real income.

The proposed Tax Accounting Standard for Government grants is not also different, in that, it abridges the law and principles of accounting. Both AS-12 and TAS would treat revenue grants as income. But TAS would not recognise exemptions for Government grants inferred as capital receipts. The law as for example for excise rebate in CIT v. Ponni Sugars and Chemicals Ltd. (2008) 306 ITR 392 (SC) and many other decision favourable to the taxpayer is disregarded. While grants will go to reduce the cost of depreciable assets, where such grants finance them, TAS would reduce the grants on depreciable assets proportionate to total assets, even when they are not directly relatable. Subsidies relating to fixed assets not eligible for depreciation will go to reduce the cost, so that revenue will catch up at the time of sale by way of capital gains, but the accounting treatment permissible under AS-12 to take it to capital reserve is not available in TAS. Grants of non-

monetary assets are required to be only reflected in the balance sheet in AS-12 but TAS would require the concession in relation to acquisition cost to be accounted without indicating, whether it will be treated as income or to be brought to tax only on transfer.

Both the Tax Accounting Standards neutralise a number of favourable decisions in law. They do not follow the Generally Accepted Accounting Principles (GAAP) or AS, IND-AS or IFRS. Application of cost accounting principles in the matter of allocation of common cost would have helped more precise determination of income. The objective cannot be to tax what is not income. In fact, many deeming provision in the draft TAS may require amendments to law to make them valid, since the statute will override the standard prescribed under section 145 by way of a subordinate legislation. Drafts need to be improved by bringing them nearer to basic accounting principles and law.

TDS

One of the draconian provisions in income-tax law in computation of taxable income is to disallow amounts from which tax is failed to be deducted at source under section 40(a)(ia). There are ample powers for revenue to collect the tax failed to be deducted under section 201 with interest and possible penalty from the deductor with further right to collect it from the payee, where it is not deducted at source. There is, therefore, hardly any justification for disallowance in the year to which the payment relates and allowing it in the year in which tax is deducted. Where there is dispute as to whether tax is at all deductible, computation of income has to wait till finality is reached on merits one way or the other. Such disallowances give rise to abnormal demands in quite a few cases.

The Supreme Court in *Hindustan Coca Cola Beverage P. Ltd. v. CIT* (2007) 293 ITR 226 (SC) has held, that direct payment by the deductee would spare liability for tax reimbursement by the deductor under section 201 of the Act. Would it mean that the disallowance under section 40(a)(ia) in such cases would be spared?

There is, however, a possible respite, where the item in respect of which tax was failed to be deducted is one, which falls in the trading account and is not therefore on expenditure covered by the Profit and Loss Account, because of the non obstante clause in the opening words under section 40 itself starts with the words “notwithstanding anything to the contrary in sections 30 to 38”, so that it is only where the expense for deduction is allowable under sections 30 to 38, deduction in section 40 including clause (ia) can be denied even as decided by the Tribunal in *Teja Construction v. ACIT* (2010) 39 SOT 13 (Hyd).

Welcome step for avoiding unnecessary appeals

Any volume reporting tax decisions would indicate, that the departmental appeals filed before the Tribunal, the High Court and the Supreme Court far outnumber taxpayers' appeals. Since the first appeal is against the order of Commissioner (Appeals), a senior officer of the Income-tax Department, one would imagine that appeals from his orders would not be filed routinely. Such appeals to the Tribunal and the High Court are authorised by the Commissioners themselves. The Central Board of Direct Taxes are obviously aware of the proliferation of unnecessary appeals and has tried to solve this problem by limiting appeals above the prescribed minimum stakes, subject to some exceptions on matters of law. This is hardly a solution, because appeals are now being more routinely filed where the stakes exceed the limit. The Central Board of Direct Taxes has now come out with three instructions, Instructions No.8 of 2011 dated August 11, 2011 in respect of appeals to the Tribunal, No.7 of 2011 dated May 24, 2011 in respect of appeals to the High Court and No.4 of 2011 dated March 9, 2011 for appeals to the Supreme Court to ensure proper screening of appeals by the Assessing Officer, supervisory officer and the Commissioner himself. It is a welcome step and hopefully it will ensure greater responsibility on the part of the authorities to avoid unnecessary appeals, which clutter the judicial machinery involving time and money for the taxpayers, tax administration and tax judiciary. □

Improving Public Sector Financial Management in the Asia-Pacific region

The Confederation of Asian and Pacific Accountants (CAPA), the regional organisation representing professional accounting organisations in the Asia-Pacific region, in May 2011 staged a successful conference titled “**Improving Public Sector Financial Management**” in Seoul, Korea. The Conference was co-organised with the Korean Institute of Certified Public Accountants (KICPA), and supported by various international and Korean organizations. Sponsorship was provided by the Korean Big 4 Accounting firms.

The key theme of the conference was strengthening accounting in the public sector. The Conference program provided an overview of the International Public Sector Accounting Standards (IPSAS), as well as regional case studies. The experiences of countries in various stages of transition from cash-based accounting to accrual-based accounting brought a real hands-on perspective to the program. More than 120 participants from 19 countries in the Asia-Pacific region, ranging from public servants, professionals in practice and aid agencies to academics, attended the Conference.

CAPA President, Keith Wedlock stated that the Conference represented a significant event as the first of its kind organised by CAPA. “We were very happy to be able to engage many high quality, influential, and international speakers for this Conference, including representatives from the Korean, Japanese and Chinese governments, and the IPSAS Board. Leading organisations such as the Japanese Institute of Certified Public Accountants, New Zealand Institute of Chartered Accountants, Australian accounting bodies, ACCA, the Chartered Institute of Public Finance and Accountancy (CIPFA), the World Bank, and the Asian Development Bank (ADB) were prominent.”

CAPA Chief Executive, Brian Blood also commented that the public sector was an increasingly important area of focus in CAPA’s strategy and activities. “In achieving our objectives and supporting the objectives of the global profession, CAPA recently issued a Position Statement reflecting our commitment to public sector financial management. This Conference supports our stand in this important area. CAPA is looking at opportunities to stage similar regional Conferences in the near future or other activities demonstrating our commitment in this area.” The Conference opened with an address by Director General, Jaeseek Park, from the Ministry of Strategy and Finance of Korea. He presented an overview of the Korean Government’s accounting reform system and the three-year roadmap towards a new accounting system. A case study of the Korean government’s journey of improvement delivered by Sang Ro Kim, Senior Officer at the National Accounting Standards Centre of Korea set out the key steps.

The case for ‘Strengthening Accounting in the Public Sector’ was put from two different perspectives, firstly by Tony Hegarty of the World Bank, then by Professor Andreas Bergmann, Chair of the IPSAS Board. Hegarty stated that the World Bank has a vision of ‘a world free of poverty’, and for this to be achieved, governments must be held accountable for using resources economically, efficiently, and effectively. “To that end, the financial management capacity of partner countries must be enhanced to provide reasonable assurance over the use of donor funds,” he added

Professor Bergmann reflected that financial crises are caused by a lack of **transparency**, and stressed that the accounting profession has the methods and concepts to improve that transparency and decision-making through the usage and guidance of IPSAS, ultimately reinforcing **accountability** – a key responsibility for legislators and public officials. According to Professor Bergmann, the full suite of IPSAS standards has been developed for world-wide application to deliver that transparency and accountability to citizens. This theme was later covered by Tadashi Sekikawa, a member of the IPSAS Board, who gave an overview of both the accrual and cash basis of accounting, particularly where IFRS standards do not effectively address public sector issues, for example, revenue and transfer revenue recognition.

Participants agreed that the highlight of the Conference was the session ‘**Journey to Improvement**’ – a series of five case studies with discussions ranging from the New Zealand experience over some twenty years, the mid stream position of Japan, to the contemporaneous programs of Korea and China. Further, the case examples of developing nations including Lesotho and Nigeria reinforced the involvement of the profession and education as facilitators of change. These were later supplemented by case studies from a UK perspective in the session on ‘**Managing the Transition to Accruals**’.

Importantly, the Conference presented a range of issues and processes that are the building blocks in improving public sector financial management. They are :

- Any change in the public sector financial management process needs a **clear vision and will** of legislators and

senior officials towards the imperative for accountability, transparency, and good governance. This is usually implemented with **legislation** to mandate the transition to enable better decision-making in public sector undertakings, improved financial systems, guidance, and reporting.

- The proposed **change processes must be well-planned** with due regard for all stakeholders, and importantly, allowing realistic time horizons.

- It is crucial to have **financial information systems** to enable management information to be readily utilised and facilitate drawing of agency level information into central or consolidated whole of government accounts; and such systems require significant capital investment, programmed implementation, and education for users.

- The process of **integration and reconciliation** of financial information with cash based budgetary systems is extremely important at an agency level and whole of government level, and appropriate systems must be developed to facilitate critical budgets and forecasts.

- **Education of public sector managers** during the process of change is critical to ensure success. Similarly, legislators must be involved in the education process to understand the implications of information they are dealing with.

- An **oversight body** should be appointed to ensure agencies perform in the transition, to provide technical and practical implementation support, research, and consultation on a day-to-day basis.

- **Supreme Audit Institutions** have a critical role in supporting public sector governance, accountability, and compliance. They must take active roles with agencies and central government in all aspects of financial management, improvement processes, and education, with experience in identifying areas for improvement and providing suggestions for rectification.

- Similarly, as in the private sector, parliamentary **audit committees** or Public Accounts Committees must play a key role in ensuring that the process of financial management, reporting, and auditing are first rate.

While discussions have been steered towards accrual accounting being the solution for public sector accounting, the cash basis is utilised in many jurisdictions and is recognised through certain IPSAS standards. Whilst the financial reporting benefits are significant, experienced public sector financial managers see some of the greatest gains as being able to determine the **true cost of programs** and activities, as indicated by Neil Wallace of the ADB in the concluding session. Ultimately, this delivers better information for economic planning and **decision-making** at both the agency and whole of government levels.

The accounting profession has significant international experience and capacity to support the development of public sector financial managers. Access to international experience, benchmarking, and support should be sought through engagement with organisations such as IPSAS, the International Federation of Accountants (IFAC), and CAPA which could facilitate sharing of knowledge with other experienced nations.

The Conference was followed by a high-level Roundtable discussion hosted by the National Accounting Standards Centre of Korea and attended by representatives from government departments of participating countries, CAPA representatives from corresponding countries, conference speakers and experts from the profession. The Roundtable provided a great opportunity to share experiences.



Scholastic Achievement

V. Gopalan, An Associate Member of the Institute has been awarded the Doctorate of Philosophy (Ph.D.) by the University of Madras for his thesis on “THE FINANCIAL IMPLICATIONS AND OUTCOME OF CROSS BORDER OUT BOUND ACQUISITIONS FROM INDIA” (A STUDY BASED ON SELECTED CASES). Our congratulations to Dr. V. Gopalan for his brilliant success.

52/14/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

'B-1' Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi-110 003

Dated the November 11, 2011

To,

The President,
Institute of Cost and Works Accountants of India.
12, Sudder Street,
Kolkata - 700 016

Subject : Master Circular on Cost Accounting Records and Cost Audit

Sir,

Ministry has from time-to-time issued number of circulars with regard to various matters concerning cost accounting records and cost audit in the corporate sector, All these circulars have been reviewed, in supersession of the earlier circulars as mentioned in Appendix, a Master Circular is issued as under :

(a) As per provisions of the Cost Audit Report Rules that are in force from time-to-time, a cost auditor is required to comment on the scope and performance of internal audit of cost records. Hence if would tend to mitigate against the proper and dispassionate discharge of his duties if he was also the internal auditor of the company for the same period for which he is conducting the cost audit. In view of this, the cost auditor cannot also be the internal auditor of a company for the period for which he is conducting the cost audit, irrespective of the fact whether he is conducting cost audit for one or all of the company's products/activities.

(b) The specified number of companies for the purpose of section 233B (2) read with section 224 (1B) of the Companies Act, 1956 is to be computed for a given financial year with reference to the number of companies wherein he has been appointed as the cost auditor, including those wherein he is proposed to be appointed for which he has given his consent. The number of companies in respect of which cost audit reports have not been submitted and have become overdue shall also be taken into account for the purposes of ceiling under section 224 (1B).

(c) A cost auditor shall be deemed to have concluded his appointment for the relevant financial year as soon as he renders a report to the Central Government in accordance with the Cost Audit Report Rules, as applicable, with a copy to the Company. His obligation to answer queries from the Ministry of Corporate Affairs arising out of review of cost audit reports should not debar him from accepting another appointment as cost auditor of a company provided the specified number of companies contemplated in section 224 (1B) is not exceeded.

(d) The duties of the cost accountants appointed to conduct an audit of cost accounts of the company flow directly from the provisions contained under section 233B of the Companies Act, 1956, As such they should, in strict compliance therewith and in compliance with the Cost Audit Report Rules in force, ensure that full and complete details of cost accounts are furnished in their cost audit reports.

(e) In case where a firm of cost accountants is approved for appointment as cost auditors under Section 233B (2) of the Act, the cost audit report shall be signed by anyone of the partners of the firm responsible for the conduct of cost audit in his own hand alongwith his membership number, for and on behalf of the firm. In any case the report should not be signed by merely affixing the firms' name.

(f) Cost audit report for a financial year contains corresponding data for the previous year(s) also. If a company is covered under cost audit for the first time, then the cost auditor shall mention the figures for the previous year(s), certifying by means of a note that the figures so stated are on the basis of information furnished by the management, for which he has obtained a certificate from them.

(g) Sub-section (6) of section 292A of the Companies Act 1956 states that the Audit Committee should have discussions with the auditors periodically about internal control systems, the scope of audit including the observations of the auditors and review the half yearly and annual financial statements before submission to

the Board and also ensure compliance on internal control systems. It has been already clarified in Departmental Circular No, 6/2001 dated 20.08.2001 that the term “auditors” includes cost auditor and hence “scope of audit including observations of the auditors” occurring in the above sub-section includes the scope of cost audit including observations of the cost auditors as well. Therefore, the Audit Committee in its duty to ensure compliance of internal control system shall also discuss the suggestions made in the cost audit report for implementation, wherever cost audit has been directed under section 233B of the Companies Act, 1956. The presence of the cost auditor in such committees will ensure overall cost management, efficiency in resource utilization, business vertical-wise performance evaluation, proper pricing of inter-unit/inier-company transfers and valuation of inventories. However, the cost auditor, wherever appointed, shall attend and participate at the meetings of the Audit Committee or the Board, as the case may be, but shall neither be a member nor have the right to vote.

2. The institute is requested to bring this to the general information of all Members in practice, and of the corporate sector.

Yours faithfully,
Sd/-
(B. B. Goyal)
Adviser (Cost)

Appendix

List of old Circulars on Cost Accounting Records and Cost Audit

<u>Sl no.</u>	<u>Circular No.</u>	<u>Date of Issue</u>	<u>Subject</u>
1.	52/320/80-CAB	January 20, 1982	Following of the format for submission of Cost Audit Report.
2.	52/826/81-CAB	February 15, 1982	Additional information to be furnished along with the Cost Audit Reports,
3.	1/1/1982-C.L.V/ 23/44/1979-C.L.-II	January 20, 1983	Appointment of Cost Auditor as an internal Auditor of a Company.
4.	1/1/83/-C.LV/ 52/318/80-CAB	March 18, 1983	Disclosure of full details in Cost Audit Report.
5.	54/409/80-CAB	November, 19, 1983	Appointment of Cost Auditor in Firm's Name
6.	52/409/80-CAB	August 24, 1984	Authentication of Cost Audit Report in cases where a firm of Cost Auditors is approved under U/s 233B (2) of the Companies Act, 1956 for conducting Cost Audit
7.	52/354/CAB-87	August 30, 1988	Clarification relating to sub-section (1B) of Section 224 and sub-section (2) of Section 233B of the Companies Act, 1956 regarding the appointment of Cost Auditor
8.	52/430/88-CAB	January 9, 1990	Authentication of previous year figures in the Cost Audit Report
9.	35/1/90-CL. III	March 2, 1990	Clarification under Section 224 (1) of the Companies Act, 1956.
10.	3/8/89-CL.V	March 5, 1990	Clarification under section 224 (1B) of the Companies Act, 1956 read with section 233 of the Act.
11.	52/11/93-CAB	June 7, 1993	Maintenance of books of cost accounts as per Cost Accounting Records Rules.
12.	52/11/93-CAB	June 8, 1993	Revised Cost Audit Order on annual basis issued to the existing companies.
13.	5/21/2001-C.LV/ 52/03/CAB-2002	March 18, 2002	Cost Audit Report to be discussed in the Audit Committee to be constituted under section 292A of the Companies Act, 1956.
14.	52/22/CAB-2000	November, 26, 2002	Submission of the soft copy of the Cost Audit Reports under section 233B of the Companies Act, 1956
15.	5/21/2001-C.LV/ 52/323/CAB-87	January 9, 2003	Participation of Cost Auditor in the meetings of Audit Committee to be constituted under Section 292A of the Companies Act, 1956 - clarification reg.

52/13/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

'B-1' Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi - 110 003

Dated the November 30, 2011

To,

The President,
Institute of Cost and Works Accountants of India,
12, Sunder Street,
Kolkata - 700 016

**Subject : Cost Accounting Records and Cost Audit – clarifications
about coverage of certain sectors thereunder.**

Sir,

Ministry has examined various issues raised by the companies and/or professionals in connection with the recently issued circulars/notifications concerning cost accounting records and coverage of cost audit. To remove doubts and ambiguities, the following clarifications are issued :

- (a) That the Companies (Cost Accounting Records) Rules, 2011 are not applicable to :
- (i) Wholesale or retail trading activities.
 - (ii) Banking, Financial, leasing, investment, insurance, education, healthcare, tourism, travel, hospitality, recreation, transport services, business/professional consultancy, IT & IT enabled services, research & development, postal/courier services, etc. unless any of these have been specifically covered under any other Cost Accounting Records Rules.
 - (iii) Companies engaged in rendering job work operations or contracting/sub-contracting activities, and are paid only the Job work or conversion charges, such as tailoring, baking, repairing, painting, printing, constructing, servicing, etc.
 - (iv) Companies engaged in the production, processing, manufacturing or mining activities till such time they commence their commercial operations.
 - (v) Ancillary products/activities of companies incidental to their main operations (i.e. products/activities that do not constitute their main line of business) and wherein the total turnover from the sale of each such ancillary products/activities do not exceed 2% of the total turnover of the Company or Rs. 20 crores, whichever is lower. However, required details of all such ancillary products/activities may be maintained under a miscellaneous group and disclosed appropriate.
- (b) That the Cost Audit Orders [no. 52/26/CAS-2010 dated 2nd May 2011 and 3th June 2011] shall not apply to the following cases :
- (i) Generation of electricity for captive consumption, For this purpose, the term "Captive Generating Plant" shall have the same meaning as assigned in Rule 3 of the Electricity Rules, 2005.
 - (ii) Own manufactured products that are consumed exclusively by the company for the sole purpose of production, processing, manufacturing, or mining of its other products or activities that are subject to cost audit.
 - (iii) Hundred percent Export Oriented Units.
- (c) That only such items falling under the relevant chapter(s) of the Central Excise Tariff Act, 1985 as constitute intermediate or final or allied products of the industry mentioned in The Cost Audit Order dated 30th June 2011 shall be covered under cost audit and all other items not related to the industry shall be outside the purview of said orders.

For the purpose of these orders, the words "intermediate products" mean only such products that have already undergone partial manufacturing/production process and are used as inputs for the production,

processing, manufacturing or mining of the final products of the industries listed in the said order; the words "articles or allied products thereof" refer to such articles or allied products that are produced either wholly or predominantly [not less than 50% by weight or volume] by using the listed products as their primary inputs.

To explain this aspect further, the following clarifications are given as illustrations;

- (i) For Paints a Varnish industry, all other item such as tanning or dyeing extracts, tanning & their derivatives, dyes, pigments & other colouring matters, putty & other mastics, printing inks, etc. mentioned in Chapter 32 of the Central Excise Tariff Act, 1985 are not covered unless such items are used as intermediates for the production of Paints of Varnishes or are produced as their allied products.
 - (ii) For Tyres & Tubes Industry, all other Items such as natural or synthetic or reclaimed rubber, compounded rubber, hard rubber, rubber thread or cord, conveyer or transmission belts, articles of rubber, etc. mentioned in Chapter 40 of the Central Excise Tariff Act, 1985 are not covered unless such items are used as intermediates for the production of Tyres & Tubes or are produced as their allied products.
 - (iii) Examples of intermediate products include clinker for cement, pulp for paper, sponge iron & pig iron for steel, etc. Examples of articles or allied products of cement include cement bricks, sleepers, pipes; of paper include cartons, boxes, bags, registers; and of steel include ingots, blooms, billets, slabs, beams, angles, leas, channels, pilings, rails, bars, wire, nails, plates, pipes, tubes, coils, sheets., etc.
2. In case of any doubt, companies are requested to refer their cases to this office for clarification by giving complete details. The Institute is requested to this General Circular for information of all concerned.

Yours faithfully,

Sd/-
(B.B. Goyal)
Adviser (Cost)

General Circular No, 68/2011

52/13/CAB-2011
Government of India
Ministry of Corporate Affairs
Cost Audit Branch

'B-1' Wing, 2nd Floor,
Paryavaran Bhawan,
CGO Complex, Lodhi Road,
New Delhi - 110 003

Dated the November 30, 2011

To,
The President,
Institute of Cost and Works Accountants of India,
12, Sunder Street,
Kolkata - 700 016

**Subject : Cost Accounting Records and Cost Audit – clarifications
regarding applicability and compliance requirements.**

Sir,

In connection with the recently issued circulars/notifications concerning cost accounting records and cost audit, following clarifications are issued :

- (a) That the companies covered under Companies (Cost Accounting Records) Rules, 2011 shall only file a simple compliance report as per the notified Form-B (copy enclosed) and no other details of cost records are required to be filed with the Government. If all the products/activities of a company, excluding the exempted categories, are covered under cost audit, then the company will not be required to separately file the compliance report.

NOTIFICATION

- (b) That for companies coming under the purview of the Companies (Cost Accounting Records) Rules, 2011 and the Companies (Cost Audit Report) Rules, 2011 for the first time, cost records and cost details, statements, schedules, etc. shall be kept in good order for the next eight financial years beginning with first year of application of the said Rules.
- (c) That the term "Turnover" defined in the Companies (Cost Accounting Records) Rules, 2011 shall exclude taxes & duties. It shall have the same meaning, wherever it appears. In all other orders/rules issued in connection with the cost accounting records and cost audit.
- (d) That for filing the cost audit reports under the Companies (Cost Audit Report) Rules 2011, following procedure may be followed :
- (i) If only one product of a company is subject to cost audit and the company appoints more than one cost auditor, only a consolidated cost audit report [containing inter alia the qualifications, reservations or suggestions if any given by all the cost auditors] should be prepared as per the Companies (Cost Audit Report) Rules, 2011 and signed by all the cost auditors.
For this purpose, company may designate/appoint any one of them as the principal/lead cost auditors who would be responsible for the consolidation and filing the same with the Central Government.
- (ii) If more than one products of a company are under cost audit for which it has appointed either same or separate cost auditors, then they may either submit separate cost audit report for each product group or submit only one consolidated report containing details of each product group under audit separately as per the procedure provided above.
- (e) That in the General Circular no. 15/2011 dated 11th April 2011 regarding appointment of cost auditors by companies. It was provided that the Audit Committee shall obtain a certificate from the cost auditor certifying his/its independence and 'arm's length relationship' with the company. In order that 'arm's length relationship' is in fact ensured, it may be noted that cost auditor(s) appointed under section 233B(2) of the Companies Act, 1956 [whether for one or all of the company's products covered under cost audit], shall not provide any other services to the company relating to (i) design and implementation of cost accounting system; or (ii) the maintenance of cost accounting records, or (iii) act as internal auditor, whether acting Individually, or through the same firm or through other group firms where he or any partner has any common interest. It is however clarified that the cost auditors are allowed to certify the compliance report or provide any other services as may be assigned by the company, but which shall not include any of the services mentioned above.
2. The Institute is requested to circulate this General Circular for Information of all concerned.

Yours faithfully,

Sd/-
(B.B. Goyal)
Adviser (Cost)

FORM-B FORM OF COMPLIANCE REPORT

[See rule 2, and rule 5]

I/We being in permanent employment of the company/in practice, and having been appointed as cost accountant under Rule 5 of the Companies (Cost Accounting Records) Rules, 2011 of (*mention name of the company*) having its registered office at (*mention registered office address of the company*) (hereinafter referred to as the company), have examined the books of account prescribed under clause (d) of sub-section (1) of section 209 of the said Act, and other relevant records for the period/year (*mention the financial year*) and certify as under :

1. I/We have/have not obtained all the information and explanations, which to the best of my/our knowledge and belief were necessary for the purpose of this compliance report.
2. In my/our opinion, proper cost records, as per Companies (Cost Accounting Records) Rules, 2011 prescribed under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956, have/have not

been maintained by the company so as to give a true and fair view of the cost of production/operation, cost of sales and margin of all the products/activities of the company.

3. Detailed unit-wise and product/acidity-wise cost statements and schedules thereto in respect of the product groups/activities are/are not kept In the company.
4. In my/our opinion, the said books and records give/do not give the information required by the Companies Act, 1956 in the manner so required.
5. In my/our opinion, the said books and records are/are not in conformity with the generally accepted cost accounting principles and cost accounting standards issued by The Institute of Cost and Works Accountants of India, to the extent these are found to be relevant and applicable.

Dated: this _____ day of _____ 20 ____ at _____ (mention name of place of signing this report)

SIGNATURE & SEAL OF THE COST ACCOUNTANT {5J
MEMBERSHIP NUMBER (S)

Notes :

- (i) Delete words not applicable.
- (ii) If as a result of the examination of the books of account, the cost accountant desires to point out any material deficiency or give a qualified report, he shall indicate the same against The relevant para.
- (iii) Briefly give your observations and suggestions, if any, relevant to the maintenance of cost accounting records by the company.
- (iv) Cost accountant may use separate sheet(s) for (ii) and (iii) above, if required.

ANNEXURE TO THE COMPLIANCE REPORT

[See rule 2 and rule 5]

1. General :

- (a) Name of the company :
- (b) Registered office address :
- (c) Financial year to which the Compliance Report relates.

2. Quantitative Information :

Sno.	Name of the product/Service Group	Unit	Annual Production (Qty.)	Net Sales	
				(Qty.)	(Value in Rupees)
A.	Produced/Manufactured Product Groups				
	1.				
	2.				
	3. etc.				
B.	Services Groups				
	1.				
	2.				
	3. etc.				
C	Trading Activities (Product Group-wise)				
	1.				
	2.				
	3. etc.				
D	Other Income				
Total Income as per Financial Accounts					

3. Reconciliation Statement :

Net Margin (Profit/Loss) as per Cost Accounts	(In Rupees)
A. From Produced/Manufactured Product Groups	
B. From Services Groups	
C. From Trading Activities	
Total as per Cost Accounts	
Add : Incomes not considered in Cost Accounts (if any)	
Less : Expenses not considered in Cost Accounts (if any)	
Add/Less : Difference in Stock Valuation	
Profit/(Loss) as per Financial Accounts	

Notes :

- (i) For produced/manufactured product groups, use the nomenclature as used in the Central Excise Act/ Rules, as applicable.
- (ii) For services groups, use the nomenclature as used in the Finance Act/Central Service Tax Rules, as applicable.

Signature
Name
Cost Accountant (s)
Membership Number (s)
Seal and Date

General Circular No, 69/2011

No. HQ/MCA/Digitised BS/AR/2009
Government of India
Ministry of Corporate Affairs

5th Floor, "A" Wing, Shastri Bhawan,
Dr. R. P. Road, New Delhi-110001
Dated 30.11.2011

All the Regional Directors,
All the Registrar of Companies/Official Liquidators
All stakeholders

**Subject : Filing of Balance Sheet and Profit and Loss Account in extensible
Business Reporting Language (XBRL) mode.**

Sir,

In partial modification of Para 1 of the Ministry's Circular No. 57/2011 dated 28.07.2011, the last date for filing financial statements in XBRL mode without any additional fee due to delay by those Phase-I class of companies (excluding exempted class) whose Balance Sheet date for FY 2010-11 is on or after 31.03.2011, has been extended up to 31.12.2011 or within 60 days of their due date of filing, whichever is later.

This issue with the approval of the Competent Authority.

Yours faithfully,

Sd/-
(U. C. Nahta)
Director (Inspection & Investigation)

MAILS TO THE EDITOR

Dear Sir,

First of all, I congratulate your entire team of Management Accountant Journal of ICWAI for taking effective steps towards overall improvement in the get-up & contents of the journal. It is pleasure to see many relevant articles being published now. Though there is no scope of complacency in this regard. I have a few more suggestion which your entire team may consider, since the journal is the official organ of our institute & the face of it. Improvement in the overall quality of the journal will lead to improvement in the overall image and brand image of ICWAI :

1. First of all the price of the Journal may be increased to minimum Rs 50.00 considering the cost inputs the Institute incurs in this regard.
2. The print should be coloured.
3. There should be a page for financial cross-word.
4. There should be a page devoted to Cost Accountants who are occupying high positions in the Corporate World, politics, business, etc by publishing their brief profile, their background, achievements etc. which will act as a source of inspiration/motivation to young & budding Cost Accountants.
5. There should be a slot/page for students like exam tips, revision questions, stress management before exams, how to do well in interview, exams etc.
6. There should be a page for Information Technology related tools/tips for practising members/members in service which are of common use.
7. In each issue there should be a summary of recent notifications/circulars related to the MCA, CBDT, Income Tax, Service Tax, VAT, Legal updates, Important rulings of High Courts, Supreme Court relating to our area, labour laws etc.

I would request you to please take up the above suggestions with the appropriate authority for consideration.

Thanks & Regards

(sd/-)

Raja Ghosh
Sr Manager (F&A) WBSEDCL
M-15723

Subject : Professionally irrelevant

Dear Sir,

Our journal The Management Accountant is fast losing its professional relevance in terms of the themes and topics it publishes. I thank the Editor for admitting candidly in the October 2011 Editorial that “the cover theme of this issue is mainly of academic interest **not having much bearing on the accounting profession in general and cost accounting profession in particular**” (October 2011 issue, P 853 - emphasis added).

Industrial costing, pricing, cost accounting & cost management, cost audit and indirect taxation etc are still our core areas that decide the bread and butter of overwhelming majority of Cost & Management Accountants in India. Unfortunately these are the areas our journal gives second priority!

Thanks & Regards

(sd/-)

Asim Mukherjee
M-16809

Dear Sir,

With reference to our journal Management Accountant – Nov 2011, The article on “Microsoft’s acquisition of Skype” is excellent. It is very informative and analytical.

Thanks for including such vibrant topic in the journal.

Regards

CMA Prashant Dahivalkar
M-28526

Announcement

We regret to announce the removal of the article of Ms. A.S. Manjulakshmi on “Behavioral Finance – An introduction” from the October 2011 (Volume 46 No. 10) issue of the journal as there was overwhelming evidence to justify that the article almost resembled the original paper “What is Behavioral Finance” of Prof Victor Ricciardo which was published earlier by the original author. The Institute has viewed this seriously and will not publish any article/write up of Ms. A. S. Majulakshmi in future. The Institute will take serious view on instances of similar nature in future.

Best Cost Management Practices

Our esteemed readers are perhaps aware that "ICWAI 8th National award for Excellence in Cost Management – 2010" was organized at Vigyan Bhawan, New Delhi on 18th July 2011 to recognize the qualitative cost management practices adopted by the industry. The award has successfully propagated the potentials of the tools and techniques of cost and management accountancy in the challenging global economic environment which is fiercely competitive and ever changing.

ICWAI 8th National Awards for Excellence in Cost Management 2010 (Awards Recipients)

Category I :	Private-Manufacturing : Organisation (Large) 1. LG Electronics India Pvt. Ltd. 2. HV Axles Limited 3. Amara Raja Batteries Ltd.	First Second Third
Category II :	Private-Manufacturing : Organisation (Medium) 4. WABCO - TVS (India) Ltd. 5. PME Power Solutions (India) Ltd.	First Second
Category III :	Private-Manufacturing : Units (Large) 6. Shree Cement Ltd. Unit : Beawar	First
Category IV :	Private-Manufacturing : Units (Medium) 7. Greaves Cotton Limited, Light Engines Unit-II	First
Category V :	Private-Manufacturing : (Small) 8. Jenburkt Pharmaceuticals Ltd	First
Category VI :	Public Manufacturing : Organisation (Large) 9. National Fertilizers Limited 10. Steel Authority of India Ltd.	First Second
Category VII :	Public Manufacturing : Organisation (Medium) 11. Gujarat Alkalies and Chemicals Ltd.	First
Category VIII :	Public-Manufacturing : Unit (Large) 12. Bharat Heavy Electricals Limited, Unit : Tiruchirappalli 13. Oil and Natural Gas Corporation Limited, Unit : Ankleshwar 14. Bharat Heavy Electricals Limited Unit : Boiler Auxiliaries Plant, Ranipet	First Second Third
Category IX :	Public-Manufacturing : Unit (Medium) 15. GAIL (India) Ltd, Unit : KG Basin, Rajahmundry 16. GAIL (India) Ltd, Unit : Vizag-Secundrabad 17. Bharat Heavy Electricals Limited, Unit : Jhansi	First Second Third
Category X :	Private-Service Sector (Large) 18. ICICI Prudential Life Insurance Company Limited 19. BSES Yamuna Power Limited	First Second
Category XI :	Private-Service Sector (Medium) 20. Yamuna Power and Infrastructure Limited 21. B. E. Billimoria & Co. Limited	First Second
Category XII :	Public-Service Sector (Large) 22. Engineers India Limited 23. Paschim Gujarat Vij Company Ltd.	First Second
Category XIII :	Public-Service Sector (Medium) 24. RITES Limited 25. Transmission Corporation of Andhra Pradesh Limited	First Second

Award Winning Co's

In the Private Manufacturing Units (Large Category), **H V Axles Ltd.**, a Tata Enterprise, bagged the second prize. The company is committed to produce products of High Quality at Low Cost and hence it closely watches its Cost Drivers to accomplish the organization's objective. To enforce an effective Cost Management System (CMS), some of the best cost management practices which the company has adopted are :

- Adoption of Standard Costing Techniques,
- Variable Conversion Costs (VCC),
- Cost of Poor Quality,
- Variance Analysis etc.

H V Axles Ltd. believes in ever improving approach towards cost management practices to remain as one of the lowest cost manufacturer of axles in the industry and the overall objective of the company is to produce "High Quality at Low Cost".

In the Public Manufacturing Organization (Large Category), **Steel Authority India Ltd. (SAIL)**, a maharatna Public Sector Enterprise, bagged the second prize. SAIL is a pioneer in the Cost and Management Practices and has a very elaborate and well laid system of effective Cost Management in all its plants / units. Some of the processes and tools that are part of the Strategic Cost Management are:

- Project Cost Management,
- Costing systems,
- Cost Efficiency Drive,
- Funds Management,
- e-commerce,
- Initiatives of Research & Development Centre
- IT related initiatives.

Under the Cost Management, the company has well established systems and procedures which guide the day-to-day functioning of various facets of Integrated Steel Plant operations. SAIL organizes "Cost Effectiveness Workshop" to ensure that philosophy of cost effectiveness is always in the forefront of all economic decisions.

In the Private Service Sector (Medium Category), **B. E. Billimoria & Co. Ltd.**, India's one of the leading Civil Engineering Construction Contractors, have won the second prize. The company is practicing certain effective Cost Management practices in the various facets of the operations which lead to improvement in profitability by way of reduction in various costs. Each establishment of the organization is identified as a Cost Centre / Profit Centre depending on the nature of the establishment and a code is assigned to each one in ERP, facilitating collection, monitoring and reporting of various costs, revenues for each cost / profit centre. Due to efficient conduct of various cost management policies implemented by the company, the operating margin as a percentage to sales realization has increased from 2.99% in 2007-08 to 7.50% in 2009-10.

In the Public Manufacturing Units (Medium Category), **GAIL India Ltd., (Unit Vizag-Secunderabad)**, have won the second prize. GAIL strongly emphasizes on Total Cost Management, where all cost management initiatives form a part of the company's structure planning and are monitored regularly to ensure better capacity utilizations, higher labour productivity, lower power and fuel consumption etc. Continuous efforts made by the company, collective over a period of time to set new standards of excellence in the field of cost management ensures setting of benchmarks in the industry year after year. The Company believes that Cost Reduction and Cost Management will play significant role in future and will be winning mantra in the days to come.

MANAGEMENT DEVELOPMENT PROGRAMMES 2011-12



THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA
(Set up under an Act of Parliament)

Management Development Programmes 2011-12

Dates	Topic	Venue	Status & Fee (Rs.)	
			Non-Residential	Residential
December, 2011				
13 - 16	Finance for Jr. Finance and Accounts Officers and Non-Executives (F & A)	Shirdi		33,000
13 - 16	Management of Taxation - Service Tax, VAT, Excise & Customs, TDS and Proposed GST & DTC	Shirdi	4,000*	33,000
22nd	Proposed DTC	Kolkata	4,000*	
23rd	Proposed GST	Kolkata		
January, 2012				
03 - 06	Internal Auditing for Effective Management Control	Mahabaleshwar		33,000
03 - 06	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Mahabaleshwar	4,000*	33,000
5th	Proposed DTC	Hyderabad	4,000*	
6th	Proposed GST	Hyderabad		
17 - 20	Strategic Financial Management	Agra		33,000
17 - 20	Advance Tax, TDS & Tax Planning	Agra		33,000
February, 2012				
09 - 10	Valuation Management	New Delhi	15,000	
21 - 24	Corporate Tax-Planning, Compliance and Management	Bhubaneswar		33,000
21 - 24	Strategic Cost Management	Bhubaneswar		33,000
23 - 24	Financial Risk Management	New Delhi	15,000	

Note : * Rs. 7000/- if any nomination is for both the programmes together.

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 Prog. - 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 programme without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programme, 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 at 12.00 noon and last day check-out at 12.00 noon.
- ❑ For International programmes, Faculty will be from the respective countries apart from the Indian Faculty.
- ❑ The Payment of the Fee is to be made by Cheque / DD in favour of 'The Institute of Cost and Works Accountants of India' payable at New Delhi.
- ❑ Details for ECS Payment: State Bank of India (60321), Andhra Association Building, Institutional Area, Lodhi Road, New Delhi -110003 Current A/c No.: 30678404793 MICRCode : 110002493 IFSCCode : SBIN0060321

For further details

and

Registration please contact :

Shri D. Chandru, Director (CEP)

**The Institute of Cost and Works Accountants
of India**

ICWAI Bhawan, 3 Institutional Area, Lodhi Road,
New Delhi - 110 003

Phones : 011-24622156-57-58, 24618645

(D) 011-24643273 (M) 09818601200

Tele-Fax : 011-43583642/24622156/24618645

E-mail : mdp@icwai.org, cep.chandru@icwai.org

Website : www.mdp.icwai.org, www.icwai.org

President

Shri M. Gopalakrishnan

SUBSCRIBE

Service Tax Today

A FORTNIGHTLY JOURNAL
ON SERVICE TAX

&
You Get

- 1 **SERVICE TAX TODAY**
(A Fortnightly Journal on Service Tax)



- 2 **Round the clock reporting** in 2012 at www.taxmann.com with SMS alert/Daily e-mail alert
- 3 **Reporting in 2012 more Judgments** than reported in all Journals & websites put together
- 4 **Collection of 5800* Judgments** of Supreme Court/High Courts/CESTAT
- 5 **Always updated Acts/Rules/Circulars/Notifications**
- 6 **Complete Library** of Service Tax Law

Subscription in 2012
SERVICE TAX TODAY

[24 Issues]
with free

www.taxmann.com
[SERVICE TAX MODULE]

₹ 3600

* Approx.

For more details log on to www.taxmann.com

TO PURCHASE

- Call Your Dealer or
Delhi 45562222
Mumbai 9322247686
Ahmedabad 9909984900
- Email
sales@taxmann.com
- Pay Online
www.taxmann.com/Bookstore
- SMS
TAXMANN TO 56161
- Post
TAXMANN
59/32, New Rohtak Road,
New Delhi - 110 005
(India)

Guidelines for Payment of Membership Fee at reduced rate

Eligibility :

A member of the Institute may obtain approval for payment of membership fee at a reduced rate by making an application to the Secretary in plain paper declaring that :

1. His age is 60 years or above.
2. He is not engaged in any gainful employment or not in practice.

Evidence :

The member concerned is required to produce evidence to the satisfaction of the Institute of his age and retirement.

Fees :

Upon approval from the Institute to pay membership fee at reduced rate, the member concerned shall pay a reduced annual membership fee as under :

Associate Member : One fourth of annual membership fee, i.e. Rs. 125/-.

Fellow Member : One fourth of annual membership fee, i.e. Rs. 250/-.

Members **who have attained 60 years of age or above** may send a **signed application** in plain paper to the **Secretary, The Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata - 700 016** with the following declarations in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959 to the effect that they :

1. Have attained the age of 60 years or above;
2. Are not engaged in any gainful employment or not in practice.

The following clarifications are given in this context :

1. If a member is engaged in any occupation during a part of a financial year (i.e. 1st April of a year to 31st March of the next year) by way of employment, practice or any other manner, he will be required to pay full amount of membership fee pertaining to that financial year.
2. A member desirous of paying membership fee at reduced rate with retrospective effect shall be permitted to do so subject to fulfillment of other conditions in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959. If the name of a member is removed from the Register of Members for non-payment of fees but otherwise fulfils the conditions in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959, he shall also be permitted to pay membership fee at reduced rate with retrospective effect, but will have to pay additional fee of Rs. 500/- for restoration and submit appropriate form in terms of Regulation 17 of the Cost and Works Accountants Regulations, 1959.
3. A member who has obtained the benefit of paying membership fee at reduced rate in accordance with Regulation 7(4) of the CWA Regulations, 1959 as amended may be permitted to revert back to the status of regular membership only after paying the differential amount between the regular fees (depending on whether the member is an Associate or Fellow during the relevant period) and the reduced fees for the period during which the said member was paying fees at reduced rates.

For Attention of Members & Applicants

The following application forms have been revised by the Council :

1. Form of Application for Admission as Associate/Fellow Member.
2. Form of Application for the Issue or Renewal of a Certificate of Practice.
3. Form of Application for Particulars of Offices and Firms.
4. Form of Application for Restoration to Membership of The Institute of Cost And Works Accountants of India.

The members and applicants concerned are requested to visit our website www.icwai.org and download the aforesaid forms from the link: <http://www.members.icwai.org/members/members-forms.asp>.

Request for Comments

Cost Accounting Standards Board, the standard-setting body of the Institute, has approved the release of **Exposure Draft of Cost Accounting Standard - 14 on Pollution Control Cost (CAS - 14)**. The proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your views/comments/suggestions on the proposed ED-CAS, **preferably by email**, latest by **January 20, 2012**.

Comments should be addressed to :

The Secretary,
Cost Accounting Standards Board,
The Institute of Cost and Works
Accountants of India,
ICWAI Bhawan, 3rd Floor,
3, Lodi Road, Institutional Area,
New Delhi - 110003

Emailed responses should be sent to :

casb@icwai.org

Copies of this exposure draft may be downloaded from the ICWAI website at <http://www.casbicwai.org>

For Attention of Members

"CD of List of Members, 2011 will be made available for sale to the Members at a price of Rs. 100/- per copy. Members interested to procure the same may remit Rs.100/- by Demand Draft drawn in favour of 'ICWA of India', payable at Kolkata, addressed to the Secretary, ICWAI."

Mails to Editor

We would be too happy to publish your valued opinion/ views/comments on subjects having a bearing on the profession or on matters of interest to members. If you have anything to share, please rush in your mails to rnj.rajendra@icwai.org.

SUBSCRIBE

TAXMANN'S
**CORPORATE
PROFESSIONALS
TODAY**

A TAX & CORPORATE LAWS FORTNIGHTLY
ANALYSING CHANGES

&

Get

www.taxmann.com

[Direct Tax Module]

for just ₹ **895**

- 1 Round the clock reporting in 2012 with SMS alert/Daily e-mail alert
- 2 Reporting in 2012 nearly 3 times more **Judgments** than reported in all Journals & websites put together
- 3 Collection of 61000* **Judgments** of Supreme Court/High Courts/ITAT/AAR since 1886
- 4 Always updated **Acts/Rules/Circulars/Notifications**
- 5 **Complete Library** of major Tax Journals

Subscription in 2012
Corporate Professional Today
(24 issues)
with
www.taxmann.com
(DIRECT TAX MODULE)
₹ 4495

* Approx.

For more details log on to www.taxmann.com

TO PURCHASE

- Call Your Dealer or
Delhi 45562222
Mumbai 9322247686
Ahmedabad 9909984900
- Email
sales@taxmann.com
- Pay Online
www.taxmann.com/Bookstore
- Post
TAXMANN
59/32, New Rohtak Road,
New Delhi - 110 005
(India)
- SMS
TAXMANN TO 56161

Admission to Membership

The Institute of Cost and Works Accountants of India Advancement to Fellowship

**Date of Advancement :
23rd October 2011**

M/5073

Shri Bajrang Lal Jain
BCOM(HONS), FICWA
General Manager (F&A),
GAIL (India) Ltd.,
16, Bhikaji Cama Place,
New Delhi 110 066

M/6607

Shri Ravindra Keshav
Deodhar
MCOM, LLB(GEN), FICWA
'Harsh' Bungalow, Plot No.
89, Mahatma Nagar,
Trymbak Road, Satpur,
Nasik 422 007

M/6811

Shri Anil Kumar De
BSC(HONS), LLB, FICWA
Green Park,
Upper Chelidanga,
Asansol 713 304

M/6891

Md. Azmatullah
BCOM, LLB, FICWA
Vill. Tarpara,
Sitarampur 713 359

M/7183

Shri Sandip Kumar Goswami
MCOM, FICWA
Priti Apartment, Flat No.
2A, 356/20/1A, N.S.C. Bose
Road, P.O. Naktala,
Kolkata 700 047

M/7909

Shri Sankar Chakrabarti
MSC, FICWA
Flat No. 4A, 423, Parnasree
Palli, Behala,
Kolkata 700 060

M/9680

Shri Shamsher Bahadur Singh
BSC(HONS), ACS, FICWA
48, Sidhartha Apartments,
Behind Inder Enclave,
Rohtak Road,
New Delhi 110 087

M/11338

Shri Shakti Kumar Kaushal
MCOM, FICWA
Shakti K. & Associates,
H. No. 1095, Sector 19-B,
Chandigarh 160 019

M/13978

Shri Sanjeev Sethi
BCOM, FICWA
D.G.M. (Accounts), Chenab
Textile Mills, (A Unit of
Sutlej Textiles and Industries
Ltd.), National Highway-1A,
Kathua 184 102

M/14504

Shri C. Narayanan Namboodiri
BSC, FICWA
C. Narayanan Namboodiri
& Co., Cheerakat Illam,
Vazhappally P.O.,
Changanacherry 686 103

M/15433

Shri M. C. Suresh
MCOM, ACS, FICWA
"Gurukrupa",
39/40, Balaji Nagar, 2nd Street,
Sathuvachary, Phase III,
Vellore 632 009

M/15946

Sk. Raju Ali
MCOM, FICWA
76A, Bondel Road,
Ballygunge,
Kheya Apartment, 5th Floor,
Flat No. 5N, Kolkata 700 019

M/16270

Shri Mahabir Gupta
BCOM(HONS), FICWA
A-1202, Supertech Ramesh-
war Orchid, H-1, Kaushambi,
Ghaziabad 201010

M/16661

Shri Naveen Sharma
BCOM, FICWA
JDP Group, 3rd Floor,
Gaurav Bhawan,
ABC Behind Dona Planet,
D. Neog Path,
Guwahati 781 005

M/17357

Shri Kuldeep Chand
Chaudhari
BCOM, FICWA
Dy. General Manager
(Finance), N.M.D.C. Ltd.,
BIOM, Bachel Complex
Bachel 494 553

M/17761

Shri Manish Varma
MCOM, FICWA
S-201, Garden Residence,
Chuna Bhatti, Kolar Road,
Bhopal 462 016

M/17842

Shri Arindam Ghosh
MCOM, FICWA
Sri Krishna Complex,
Saradamani Road,
Ashrampara,
Siliguri 734 001

M/18064

Shri V. V. Ram Kumar
BCOM, FICWA
Flat 3C, 4th Block, Shanthi
Towers, No. 88, Arcot Road,
(Near Vadapalani Bust
Depot), Vadapalani,
Chennai 600 026

M/18347

Shri Shashi Ranjan Sharma
MCOM, MBA(HRD), FICWA
B-22A, Mohini Niwas,
Bhan Nagar, Queens Road,
Vaishali Nagar,
Jaipur 302 019

M/18752

Shri Tapas Kumar Mandal
BSC, FICWA
Manager, SAIL, Durgapur
Steel Plant, Finance &
Accounts Department, Ispat
Bhawan, Durgapur 713 203

M/19108

Shri Harisadhan Ghosh
MCOM, LLB, MBA, FICWA
Finance Officer, University
of Calcutta, 87/1, College
Street,
Kolkata 700 073

M/19268

Dr. Lutfun Nesha
MCOM, FICWA
184/2, B.B. Chatterjee Road,
First Floor,
Kolkata 700 042

M/19579

Dr. Ratanlal Bhowmik
MCOM, PHD, FICWA
River Vision Appartment,
3rd Floor, Flat No. 306,
Block-A, 6, M. G. Road
Serampore 712 201

M/21006

Shri K. Abin Simon
BE(MECH), FICWA
4A, Jomer Residency,
Raveendran Road,
Kadavanthara P.O.,
Cochin 682 020

M/21670

Shri Shaik Usman Basha,
BCOM, CMA(USA), FICWA
Financial Controller, Sultan
International Electronics Co
WLL, P.O. Box 595,
AL Farwaniya - PC 81016
Kuwait

M/21897

Shri Umesh Kumar
MCOM, MBA(FIN), FICWA
Flat No. A-1/703, Acolade,
Kharadi - Hadapsar By-Pass,
Kharadi, Pune 411 014

M/22616

Shri Mohit Mehra
MCOM, FICWA
Flat No. 106, Arihant Altura,
Abhay Khand - II, Indira-
puram, Ghaziabad 201 014

M/23272

Shri Shiv Nandan Sharma
MCOM, FICWA
Flat No. A-23, Officers
Colony, Birlapur 743 318

M/23673

Shri Mathew Verghese
BCOM, FCA, FICWA
Senior Manager-Risk, United
Arab Shipping Company, P.O.
Box 3636, Safat 13 037

M/24284

Shri J. G. Kiran Kumar
BSC, MCOM, LLB, FICWA
No. 1141/A, Nehru Road,
Girinagar, Phase-I,
Bangalore 560 085

M/24420

Shri Venkateswararao
Somavarapu
BCOM, FICWA
Sr. Deputy General Manager
- F&A, Lanco Mandakini
Hydro Energy Pvt. Ltd.,
Plot No. 404, Udyog Vihar,
Phase III, Gurgaon 122 016

M/24751

Shri Rajan Kalathiswaran
MCOM, MBA, FICWA
Manager (F & A), GAIL
(India) Ltd., Ichapur,
Magdalla Road,
P.O. ONGCL Nagar,
Surat 394 518

M/24940

Shri Sarvesh Sharma
BSC, FCA, FICWA
502, Tulip, Everest World,
Opp : Bayer India, Kolshet
Road, Thane (West) 400 607

M/24974

Shri Sanat Kumar Padhy
BSC(HONS), MBA, FICWA
Cost Controller, Abudhabi
Inflight Catering Co.
(ADIFC), P.O. Box 3167,
Abu Dhabi

M/25443

Shri Saroj Kumar Pathy
MCOM, MPHIL, BED, FICWA
Qrs. PWD - 107, Near
Trivedi Park,
Balliguda 762 103

M/25455

Shri Anil Kumar Rai
BCOM(HONS), FICWA
Finance Controller, Easun
Reyrolle Ltd., 389, Rasu
Kumaki, Hulimvu, Begur
Hobli, Bannerhatta Road,
Bangalore 560 076

M/25551

Shri Subhasis Bera
BCOM(HONS), FICWA
Vill. Kultikri, Dt- Midnapur
(West), Kultikri 721 135

M/25717

Shri Narasingha Chandra
Kar
MCOM, MBA, FICWA
N.C. Kar & Associates,
Ashok Nagar - 3rd Lane,
Berhampur 760004

M/25725

Shri Nilakanta Shastry Tata
BCOM, LLM, FCS, FICWA
Flat No. 3, 2nd Floor,
Upasana, New No. 13, 4th
Seaward Road, Valmiki-
nagar, Chennai 600 041

M/25786

Shri Nageswara Rao Golakoti
BCOM, FCA, FICWA
No. 261, Chetana Hsg.
Colony, Near Ambedkar
Nagar, Old Alwal,
Secunderabad 500 010

**The Institute of Cost and
Works Accountants of India
Admission to Associateship
on the Basis of MOU with
IMA,**

**Date of Admission :
12th October 2011**

C/31396

Mr. Klaus Peter Ohlmann
CMA(USA), AICWA
Rollbergstr 20, D-12053,
Berlin, Germany

C/31397

Mr. Tom Abraham
BCOM, CMA(USA), AICWA
Finance & HR Manager, The
Living Zone LLC, FF 14,
Mercato Center, Jumeriah,
P.O. Box 6045, Dubai, U.A.E.
Tele : 00971504745365/
0097143445994

C/31398

Mr. Hariharan
BCOM, CMA(USA), AICWA
Director, Emerge Manage-
ment Training Center,
P.O. Box 113136,
Dubai, U.A.E.
Tele : (R) 009714 3521133,
(M) 0097150 5593407

C/31399

Mr. Rangaraj Perumal
BCOM, ACA, CMA(USA),
AICWA
Finance Manager, AIMan-
soori Directional Drilling
Services LLC, P.O. Box
113026, Abu Dhabi, U.A.E.
Tele : +971507448957,
Fax : +97125541526

C/31400

Mr. Ravindra B. Kulkarni
BCOM, CMA(USA), AICWA
Manager-Internal Audit, Al
Sayegh Brothers Trading
LLC, P.O. Box No. 55106,
Deira, Dubai, U.A.E.

**The Institute of Cost and
Works Accountants of India
Admission to Associateship**

**Date of Admission :
23rd October 2011**

M/31401

Ms Padala Vandana
BCOM, AICWA
Advanced Tax Analyst,
M/s. Ernst & Young Pvt.
Ltd., 42, Brigade Software
Park, 27th Cross, Banashan-
kari 2nd Stage,
Bangalore 560 070

M/31402

Shri S. Krishnan
BCOM, FCA, AICWA
Flat No.C-43, Chaitanya
Nest No.9, Rathna Nagar
Main Road, Teynampet,
Chennai 600 018

M/31403

Ms. Rashmi
BCOM,AICWA
Mall Godam Road, Near of
Gandhi Ashram,
Palwal 121 102

M/31404

Shri Narendra Kumar Jangid
BCOM,LLB,AICWA
Beside Prabhat Talkies,
Station Road,
Jhunjhunu 333001

M/31405

Shri Satyajit Majumdar
BSC,AICWA
Gouranga Sen Sarani P.O.
Radhanagar
Radhanagar 713 325

M/31406

Shri Jasbir Singh
MCOM,MBA(FIN),AICWA
C/o. O. P. Arya House
No.1150, Main Kanjhawala
Road, Bawana,
New Delhi 110 039

M/31407

Shri Nagesh T
BCOM, MCOM, AICWA
Senior Executive - Finance &
Accounts, M/s. Fanuc India
Private Limited, No. 41A,
Electronics City
Bangalore 560 100

M/31408

Shri Jitendra Govindlal
Gujarathi
BCOM,MCOM,AICWA
Manager - Costing Sharod
Bio-Medicine Ltd, 312,
C-Wing, BSEL Tech. Park,
Opp. Vashi Rly. Station,
Sector 30(A), Vashi,
Navi Mumbai 400 705

M/31409

Shri Santosh Kumar Mahakud
BCOM(H), AICWA
C/o. Shri R. N. Sahoo Plot
No.457, Nayapali, Nuasahi,
Bhubaneswar 751 012

M/31410

Ms. Manjusha Jeevan Rao
BCOM, AICWA
Asst. Manager SKODA Auto
(I) Pvt. Ltd., MIDC Shendra,
Plot No.A-1/1, Five Star
Industrial Area,
Aurangabad 431 201

M/31411

Ms. R. S. Chitra
BCOM,MBA(FIN),AICWA
32/39, Sowbhagyam
Apartments, R. A. Puram,
IV th Main Road,
Chennai 600 028

- M/31412
Shri Sushanta Kumar
Mansingh
BCOM,AICWA
Plot No.N-6/315, Jayadev
Vihar, Bhubaneswar 751 015
- M/31413
Shri Deep Kumar
BCOM(H),MCOM,AICWA
GMTD, BSNL
Ferozpur City
- M/31414
Shri K V Subba Rayudu,
BCOM, AICWA
Accounts Officer - (F & A),
M/s. Bharat Electronics
Ltd., I. E. Nacharam,
Hyderabad 500076
- M/31415
Ms. Pramila Shankar
BCOM,AICWA
P. O. Box 502211
Dubai
- M/31416
Shri Praveen Kumar
MCOM,MFM,AICWA
Vellannur House,
"Aiswaria", P.O. Thaikka-
ttussery Ollur
Thrissur 680 322
- M/31417
Shri Vijay Kumar Sharma
MCOM,AICWA
A - 93, Shiv Marg, Shyam
Nagar, Jaipur 302 019
- M/31418
Shri Haresh Anant
Lokegaonkar
BCOM,LLB,AICWA
A/3, Anand Milan Society,
Milan Subway Road,
Santacruz (W),
Mumbai 400 054
- M/31419
Shri Rajbir
BCOM, AICWA
Vill : Kharkhara,
P.O. Dharuhera,
Dist. Rewari,
Rewari 123 106
- M/31420
Shri Mayank Agrawal
AICWA
RZ-35 & 36, Indra Park
Extension, East Uttam
Nagar, New Delhi 110 059
- M/31421
Shri Rajeev Kumar Ranjan
AICWA
At - Saithna, P.O. Salonja,
Dist. Lakhisarai,
Lakhisarai 811 311
- M/31422
Shri Ramesh V.
MCOM,AICWA
No.3A, Sivas Jayam, No.12/
26, Raghava Reddy Colony,
3rd Street, Ashok Nagar,
Chennai 600 083
- M/31423
Shri Nishant Jain
BCOM,AICWA
12/12, Aurobindo Avenue,
B - Zone,
Durgapur 713 204
- M/31424
Ms. Neha Soni
B.A.,AICWA
B - 70, 3rd. Floor, Inderpuri,
New Delhi 110 012
- M/31425
Shri Rajesh Mohakud
AICWA
Manager (F. & A.), Freedom
Automobiles Pvt. Ltd, 253/
A, Forest Park,
Bhubaneswar 751 009
- M/31426
Ms. Shabnam Abdulkadar
Shaikh
MCOM,AICWA
Dubai Real Estate Bldg.,
Building - R436, Flat - 324, Al
Qusais, P.O. Box.62211
Dubai 62211
- M/31427
Shri Vikas Gupta
BCOM,AICWA
DIA/S-1, Bharat Apart-
ments, Chander Nagar,
Ghaziabad 201 011
- M/31428
Ms. Anshul Sharma
AICWA
A-6, Ashok Nagar,
Mandoli Road, Shahdra,
Delhi 110093
- M/31429
Shri Ashish Sharma
BCOM,AICWA
1/3127, Ram Nagar Exten-
sion, Street No.3, Shahdara,
Delhi 110 032
- M/31430
Shri Thomas P. George
B.TECH,AICWA
Polachirackal, Erayil
Kadavu,
Kottayam 686 001
- M/31431
Shri Yashpal
BCOM,AICWA
Vipul Ltd., Vipul Tech
Square, Golf Course Road,
Sector - 43,
Gurgaon 122 009
- M/31432
Shri Kumhar Manoj Baldev
MCOM,AICWA
Manager - Internal Audit
Anjaneya Orchard Avenue
Road, Hiranandani, Powai,
Mumbai 400 076
- M/31433
Shri Ravish Jitendrabhai
Doshi
AICWA
404, I - Wing, Western City,
Nr. L. P. Savani School, Pal,
Adajan, Surat 395 009
- M/31434
Shri Umesh Kumar Goenka
BCOM(HONS), AICWA
63, Rajdhani Nikunj, 94, I. P.
Extn., New Delhi 110 092
- M/31435
Dr. Vipin Jain
MCOM, LLB, MBA, PH.D.,
AICWA
Head, Department of Econo-
mic, Banking & Finance,
College of Business, Hospi-
tality & Tourism Studies, Fiji
National University, Nasinu,
Suva
- M/31436
Md. Murtaza Jamal Hossain
BSC, AICWA
C/o. R. S. Tokas, R. No.4 GF,
H. No. 215A, Near Baba
Bekary, Munirka Village,
Munirka, New Delhi 110 067
- M/31437
Shri Rahul Jindal
AICWA
E-735, ST # 1, Nathu Cly,
Nathu Pura, Burari,
Delhi 110 084
- M/31438
Shri Simarjeet Kocher
AICWA
D-43, Sector - 39,
Noida 201 303
- M/31439
Shri Sandeep Kumar
MCOM,AICWA
Flat No.124, Pocket - 24,
Sector - 24, Rohini,
Delhi 110 085
- M/31440
Shri Umesh Kumar
AICWA
1450/5, Ram Gali, Chhota
Bazar, Thanesar,
Kurukshetra 136118
- M/31441
Ms. Shilpa Parimal Parikh
BCOM,AICWA
"Ketan", 6, Uco Park, B/S.
Railway Crossing, Vallabh
Vidyanagar,
ANAND 388 120
- M/31442
Ms. Smitha P. E.
BCOM,MBA(FIN.), AICWA
Flat - A2, Vinayaka Apart-
ments, Plakkat Lane,
Thrissur 680 001
- M/31443
Shri Sushant Jalindar Ghadge
AICWA
Room No.202, Sadguru
Krupa Building, Plot No.115,
Sector - 44, Seawoods,
Nerul (W),
Navi Mumbai 400706

- M/31444
Shri R Krishna
MCOM, AICWA
Flat - C, Nutech Apoorva,
9-65th Street, Ashok Nagar,
Chennai 600 083
- M/31445
Ms. Subha Gopal
BSC (MATH), ACA, CPA
(USA), AICWA
F-1, "Srinidhi", No.16 (Old
No.30), Srinivasa Iyer Street,
West Mambalam,
Chennai 600 033
- M/31446
Ms. Sona Sharma
BCOM(HONS), MCOM,
AICWA
B-26/2, East of Kailash,
New Delhi 110 065
- M/31447
Shri Deepak Batra
AICWA
2E - 105, N I T,
Faridabad 121 001
- M/31448
Shri Amit Kumar
AICWA
E-791 Dabua Colony,
Faridabad 121 001
- M/31449
Shri Prakash Chand Kothari
MCOM, AICWA
470, Lokashah Nagar,
Beawar 305 901
- M/31450
Shri Anjay Kumar
BCOM, AICWA
13/1, R A K Collage of
Nursing, Lajpat Nagar - 4,
New Delhi 110 024
- M/31451
Ms. Maya Tiwari
MCOM, AICWA
L-4/166, Vinaykhand,
Gomti Nagar,
Lucknow 226 010
- M/31452
Ms. Kaveri Kamakshi V
BCOM, MBA, AICWA
Plot no.1, T-1, Rukmani
Apartments, 48th Street,
Nanganallur,
Chennai 600 061
- M/31453
Shri Bimal Kumar Mohanty
BCOM(H), AICWA
Gulf Oil Corporation
Limited (IOL Division),
P.O. Sonaparbat,
Dist. Sundargarh,
Rourkela 769 016
- M/31454
Ms Akilandeswari S
BCOM, AICWA
39/90, 1st "E" Cross,
Remco Layout, Vijaynagar,
Bangalore 560 104
- M/31455
Shri Alok Kumar Bajpai
BCOM, AICWA
Assistant Manager - Finance,
M/s. Mahindra Holidays &
Resorts (I) Ltd., 7A, Second
Floor, Habibullah Estate,
Hazratganj, Lucknow 226 001
- M/31456
Ms Kalpana Bandaru
BSC, AICWA
Sr. Accounts Officer,
M/s. Proman Infrastructure
Services Pvt. Ltd.,
No. 5, KIADB, Phase - II,
Kumbalagodu Industrial
Area, Bangalore 560 074
- M/31457
Shri Rajan Bansal
BCOM, AICWA
151/B-60, Guru Nanak Pura,
Laxmi Nagar, Delhi 110 092
- M/31458
Shri Kritartha Shankar Bora
BCOM (HONS), AICWA
C/o. Dul Bora, V.P.O. -
Dekargaon, Dist - Sonitpur,
Sonitpur 784 501
- M/31459
Shri Kapil Gupta
BCOM(HONS), AICWA
H No - 4597, 3rd Floor,
Nathan Singh Street, Pahari
Dhiraj, Delhi 110 006
- M/31460
Shri Uday Bhanu Ghose
BCOM, FCA, AICWA
36 - C, Lake Road, (Beside
Kamala Girls School),
Kolkata 700 029
- M/31461
Ms Smitha Sudhakar Hegde
MCOM, AICWA
10, Guruvandan Apart-
ment, Dawkarwadi, Near
Masoba Mandir, Nasik
Road, Nasik 422 101
- M/31462
Ms S Indumathy
BCOM, AICWA
Asst. Manager M/s. Bharat
Electronics Limited,
Jalahalli, Bangalore 560 013
- M/31463
Ms Mamta Jain
BCOM, AICWA
92/1 B, Narkeldanga Main
Road, Rukmani Parasmani
Apartment, Rukmani Annex,
Flat - 1 RAB, Kolkata 700 054
- M/31464
Shri Nitin Jain
MCOM, LLM, ACS, AICWA
Plot No. 104, Flat No. 303,
BDS Apartment, Indira
Nagar, Meerut
- M/31465
Shri Ashish Jain
AICWA
National Housing Bank,
Core - 5 A, 4th Floor, India
Habitat Centre, Lodhi
Road, New Delhi 110 003
- M/31466
Shri George Heber Joseph
AICWA
Fund Manager - Equity,
M/s. ICICI Prudential
AMC Ltd., 3rd Floor,
Hallmark Business Plaza,
Sant Dyaneshwar Marg,
Bandra (E), Mumbai 400 051
- M/31467
Shri Ramnath Vikram
Khandare
BCOM, MBA, AICWA
Project Finance Executive,
M/s. Prabhat Dairy Private
Ltd., Nirmal Nagar,
At- Ranjankhol, Po. Tilak-
nagar, Tal : Rahata Shriram-
pur, Dist - Ahmednagar,
Ahmednagar 413 720
- M/31468
Shri Kodukula Venkata
Suryanarayana
MA, MBA, BL, AICWA
Qrt. No. 204-E, Sector-8,
LUB & HYD. Engg.
Ukkunagaram,
Visakhapatnam 530 032
- M/31469
Ms Lakshmi Sandhya Rani
Kshatri
AICWA
Flat No. 402, Prudhvi Apart-
ments, 3/10, Brodipet,
Guntur 522 002
- M/31470
Shri Anant Ashok Katyare
MCOM, AICWA
C - IV - 06, Sterling Towers,
Shahupuri,
Kolhapur 416 001
- M/31471
Shri Pankaj Kumar
MCOM, AICWA
Accounts Officer BHEL.,
HEEP, Haridwar, IInd Floor,
Finance Department, Main
Admn. Bldg., BHEL, Ranipur,
Haridwar 249 403
- M/31472
Shri M Kesari
AICWA
No. # 7, 6th Cross, I Main
Karekal, Kamakshipalya,
Bangalore 560 079
- M/31473
Shri Vinay Kumar
BCOM, MBA, AICWA
Qrt. No. 1128, Sector -4/D,
B. S. City,
Bokaro Steel City 827 004
- M/31474
Shri Ajay Kumar
AICWA
Assistant Manager, National
Housing Bank, Core - 5A, 4th
Floor, India Habitat Centre,
Lodhi Road,
New Delhi 110 003

- M/31475
Shri Subbaiah Kothamasu
AICWA
Asstt. Manager - Accounts,
IVRCL Assets & Holdings
Ltd., "MIHIR", 8-2-350/5/
A/24/1-B&2, Road No. 2,
Panchavati Colony, Banjara
Hills, Hyderabad 500 034
- M/31476
Shri Alok Kumar Jain
MCOM, AICWA
4 - Sukh Shanti Nagar,
Kanadia Road,
Indore 452 016
- M/31477
Shri Ranjan Mukhopadhyay
BSC, LLB, AICWA
Dy. General Manager,
M/s. Steel Authority of
India Ltd., Bokaro Steel Plant,
Bokaro Steel City 827 001
- M/31478
Shri Ravindra Kumar Mishra
AICWA
95/35, Arya Samaj Mandir
Road, Ganeshganj,
Lucknow 226 018
- M/31479
Ms S Uma Maheswari
BCOM, MBA, AICWA
No. 15, Erratai Pillayar Koil
Street, Devi Karumari
Amman Nagar, Velachery,
Chennai 600 042
- M/31480
Shri Debajyoti Majumdar
BCOM, AICWA
Dy. Manager - Accounts,
Sahara India Group, Sahara
India Centre, Accounts Dept.,
6th Floor, 2, Kapoorthala
Complex, Aliganj,
Lucknow 226 024
- M/31481
Shri Amjat Mohanty
MCOM, AICWA
Accounts Officer,
M/s. Bharat Heavy Elec-
tricals Ltd., 80, G. N. Road,
T. Nagar, Chennai 600 017
- M/31482
Ms Deepa Mathpal
MCOM, AICWA
RZ-562/313, Geetanjali Park,
West Sagar Pur, Street No. 6A,
New Delhi 110 046
- M/31483
Shri Mihir Kumar Nath
BSC(HONS), AICWA
House No. F-L/106, Basanti
Nagar, Rourkela,
Dist - Sundargarh,
Rourkela 769 012
- M/31484
Shri Nagarajan K
MCOM, MBA, AICWA
No. 28, Bagavathi Amman
Kovil Street (North),
Namakkal 637 001
- M/31485
Shri Swamy L. N Jeevar Nunna
BCOM, AICWA
C/o. N. S. Varaham, 49 - 46 -
4/8, Akkayyapalem, Vizag,
Visakhapatnam 530 016
- M/31486
Shri Padmalosan S
MCOM, AICWA
No. 24, Sangupani Vinayakar
Koil Street, Big Kanchipuram,
Kanchipuram 631 502
- M/31487
Shri Sakib Pervez
MCOM, AICWA
Accounts Officer BHEL,
HEEP, Hardwar, II Floor,
Internal Audit Department,
Main Admn. Building,
BHEL, Ranipur,
Haridwar 249 403
- M/31488
Shri Sreenadh Parasaram
BCOM, AICWA
Manager Tally Solutions
Private Ltd., # 23 & 24, AMR
Tech Park - II, Hongasandra,
Bangalore 560 068
- M/31489
Shri C. T. Ravindranatha
BCOM, AICWA
Asstt. Officer - Accounts,
M/s. BEML Ltd., No. 1,
Errabalu Chetty Street,
Parrys Corner,
Chennai 600 001
- M/31490
Shri Anil Singh Rawat
BCOM, AICWA
D1-15, Lodhi Colony,
New Delhi 110003
- M/31491
Shri Rakesh Kumar Shekher
MCOM, LLB, AICWA
Lal Kuti, Palkot House,
Lake Road, Kishoreganj,
chowek, Ranchi 834 001
- M/31492
Shri Madhav Srivastava
MCOM, AICWA
38/4, Kshetra Mohan Mitra
Lane, PO - Salkia,
Howrah 711 106
- M/31493
Shri Birendra Kumar
Srivastava
BSC(HONS), AICWA
Qr.No. 7236, Sector - 4 F,
Bokaro Steel City 827 004
- M/31494
Shri Chiranjib Swain
BCOM, AICWA
At - Jameswar Patna Sahi,
Plot - 1261, Old Town,
PS - Lingaraj,
Bhubaneswar 751 002
- M/31495
Shri G Shankar
BCOM, MBA, MFM, AICWA
Assistant Manager - Finance
M/s. Indus Towers Ltd.,
1045, Srivari Shrimat, 3rd
Floor, Avinashi Road,
Coimbatore 641 018
- M/31496
Shri Vishal Soni
AICWA
413, Fleece Flower Drive,
Gaithersburg, MD 20878,
U.S.A., Gaithersburg 20878
- M/31497
Shri Nanty Nalinkumar
Shah
BCOM, AICWA
403, RIPA Apartment,
Bhaya Street, Nanpura,
Surat 395 001
- M/31498
Ms Anjali Srivastava
BCOM, AICWA
D-4/303, Virat Khand,
Gomti Nagar,
Lucknow 226 010
- M/31499
Ms Pooja Hasmukhbhai Shah
MCOM, AICWA
12 / 136, Shanti Apartment,
Shastrinagar, Naranpura,
Ahmedabad 380 013
- M/31500
Shri Surya Narayan Tripathy
BCOM, AICWA
Plot No. 8/2452, Rasulgarh
Industrial Estate,
Behind - R E O.,
Bhubaneswar 751 010
- M/31501
Shri Shrawan Kumar
Upadhyay
BCOM, AICWA
107, L. N. Atta Road,
Champdani, Baidyabati,
Dist - Hooghly,
Baidyabati 712 222
- M/31502
Ms Nirmala Kumbharam
Varma
BBA, MBA, AICWA
Assistant Manager - Finance,
M/s. Endeavor Careers Pvt.
Ltd., 101, Suyojan Tower,
Nr. Hotel President,
Off C G Road,
Ahmedabad 380 009
- M/31503
Shri Srinivasa Rao Yenda
AICWA
LIG 85/5, Phase - III,
KPHB Colony, Kukatpally,
Hyderabad 500 072
- M/31504
Shri Mahendra Kumar Jain
BCOM(HONS), FCA, AICWA
78, Sindhi Colony, Near
Jaljog Circle,
Jodhpur 342 003
- M/31505
Shri Sachin Kumar
MCOM, AICWA
Internal Audit, 2nd Floor,
Main Admn. Bldg., B.H.E.L.,
HEEP, Ranipur,
Haridwar 249 403

- M/31506
Shri Selvaraj Kumaradass
MCOM, AICWA
95, Annamalai Mudhaliar
Street, Karamadai,
Coimbatore 641 104
- M/31507
Shri Madhu Chandan Roy
BCOM, MBA, AICWA
Jr. Manager-Finance &
Accounts, RINL,
Visakhapatnam Steel Plant,
F & A Dept., 2nd Floor,
Admn. Bldg., Ukkunagaram,
Visakhapatnam 530 031
- M/31508
Shri Arbind Kumar Singh
BCOM, AICWA
Jr. Manager, M/s. JSW
Cement Ltd., PO - Vidya-
nagar, Toranagallu,
Bellary 583 275
- M/31509
Shri Gopal Rajnikant
Sanghavi
AICWA
A / 16, 3rd Floor, Sejal Co-
op. Society, Devidayal
Road, Mulund-West,
Mumbai 400 080
- M/31510
Shri Amar Kumar Swain
AICWA
NALCO, 215, T.V. Industrial
Estate, S K Ahire Marg,
Worli, Mumbai 400 030
- M/31511
Shri Krishna Sheshan
BCOM, ACA, AICWA
Asst. Vice President M/s.
RBS Private Banking,
1st Floor, Sakhar Bhavan,
Nariman Point,
Mumbai 400 021
- M/31512
Shri Abhik Kumar Bose
BCOM(HONS), AICWA
243 / 3, N.S.C. Bose Road,
Tolly Enclave, Flat - 4C,
Kolkata 700 047
- M/31513
Shri Kali Prasad Dalai
BCOM, AICWA
C/o. Durga Prasad Dalai,
Plot - 619, 1st Floor,
Saheednagar,
Bhubaneswar 751 007
- M/31514
Shri Avijit Kundu
BCOM(HONS), MBA, AICWA
Premium Plaza, Flat No. A
3, 20/2A/1A, Raja Manindra
Road, Paikpara,
Kolkata 700 037
- M/31515
Shri Amit Prakash Kursija
BCOM, AICWA
12/91, Kamdhenu, Hari Om
Nagar, Off. Eastern Express
Highway, Mulund (E),
Mumbai 400 081
- M/31516
Shri Chirag Prakash Parmar
AICWA
G-3, Gurukul Apartment,
Kulvaibhav Nagar, Achole
Road, Nallasopara (E),
Tal : Vasai, Thane 401 209
- M/31517
Ms Tapasi Sarkar
BSC(HONS), AICWA
81, Rajdanga, Gold Park,
Kasba, Kolkata 700 107
- M/31518
Shri Satyanarayana Tinnaluri
MCOM, AICWA
F No. 101, Aakruti Nilayam,
Road No. 4, Czech Colony,
Sanath Nagar,
Hyderabad 500 018
- M/31519
Shri Thothathri S
BCOM, AICWA
No. 1, Saibaba Street,
Lenin Nagar, Ambattur,
Chennai 600 053
- M/31520
Shri L. Chidamabara Senthil
Vignesh
BCOM, AICWA
Dy. Manager-Finance,
E.I.D. - Parry (India) Limited,
No. 138, Keel Arungunam
Road, Nellikuppam,
Dist - Cuddalore,
Nellikuppam 607 105
- M/31521
Shri Trilochan De
BCOM(HONS), AICWA
Manager, M/s. UCO Bank,
Head Office, 10 BTM
Sarani, 4th Floor, Risk
Management Department,
Kolkata 700 001
- M/31522
Ms Gayathri V
BCOM, MBA, AICWA
New No. 25, First Floor,
Crescent Park Street,
T. Nagar, Chennai 600 017
- M/31523
Shri Sudipto Ganguly
BSC(HONS), BCOM, AICWA
A - Block, A - 9/111,
PO - Kalyani, Dist - Nadia,
Kalyani 741 235
- M/31524
Shri Vipin Kumar Sahdev
BCOM(HONS), ACA,
AICWA
3818-20, David Street,
Darya Ganj,
New Delhi 110 002
- M/31525
Shri Nambaru Simhadri
BCOM, AICWA
C/o. Jaganadham, H. No.
18 - 189/1, Hanuman Peta,
Gopal Nagar,
Secunderabad 500 047
- M/31526
Shri Kailash Kumar Agrawal
BCOM, AICWA
Sr. F & A Officer,
M/s. Engineers India Ltd.,
1, Bhikaji Cama Place, R K
Puram, New Delhi 110 066
- M/31527
Shri Ganesh Thrissur
Arunachalam
AICWA
15/281, Navagraha Street,
Thekkegram-Post,
Chittur, Palakkad 678 103
- M/31528
Shri Anil Kumar Agarwal,
BCOM(HONS), ACA,
AICWA
"SWATI GARDENS",
Flat - 2H & 2F, 238, N S C
Bose Road, Kolkata 700 040
- M/31529
Ms Deepali Chaudhary
AICWA
Qr.No. 296, Type - 2,
Sector - 5B, B.H.E.L. Ranipur,
Haridwar 249 403
- M/31530
Shri Rohit Kumar Gururani
MA, AICWA
Qrt No. 62, Sector - 7,
R K Puram,
New Delhi 110 022
- M/31531
Shri Kumud Ranjan Kumar
AICWA
L-14, Near Beni Sweets, Laxmi
Nagar, New Delhi 110 092
- M/31532
Shri Tirth Raj Kumar
BCOM(HONS), AICWA
Vill + Po. Ankuri, PO - Goh.,
Dist - Aurangabad,
Aurangabad 824 203
- M/31533
Shri Renu P. Kurian
MCOM, AICWA
Padinjattukaru House,
Thottakadu - Post,
Kottayam 686 539
- M/31534
Shri D V V Gopi Krishna
MCOM, AICWA
Door No. 50-23-2/1, T P T
Colony, Seethammadha,
Visakhapatnam 530 013
- M/31535
Shri Sudhir Negi, AICWA
A -118, Durga Vihar,
Near Devli,
New Delhi 110 062
- M/31536
Ms Maithili Panda
MCOM, AICWA
Accountant M/s. Sree Saiki-
ran Agencies, Aska Road,
Berhampur 760 002
- M/31537
Shri Sujit Ray
BCOM, AICWA
71, Tiljala Road, PO + PS -
Tiljala, Kolkata 700 039

- M/31538
Shri Hariharan C.R.
BCOM, AICWA
No. 14, V O C Street,
Anakaputhur,
Chennai 600 070
- M/31539
Shri Alok Narayan
AICWA
C/o. M/s. C & C Con-
struction Ltd., Plot No. 70,
Sector - 32, Gurgaon 122 001
- M/31540
Shri Noushad Kombathail
Abduty
B-TECH, AICWA
42 / 51, Bharati Colony,
Asma-Hamza Nivas
Coimbatore 641 004
- M/31541
Miss Bhagwati Bisht
BCOM(HONS), AICWA
E-322, Sector - 15,
Noida 201 301
- M/31542
Shri Ashwini Kumar Barik
AICWA
At/ Po. Kandheikela,
Via-Panchagaon, Thana -
Rengali, Dist - Jharsuguda,
Jharsuguda 728 226
- M/31543
Shri Ajay Kumar Balakrishnan
MCOM, MBA, AICWA
Jyothy, TC 11/500,
Devaswom Lane, Pattom -
PO., Kesavadasapuram,
Trivandrum 695 004
- M/31544
Shri Yogesh Bhatt
BCOM(HONS), AICWA
Flat No. 16, Plot No. 115,
Kurmanchal Niketan,
I. P. Extension, Patparganj,
Delhi 110 092
- M/31545
Shri Chandrasekar K
ME, MBA, MPHIL, AICWA
Sr. Mechanical Engineer /
Planning, Integral Coach
Factory, Indian Railways,
Chennai 600 038
- M/31546
Shri Vivek Venkat Raj Garoju
BCOM, AICWA
H. No. 1-1-380/27/B, Ashok
Nagar Extn., Jawahar Nagar,
Hyderabad 500 020
- M/31547
Shri Manohar S Gurnasinghani
BCOM, AICWA
Flat No. A - 203, Sai Tirth
Apartment, Siddharth Nagar,
Kopri Colony,
Thane (East) 400 603
- M/31548
Shri Naveen Kumar
BCOM, AICWA
2159, Sector - 41 C,
Chandigarh 160 036
- M/31549
Shri Mithilesh Kumar
BCOM(HONS), AICWA
C/o. M/s. Balrampur Chini
Mills Ltd., Account Depart-
ment, PO / Dist - Balrampur,
Balrampur 271 201
- M/31550
Shri Ajit Kumar
BCOM, AICWA
Accounts Officer,
M/s. IFFCO Kisan Sanchar
Ltd., 33, Adarsh Colony,
Kidwaipuri, Patna 800 001
- M/31551
Shri Shankara Mariyachari
BCOM, MBA(FIN), AICWA
S/o. Mariyachari, # 28, 2nd
"C" Cross, Near Om Shakti
Temple, Sanjeevini Nagar,
Hegganhalli Cross, Sunkada-
katte, Bangalore 560 091
- M/31552
Shri Ravi Shankar Mudiya
BCOM, AICWA
S/o. M R K Rao, 204,
Kirlampudi Arcade, Opp :
NIIT, Waltair Uplands,
Visakhapatnam 530 003
- M/31553
Shri Bikash Pradhan
BCOM(HONS), AICWA
C/o. Ganesh Ch. Das 23,
Karunamoyee Lane,
Kolkata 700 082
- M/31554
Shri Narayana Padhi
AICWA
Police Camp, Sanabeda - 3,
Koraput, Koraput 763 003
- M/31555
Shri Makkapati Phani
Rajasekhar
MCOM, AICWA
Flat No. 402, Anusha Villa,
Balaji Swarnapuri Colony,
Motinagar,
Hyderabad 500 018
- M/31556
Shri Ravindran J
ACA, AICWA
Manager - Finance, Volex
Interconnect (India) Pvt. Ltd.,
22 / 1A, First Street, Kazura
Gardens, Neelangarai,
Chennai 600 041
- M/31557
Shri C Srinivasan
MCOM, MFM, AICWA
Executive - Finance,
M/s. Lucas TVS Ltd.,
M. T. H. Road, Padi,
Chennai 600 050
- M/31558
Shri Tarun Kumar Sarkar
BCOM(HONS), AICWA
NCL, Khadia Project,
PO - Shaktinagar,
Dist - Sonebhadra,
Shakthinagar 231 222
- M/31559
Ms Manimegalai Shanmugam
BCOM, AICWA
Executive Trainee, M/s.
Bharat Heavy Electricals
Ltd., BHEL ISG., PB NO.
1249, Prof. CNR Rao Circle,
Opp IISC, Malleswaram
Bangalore 560 047
- M/31560
Shri Ramesh Chandra
Swain
BCOM(HONS), AICWA
C/o. Diptimayee Mahant,
1st Floor, No. 1 Pragara
Street, Karaikal
Puducherry 609 602
- M/31561
Shri Suresh G
BCOM, AICWA
Assistant Manager,
M/s. Rane Engine Value
Ltd., No. 5, Noble Street,
Alandur, Chennai 600 016
- M/31562
Shri Valmiginathan
Puducheri Raghunathan
MCOM, AICWA
H 94, Flat - F 3, First Seaward
Road, Valmiki Nagar,
Thiruvannamiyur,
Chennai 600 041
- M/31563
Shri Vineet Kumar Vaish
MCOM, AICWA
Kant Medical Store,
Sadar Bazar, PO - Beniganj,
Dist - Hardoi,
Hardoi 241 304
- M/31564
Shri Mihir Narayan Vyas
MCOM, AICWA
C - 1, Rushabh Tenament,
Nr. Vinod Vatika Society,
Manjalpur,
Vadodara 390 011
- M/31565
Shri Venu Gopal
BCOM, AICWA
Principal Accountant,
London Borough of Hilling
Don, Civic Centre, Uxbridge,
Middlesex, United Kingdom
- UB81UW
- M/31566
Shri Prabhakaran Vittala
BCOM, FCA, AICWA
AP - 851, 61st Street,
10th Sector, K K Nagar,
Chennai 600 078
- M/31567
Shri Ajay Kumar Yadav
BCOM(HONS), AICWA
C/o. M/s. Rashtriya Ispat
Nigam Ltd., 107-109, Rafael
Tower, 8/2, Old Palasia,
Indore 452 018

- M/31568
Shri S Balamurugasundaram
BCOM, BL, ACS, AICWA
Company Secretary, The Lakshmi Mills Company Ltd., 686, Avanashi Road, P. N. Palayam, Coimbatore 641 037
- M/31569
Shri Debmalya Chakraborty
MCOM, AICWA
Asstt. Manager, M/s. The Durgapur Projects Ltd., C/o. G M (F & A), New Administrative Building, Durgapur 713 201
- M/31570
Shri Abhijeet Anantrao Deshmukh
BCOM, AICWA
C/o. M/s. Vishwanath Printing Press, Shivaji Road, Parbhani, Parbhani 431 401
- M/31571
Shri Sanjay Kumar Dey
MCOM, AICWA
27 / 10, Dakshin Baksara 1st Bye Lane, PO - D . S. Lane, Bakultala, Howrah 711 109
- M/31572
Miss Trishita Ghosh
MCOM, AICWA
59 C, Raja Raj Ballav Street, PS - Shyampukur, Kolkata 700 003
- M/31573
Shri G Gnanasambandam
MCOM, ACS, ACS, AICWA
Block-2/4E, Orchid Ceebros, 263/33, Velachery Main Road, Velachery, Chennai 600 042
- M/31574
Shri Satya Narayana Godaba
BSC, AICWA
Qrt. No. 228-F, Ukkunagar, Visakhapatnam 530 032
- M/31575
Shri Pranay Dutta Gupta,
BCOM(HONS), FCA, AICWA
C - 25, Udayshankar Bithi, City Centre, Durgapur 713 216
- M/31576
Shri Vinay Khemariya
BSC, AICWA
Ashapura Regency, Plot No. 25, Sectro - 6, Kamothe, Dist - Raigad
Navi Mumbai 410 209
- M/31577
Shri B Karthik Kumar
AICWA
Old No. 19, New No. 22, Nandhi Koil Street, Tiruchirappalli 620 002
- M/31578
Shri Vinod Ramesh Khelani
BCOM, AICWA
Sukhwani Capital, Flat No. 11, Building - B, Near Vaibhav Nagar, Pimpri, Pune 411 017
- M/31579
Ms Pallavi Vithal Mane
MCOM, AICWA
101, Sai Sadguru CHS., Near Birla College, Kalyan (W), Dist - Thane, Kalyan (West) 421 301
- M/31580
Shri Angshuman Panda
BSC, AICWA
C/o. Rammohan Panda, PO + VILL - Pandaveswar, DIST - Burdwan, Pandaveswar 713 346
- M/31581
Shri P Chandran
MCOM, AICWA
Joint Director (Treasuries & Accounts) Deputation as Comptroller, Tamil Nadu Agrl. University, Coimbatore 641 003
- M/31582
Shri Jitendra Ramesh Rode
MCOM, AICWA
A - 3, 303, Nirman Park - 2, Behind Jain Society, Opp : HDFC Bank, Santosh Mata Mandir Road, Kalyan (West) 421 301
- M/31583
Ms Rekha, AICWA
L. GXTN, Part - II, House No. 14, Mohan Garden, Uttam Nagar, New Delhi 110 059
- M/31584
Shri Guman Singh
MCOM, AICWA
F 1 - 282, Chitrakoot, Near Vaishali Nagar, Jaipur 302 021
- M/31585
Ms Dona Rachel Samuel
BCOM(HONS), AICWA
B 2 / 303, Block - 7, Kailash Dham, Sector - 50, Noida 201307
- M/31586
Shri R. Subramanian
BCOM,AICWA
No.2C, MA Flats, Kolapillai Street, Radha Nagar, Chrompet, Chennai 600 044
- M/31587
Shri Abhishek Lalaram Shah
BCOM, AICWA
Block No. 125 / 975, Kalapinagar, Asarva, Ahmedabad 380 016
- M/31588
Shri Ravi Kant Sahu
MCOM, AICWA
28 / 02, Type - 3, HOCL Colony, Rasayani, Panvel, Dist - Raigad, Panvel 410 207
- M/31589
Ms Vijaya Lakshmi Vanukuri
MCOM, AICWA
Assistant Manager – Accounts, M/s. Unitus Capital Pvt. Ltd., 9/3, Kaiser-E-Hind, Richmond Road, Bangalore 560 025
- M/31590
Ms Jyoti Chettri
BCOM(HONS), AICWA
C - 25, 3rd Street, Central Park (Doctors Colony), City Centre, Durgapur 713 216
- M/31591
Shri Kuldeep Patel
BCOM, AICWA
Executive - Finance & Accounts, M/s. Tata Advanced Systems Ltd., Thapar House Western Wing, 124, Janpath, New Delhi 110 001
- M/31592
Shri Anand Trilok Dave
MCOM,MBA(FIN),AICWA
Country Controller, Oracle India Pvt. Limited, Level 6, Commerce @ Mantri, N. S. Palaya Village, Bannerghatta Road, Bangalore 560 076
- M/31593
Ms. Rupali Chandrakant Jadhav
BCOM,AICWA
Management Trainee Mafatlal Industries Ltd, 5th Floor, Mafatlal House, H.T. Parekh Road, Backbay Reclamation, Mumbai 400 021
- M/31594
Shri Satya Narayana Panigrahi
BCOM(H),LLB,MBA(FIN), AICWA
B-101, Meera Kunj Co-op Hsg. Society Ltd., Plot No.32,33 & 34, Sector - 10 New Panvel
Navi Mumbai 410 206
- M/31595
Shri Akhila Kumar Rauto
BCOM,AICWA
Junior Accountant Institute of Bright Engineers Plot No.B-50, 1st Floor, Saheed Nagar, Bhubaneswar 751 007
- M/31596
Shri Mahesh Prakashrao Rane
BCOM,AICWA
Flat No.202, Building No. 29, Sanskruti Complex, 90 Feet Road, Near Thakur Complex, Kandivli(E), Mumbai 400 101

- M/31597
Shri R. S. Simha
BSC,AICWA
915, 6th, "D" Cross, I Main,
Kenglr Satellite Town,
Bangalore 560 060
- M/31598
Shri Amit Vasudev
Thakurdesai
MCOM,AICWA
Suruchi, RL-48, Milap
Nagar, MIDC,
Dombivli (East) 421 203
- M/31599
Ms. Kashmira Deepak
Shukla
BCOM,AICWA
16, Morar Niwas, Near
Auto Com House, Kennedy
Bridge Nana Chowk
Mumbai 400 007
- M/31600
Shri Amanullah Azmatullah
Mirza, BCOM,AICWA
Assistant Manager Tata
Consulting Engineers Ltd,
4th Floor, Tower "A", 247
Park, LBS Marg, Vikhroli,
Mumbai 400 083
- M/31601
Shri Sujit Kumar
BCOM,AICWA
C/o. Gupta Electricals A-76,
Gurunanak Pura, Main
Vikas Marg, Delhi 110 092
- M/31602
Shri Amit Ram Deodhar
BE, AICWA
B-1, 1st. Floor, Yamuna
Keshav Co. Hsg. Soc. Ltd.,
Opp. Gajanan Maharaj
Mandir, Parnaka, Dist.
Thane, Kalyan (West) 421301
- M/31603
Shri Sotaj Singh
BCOM,MBA(FIN),AICWA
Village - Jhamuwas,
P.O. Tauru,
Gurgaon 122 105
- M/31604
Shri Harish Chander Bhagat
BCOM,MBA(FIN),AICWA
64, Janta Flats, Vivek Vihar,
Delhi 110 095
- M/31605
Shri Jacob P. Joshua
MBA(FIN),AICWA
B-44/G-1, Dilshad Colony,
Delhi 110 095
- M/31606
Shri Maninder Singh
BCOM, AICWA
H. No. 244, Street No. 09,
Virk Colony,
Patiala 147 001
- M/31607
Shri Rhythm Rajendra
Acharya
MCOM, AICWA
Old L I G 605, Near Neru
Bundar Road, Anand Nagar,
Bhavnagar 364 005
- M/31608
Ms Sarabi Mandal
MCOM, AICWA
227 / 9, Satin Sen Sarani,
Floor - 2, Kolkata 700 054
- M/31609
Shri Debopriyo Debnath
MCOM, AICWA
19/C Naktala Post Office,
D P P Road,
Kolkata 700 047
- M/31610
Ms Amrita Bhaduri
BCOM(HONS), MBA(FIN),
AICWA
Larica Township, Flat No.
16/304, PO - Nabapalli,
Barasat, Kolkata 700 126
- M/31611
Ms Madhu Rani Pathak
AICWA
AB - 18/6 (Near Gurudwara
Road) PO - Burnpur, Dist -
Burdwan, Burnpur 713 325
- M/31612
Ms Ninder Kaur, AICWA
Narsingh Bandh, Near Kabli
House, PO - Burnpur, Dist -
Burdwan, Burnpur 713 325
- M/31613
Ms Sunita Dutta, AICWA
Block - H / 7A, Tagore Park,
Naskarhat,
Kolkata 700 039
- M/31614
Shri Ananda Talukdar
AICWA
C/O. Tapas Chandra
Baidya, 43/1/1 Anjararh,
Birati, Kolkata 700 051
- M/31615
Shri Sankar Pal
BCOM(HONS), AICWA
No. 8, Bijoy Nagar, PO -
Naihati, Dist - North 24
Parganas, Naihati 743 165
- M/31616
Shri Ajith John
BA, LLB, ACS, AICWA
Mathirampuzha (H),
Amalagiri (PO),
Kottayam 686 561
- M/31617
Shri Nitin Kumar
MCOM, AICWA
Management Trainee (F &
A) Final Accounts Depart-
ment M/s. Western
Coalfields Ltd., GMs Office,
Nagpur Area, Jaripatka
Nagpur 440 014
- M/31618
Shri N K Prakash
MCOM, AICWA
54 - A1, Sakthi Mahal Street,
Infratex Quarters, Kovai
Main Road, 3rd Cross,
Perundurai 638 052
- M/31619
Ms Rekha Negi
BCOM, AICWA
Manager (Accounts) M/s.
Powerlinks Transmission
Ltd., 10th Floor, DLF Tower
A, District Centre Jasula,
New Delhi 110 025
- M/31620
Shri Subhasis Bhattacharya
BSC, AICWA
46/9A, Sisir Bagan Road,
Behala, Kolkata 700 034
- M/31621
Shri Nishant Baburao
Chaudhari
AICWA
302, Laxmi Narayan, Padmi
- Nagar, Near Ice Factory,
Phoolpada Road, Virar
(East), Thane 401 306
- M/31622
Shri Suman Chakraborty
BCOM(HONS), AICWA
"UMA DHAM", Harinavi
Chakraborty Para, Jugi Para
Road, PO + VILL - Harinavi,
DIST - 24 Parganas (S),
Kolkata 700 148
- M/31623
Mrs Shalu Deshpande
BCOM(HONS), AICWA
Flat No. 85, Raja Enclave
C.G.H.S., Road No. 44, Pitam
Pura, New Delhi 110 034
- M/31624
Mrs Digumarthi Varalakshmi
MCOM, MBA(FIN), AICWA
Dy. Manager (F & A) M/s.
JSW Aluminium Ltd., Jindal
Bhawan, 58 - 17 - 1/1,
Opp : NSTL., Nad X Road,
Visakhapatnam 530 009
- M/31625
Shri Sachi Nandan Jana
BCOM, AICWA
Vill - Bagicha, PO - Jafully,
PS - Kolaghat, DIST - Purba
Medinipur,
Kolaghat 721 137
- M/31626
Shri Anandkumar Sabhajit
Kannoja
AICWA
Flat No. 308, B - Wing, Blue
Sky Lines CHS Ltd., Phool
Padha Road, Virar (East),
Thane 401 305
- M/31627
Shri Sujoy Mukherjee
MCOM, AICWA
SNP Road, Kundughat
PO - Chandannagar,
Dist - Hooghly,
chandannagar 712 136

M/31628 Shri Ramachandran Velukutty Pillai BCOM, ACS, AICWA U-306, Srinand Nagar - 3, Vejalpur, Ahmedabad 380 051	M/31633 Shri Lokesh Kumar Srivastava MCOM, AICWA C/o. Rajendara Pd. Srivas- tava, Anand Marg Road, New Chandmari, Motihari East, Dist - Champaran, Motihari East 845 401	M/31638 Shri Kamal Kumar Rajagopalan BSC, MCOM, AICWA C/o. V K Sundaram, 192/A, S.P. Mukherjee Road, Kolkata 700 026	M/31642 Shri Richard Raju BCOM, MBA, AICWA Kaniamkandathil House, P.O. Purappuzha, Thodupuzha, Idukki 685 583
M/31629 Shri Raghavendra Kumar Rallabandi BCOM, MBA, AICWA Block No. 7, Flat No. 12, Home Finders Estate, Ramapuram, Chennai 600 089	M/31634 Shri Amit Kumar Jha BCOM(HONS), AICWA C/o. Rabin Das, Choto Bahera Purba Para, PO - Barabahera, DIST - Hooghly, Barabahera 712 242	M/31639 Shri Kamal Gupta BCOM(H), MBA(FIN), AICWA House No.B-95, Street No.5, East Vinod Nagar, Delhi 110 091	M/31643 Shri Venkateswararao Vishnumolakala BL, ACS, AICWA Flat No.102, Sri Balaji Towers, Bypass Road, Gollapudi, Dist. Krishna Vijayawada 521 225
M/31630 Shri Manish Kumar Rathi BCOM, AICWA C/o. Om Prakash Rathi, 304, Radha Niketan, 134 G, T. Road (S), Howrah 711 102	M/31635 Shri Deepak Sharma BCOM(HONS), AICWA 36, Ashu Bose Lane, Howrah 711 101	M/31640 Shri Murugan S. BCOM, AICWA 33-B, Nadomathan Koil Street, Dist. Tirunelveli, Tenkasi 627 811	M/31644 Shri Rajendra Kumar Sahoo AICWA C/o. K C Sahoo, DCCT (Appeal) BBSR Range, Joint Commissioner of Commercial Taxes, Bhoi Nagar, Bhubaneswar 751 022
M/31631 Shri Ankit Rathi BCOM(HONS), AICWA 62, Ratan Sarkar Garden Street, Near Kalakar Post Office, Kolkata 700 007	M/31636 Shri Sunny Ahuja BCOM(HONS), AICWA 3 H - 35, NIT Faridabad, Faridabad 121 001	M/31641 Shri Naveen Kumar BA, MSCIT, AICWA Non-Commissioned Officer (Corporal) (Admn.), Indian Air Force, Command P-2, Saaso Branch, HQ MC IAF, Vayusena Nagar, Nagpur 440 007	M/31645 Shri Amarjyoti Nayak AICWA At - Kuanrda, PO - Adia, Via - Bonth Dist - Bhadrak, Bhadrak 756 114
M/31632 Shri Surya Prakash Rathi BCOM(HONS), AICWA C/o. O P Rathi, 304, Radha Niketan, 134, G. T. Road (S), Shibpur, Howrah 711 102	M/31637 Ms Poulami Majumder MCOM, AICWA 9 / 34, Netaji Nagar, PO - Regent Estate, Kolkata 700 092		

CO-BRANDED CREDIT CARD FACILITY : ICWAI join hands with PNB

The Institute has entered into MOU with Punjab National Bank (PNB) in the matter of introducing a Co-branded Credit Card for our members with hologram of ICWAI and PNB. Only members of the Institute are entitled to make applications for this credit card. Members will have to obtain the prescribed application form from any of the branches of PNB and attach the following self attested documents along with their application forms :

1. Copy of Passport, or
 2. Copy of Voter ID, or
 3. Copy of Driving License
- Any one

AND

1. Copy of PAN card
 2. Copy of IT Return
 3. Two passport size photographs
 4. Copy of membership card of the Institute
- Members are requested to take advantage of this facility.

The Management Accountant (Author Index) - 2011 (Volume 46, Nos. 1 to 12)

A	Dr. Arindam Ghosh	Dr. Badar Alam Iqbal &
A. Prakash & Prof. Dr.	& Asit Gope 184	Shakeb Arsalan 1172
Upauthus Selvaraj 146	Dr. Parimal Kr. Sen &	Dr. Martina R. Noronha &
Arnab Majumdar 288	CS Palash Garani 190	Aishwarya R. Kulkarni 1175
Ashim Paul 366	Dr. Sukamal Datta,	E
Asok Chattopadhyay 476	CMA Tamal Taru Roy &	Ela Sen 660
Ashim Paul 481	Abhik Datta 201	G
Arindam Banerjee 679	Dr. Mausumi Bhattacharyya... 206	G. Balasubramanian &
Ashoke Kumar Bothra 739	Dr. M. Ravichandran &	R. Jayaram 581
Arindam Banerjee 869	J. Kauthami 214	H
Arindam Ghosh &	Dr. Sujit Kumar Roy 272	Harneet Kaur 705
Asit Gope 1136	Dr. Ashish Varma, Ishika Varma	J
C	& Gautam Jain 358	Jharna Dutta 604
CMA Rabin Kumar Ray 122	Dr. Anirban Ghosh 362	K
CMA Sudarshan Maity 196	Dr. A. Selvaraj 478	Kartik Chandra Nandi 22
CMA Arindam Banerjee 268	Dr. Sukamal Datta 495	K. Kannusamy 150
CMA Rabin Kumar Ray 284	Dr. Parimal Kr. Sen, Indrani	K. R. Srivarahan 663
CMA Prakash S Mutha 296	Saha & Palash Garani 527	K P C Rao 793
CMA C. R. Shiv Kumaran ... 352	Dr. Sankarshan Basu 654	K P C Rao 926
CMA V. Gopalan 376	Dr. Harnita Chowdhary 656	L
CMA V. Gopalan 517	Dr. L. N. Koli 666	L. N. Koli 923
CMA Promod Jain 533	Dev Kumar Kothari 690	M
D	Dilip Kumar Datta 782	Mausumi Bhattacharyya 100
Dr. B. K. Mohanty &	Dr. Swapan Kr. Roy 858	Mausumi Bhattacharyya 491
Subasish Mohanty 12	Dr. Rajesh S. P. 878	Meena Ramji 577
Dr. Arindam Ghosh &	Dr. V. Gopalan 890	Madhavi Lokhande &
Asit Gope 17	Dr. Girish Jakhotiya 906	Shruti Manisha 770
Dr. Sukamal Datta,	Dr. Badar Alam Iqbal 937	Mausumi Bhattacharyya 873
CMA Tamal Roy &	Dr. Anirban Ghosh 984	Madan Mohan Jana 892
Abhik Datta 34	Dr. Sunil Karve &	M. Govindarajan 934
Dr. Kajalbaran Jana 49	Prof. Minal Gupte 1010	M. Govindarajan 1152
D. Muthamizh Vendan	Dr. Mausumi Bhattacharyya... 1019	Mahesha. V & Sachindra, G. R. ... 1141
Murugavel 59	Dr. Ashish Varma, Ishika Varma	N
Dr. L. N. Koli 64	& Saurabh Pachnanda 1035	Nilakanta Shastry Tata 703
Dr. Sukamal Dutta,	Dr. Girish Jakhotiya 1049	N. Shastry Tata 982
CMA Tamal Taru Roy &	Dr. S. K. Khatik &	O
Abhik Datta 92	Titto Varghese 1067	Om Prakash Dani &
Dr. Sujit Kumar Roy 107	Debdas Ganguly & Sudarshan	M. S. Srinivasan 46
Dr. Ashish Varma, Ishika Varma	Maity 1123	Om Prakash Dani &
& Mr. Saswat 116	Dr. Gautam Mitra &	M. S. Srinivassan 1053
Dr. Anirban Ghosh 135	Dr. Sumita Chakraborty 1133	P
D. Muthamizh Vendan	Dr. Sujit Kumar Roy 1163	Prof. Amardeep D. Jadhav 28
Murugavel 143	Dr. Biraj Kumar Mohanty &	P. Ravindran 40
	Vijayalaxmi Hiremath 1168	

P. V. Antony & Ragesh M. 54	Palash Garani 1130	Sachindra G R, Vinay Kumar K S & Eshan MR 1006
Parimal Kumar Sen & Soumen Bhattacharjee 114	P. Ravindran 1155	S. Rajaratnam 1024
Palash Garani 119	R	Subir Chakrabarty 1127
Prof. Shirish Raibagkar 125	R. Sundararaj 568	Sharad K. Marathe 1180
P. Ravindran 140	Rajat Gera & Barnali Chaklader 763	S. Rajaratnam 1182
Prof. P. Srinivas Subbarao, R.S.R. Kiran & G.V.L. Srikanth 209	Raja Ghosh 904	T
P. Ravindran 219	Rajib Bhattacharya 994	T. Kannan 1107
P. Ravindran 290	Rajan Dasgupta & Sujit Dutta 1055	U
P. Ravindran 372	R. Jayaram & Dr. G. Balasubranmanian 1063	U. Lakshmana Rao 683
P. Srinivas Subbarao & P. Suseela Rani 488	S	V
P.K. Sinha & Sanchari Sinha 504	Sankar Dattagupta 8	V. Gopalan 43
P. Ravindran 514	Sudhir Galande 97	Vipin Agarwal & Dr. Vidhi Agarwal 103
Parimal Ray 519	Subhajit Ghosh 281	V. Gopalan 138
Puneet Jain 524	Suvarun Goswami & Aniruddha Sarkar 499	V. Gopalan 217
P. K. Jayaram 571	Sekhar Ranjan Guha 562	Vinayak Pai V 278
P. Ravindran 601	Sujit Kumar Roy 586	V. Gopalan 297
P. K. Jayaram 670	Satya Narayan Maheshwari ... 675	V Sylviya Johnsi Bai & J. Kamala Juliet Isaac 355
P. Ravindran 687	Swapan Kumar Roy 742	V. R. Kedia & Dipti Kejriwal ... 592
Parimal Ray 700	Sanchindra GR 745	V. Gopalan 599
P. K. Sinha & Sanchari Sinha ... 733	Sujit Kr. Roy & Pallab Pyne ... 750	V. Gopalan 696
P. Lakshmi 748	Subir Chakrabarty 766	V. R. Kedia & Dipti Kejriwal ... 698
P. Saravanan & N. Sivasankaran 760	S. Rajaratnam 775	Vinay Tandon 757
P. Ravindran 788	Shantonu Moitra 777	V. Gopalan 786
P. Ravindran 884	S. M. Salamat Ullah Bhuiyan, Mohammed Shahedul Quader & Shanto Banik 790	V. R. Kedia & Dipti Kejriwal ... 881
Pranab Nag 916	Swapan Sarkar 860	Vinay Tandon 1000
Prof. Madan Mohan Jana ... 988	S. Rajaratnam 888	V. R. Kedia & Dpiti Kejriwal 1026
Prof. P. K. Swain 1014	Sriraman Parthasarathy ... 899	Vinay Tandon 1147
Parimal Ray 1038	Smita P. Kachole 912	V. Gopalan 1157
P. Ravindran 1055		V. R. Kedia & Dipti Kejriwal ... 1159
Prof. K. Selva Kumar 1046		
P.K. Sinha & Sanchari Sinha ... 1113		

ARTICLES

ARTICLES

Title	Page	Title	Page
A		B	
An Analysis of Funds Management – Loan Disbursement and Recovery – A Case Study on Bhutan Development Finance Corporation Ltd. (BDFCL)		Application of Behavioural Finance in Investment Decisions : An Overview	
<i>✍ A. Prakash & Prof. Dr. Upauthus Selvaraj</i>	146	<i>✍ Arindam Banerjee</i>	869
Applications of PPP Model in Key Infrastructure Sectors to Stimulate Economic Growth in India		Academic Audit – A Tool of Academic Excellence	
<i>✍ Dr. Parimal Kr. Sen & CS Palash Garani</i>	190	<i>✍ L. N. Koli</i>	923
Application of Activity Based Costing for Health Care Industries		Appearance Before Securities Appellate Tribunal	
<i>✍ P. Saravanan & N. Sivasankaran</i>	760	<i>✍ M. Govindarajan</i>	934
The Management Accountant December 2011		A witty dialogue on Business Valuation	
		<i>✍ Subir Chakrabarty</i>	1127
		B	
		Building Blocks to a Successful Public-Private Partnership	
		<i>✍ Prof. P. Srinivas Subbarao, R.S.R. Kiran & G.V.L. Srikanth</i>	209
			1211

ARTICLES		ARTICLES	
Title	Page	Title	Page
Between a Rock and A Hard Place : Tax Overlaps Between Central Exice and Service Tax Laws ✍ P. Ravindran	219	CMA's in Insurance Sector ✍ Asok Chattopadhyay	476
Bancassurance in India : Some Issues ✍ Mausumi Bhattacharyya	491	Corporate (Re) Structuring ✍ CMA V. Gopalan	517
Business Process Excellence – Synergies of Six Sigma and ERP ✍ U. Lakshmana Rao	683	Convergence with IFRSs : Challenging, Interesting and Rewarding ✍ CMA Promod Jain	533
Balanced Score Card (BSC) – a useful management tool for transforming corporate management strategy into action focusing on critical issues – a study of development and its increasing use in business ✍ Parimal Ray	700	Costing For Pressure Die Casting Operations – An Activity Based Perspective ✍ G. Balasubramanian & R. Jayaram	581
Backflush Costing ✍ Harneet Kaur	705	Capital Budgeting and Role of CMAs ✍ V. Gopalan	599
Black Money in parallel existence with legitimate economy ✍ V. Gopalan	786	Combating tax cascading : Parallel tax systems – Cenvat Credit Vs Vat Credit ✍ P. Ravindran	601
Behavioural Finance : Explaining Irrational Investment Strategies ✍ Swapan Sarkar	860	Challenges in Risk Management in Banks – Role of Management Accountants ✍ P. K. Jayaram	670
Behavioural Finance and Credit Rating : An Interplay ✍ Mausumi Bhattacharyya	873	Compliance Governance : A Hybrid Model ✍ Satya Narayan Maheshwari	675
Behavioral Finance – The art of value investing ✍ Dr. Rajesh S. P.	878	CMAs in Hospitality Management ✍ Vinay Tandon	757
Business Valuation – A Perspective ✍ T. Kannan	1107	Carnival of the Tax Gods : Service Tax Concept Paper ahead of the Goods and Services Tax – Wide menu at the long table ✍ P. Ravindran	884
Business Valuation in Mergers and Acquisitions ✍ Debdas Ganguly & Sudarshan Maity	1123	Corporate (FIP) Financial inclusion plan in India – An inclusive growth approach – An Empirical Study ✍ Madan Mohan Jana	892
C		CAS Vs. AS2 Applicability of Cost Accounting Standards for Inventory Valuation in Financial Statements ✍ Sriraman Parthasarathy	899
Challenging Role of CMAs in Energy Sector ✍ Dr. Sukamal Datta, CMA Tamal Taru Roy & Abhik Datta	34	CMAs in Advertising Industry ✍ N. Shastry Tata	982
Corporate Audit Committee Disclosure Practices and Pattern in Banking Sector – An Overview ✍ Dr. L. N. Koli	64	CMAs Quantum leap Role in Service Sector Industry in an Agile Competitive Economic Environment – Tourism as a Service Sector Industry Open Doors for Women and linking with Cultures – An Empirical Study ✍ Prof. Madan Mohan Jana	988
Competition, Marketing Strategies and Corporate Social Responsibility in India ✍ Arnab Majumdar	288	CMAs in Service Sector ✍ Vinay Tandon	1000
Corporate Valuation ✍ V. Gopalan	297	Cost and Management Accountants in Service Sector – Realistic Positioning of Cost and Management Accountants in Airline Industry ✍ Sachindra G R, Vinay Kumar K S & Eshan M R	1006
Crisis Management in Infrastructure Sector ✍ CMA C. R. Shiv Kumaran	352		
Crisis Management in Telecom Infrastructure in India ✍ Dr. Ashish Varma, Ishika Varma & Gautam Jain	358		

ARTICLES		ARTICLES	
Title	Page	Title	Page
Crisis Management in Infrastructure Sector ✍ Prof. K. Selva Kumar	1046	From Blockbuster to Lacklustre : The Goods and Services Tax Constitution Amendment Bill – The new tax manifesto ✍ P. Ravindran	372
Changing Role of Management Accounting Practices in Business Valuation – an Accountant's Perspective ✍ Mahesha V & Sachindra, G. R.	1141	Future Contract – A Vital Tool of Risk Management in Financial Market ✍ Dr. L. N. Koli	666
Cost & Management Accountants and IAS 41 : Agriculture ✍ Sharad K. Marathe	1180	Forensic Accounting, a useful tool to combat Fraud & its consequences – a study of its development ✍ Parimal Ray	1038
D		Fair Value Measurement under International Financial Reporting Standard 13 ✍ Dr. Gautam Mitra & Dr. Sumita Chakraborty	1133
Dimensions of Energy Sustainability – Role of Renewable Energy ✍ Dr. B. K. Mohanty & Subasish Mohanty	12	Foreign Institutional Investments and Direct Tax Code ✍ Dr. Martina R. Noronha & Aishwarya R. Kulkarni	1175
Development and Public-Private Partnership ✍ CMA Sudarshan Maity	196	G	
Domestic and International Debt Instruments ✍ CMA V. Gopalan	376	Growth and Prospect of Indian Education Sector – A Critical Analysis in the Context of Private Participation and Foreign Investment ✍ Palash Garani	119
E		Global Economic Governance : Need of the Hour ✍ K. Kannusamy	150
Ethanol : Time to Consider as Vehicle Fuel ✍ Prof. Amardeep D. Jadhav	28	Grievance Redressal Mechanism – A Case Study of Indian Insurance Sector ✍ Suvarun Goswami & Aniruddha Sarkar	499
Ethical Consumerism – a Counterbalancing Approach Towards Gaps for Corporate Social Responsibility ✍ Dr. Kajalbaran Jana	49	Government Accounting and Financial Reporting ✍ Dr. V. Gopalan	890
Education Omnipresence ✍ Sudhir Galande	97	Global Debt vs India's Debt – India is Better than Globe ✍ Dr. Badar Alam Iqbal & Shakeb Arsalan	1172
Elementary Education at the Crossroads ✍ Mausumi Bhattacharyya	100	H	
Education for Sustainable Development : A Desideratum for Meeting Planetary Emergency ✍ Dr. Sujit Kumar Roy	107	Higher Education Boom in India ✍ Dr. Sukamal Dutta, CMA Tamal Taru Roy & Abhik Datta	92
Empowerment Through Education in India : Narrowing the Urban-Rural, Male-Female and Affluent-Poor divide ✍ Dr Ashish Varma, Ishika Varma & Mr. Saswat	116	Human Resource Valuation in Education Industry ✍ Prof. Shirish Raibagkar	125
Education Boom by ✍ CMA Rabin Kumar Ray	122	Hospitality Industry, Hospitality Management and Role of CMA to develop them ✍ Ashoke Kumar Bothra	739
ETF : In Indian Market ✍ Madhavi Lokhande & Shruti Manisha	770	How Effective are we in Tackling Insider Trading – It's Impact on Financial Market's Behaviour – An overview ✍ K P C Rao	926
ERP Implementation Case Study : Role Played Stakeholders ✍ Smita P. Kachole	912		
F			
Financial Inclusion : Current Status in India ✍ V. Gopalan	138		
The Management Accountant December 2011			1213

ARTICLES		ARTICLES	
Title	Page	Title	Page
I		L	
Impact of Working Capital Management on Profitability (A Case Study of National Thermal Power Corporation Ltd.) ✍️ <i>Kartik Chandra Nandi</i>	22	Krishna as a Management Strategist ✍️ <i>Dr. Girish Jakhotiya</i>	1049
IFRS : The Debate is Far From Over ✍️ <i>Dr. Sujit Kumar Roy</i>	272	Lean Production : A Technique to attain Competitive Advantage ✍️ <i>D. Muthamizh Vendan Murugavel</i>	59
IFRS –The Operational and Strategic Role of CMAs ✍️ <i>Vinayak Pai V</i>	278	Limited Liability Partnership (LLP) – Unlimited Possibilities ✍️ <i>Dr. Parimal Kr. Sen, Indrani Saha & Palash Garani</i>	527
IFRS 1 : A Guideline for First Time Adoption ✍️ <i>Subhajit Ghosh</i>	281	Legal Education in India –How far the Second Generation Reforms will meet the Global Challenges ✍️ <i>K P C Rao</i>	793
IFRS and Role of CMAs in IFRS Era ✍️ <i>CMA Rabin Kumar Ray</i>	284	Lines in the Sand : Retrospective Imposition of Tax and Constitutional and Jurisprudential limitations ✍️ <i>P. Ravindran</i>	1041
Impact of Budget 2011 on Capital Market and Mutual Fund Industry ✍️ <i>CMA Prakash S Mutha</i>	296	M	
Infrastructure Sector and Tax related issues in India ✍️ <i>Dr. Anirban Ghosh</i>	362	MFIs : Why the Hurly-Burly? ✍️ <i>V. Gopalan</i>	43
Indian Insurance Sector Reforms and Role of CMAs ✍️ <i>Dr. Sukamal Datta</i>	495	Managing Financial Crisis Successfully in Infrastructure Sector – Role of Proactive Strategies in this Perspective ✍️ <i>Jharna Dutta</i>	604
International Law of the Sea and Indirect taxation – Bounty of Nature and Problems of the Law ✍️ <i>P. Ravindran</i>	687	Multidimensional Role of CMAs in Effective Hospitality Management ✍️ <i>Sachindra GR</i>	745
Ill Effects of Black Money on Growth of Economy ✍️ <i>V. Gopalan</i>	696	Managerial Accounting in the Hospitality Industry – An Overview ✍️ <i>Sujit Kr. Roy & Pallab Pyne</i>	750
Integrating Target Costing with Supply Chain Management : A Strategic Perspective ✍️ <i>Rajat Gera & Barnali Chaklader</i>	763	Managing Work Life Balance : Golden Mantras and Motivating Thoughts for Cost & Management Accountants ✍️ <i>Raja Ghosh</i>	904
Impairment in IFRS – A Process of Evaluating Business ✍️ <i>Shantonu Moitra</i>	777	Microsoft’s Acquisition of Skype : The Analysis of a Deal ✍️ <i>Dr. Ashish Varma, Ishika Varma & Saurabh Pachnanda</i>	1035
Industrial Sickness in India : Magnitude and Intensity ✍️ <i>Dilip Kumar Datta</i>	782	N	
International Merger and Acquisition: An Overview on the Cultural Clash ✍️ <i>S. M. Salamat Ullah Bhuiyan, Mohammed Shahedul Quader & Shanto Banik</i>	790	Narrative Disclosures in Corporate Financial Reports : Emerging Trends ✍️ <i>Ashim Paul</i>	366
Information Services and Beyond : Expanding Horizon of Credit Rating Functions ✍️ <i>Dr. Mausumi Bhattacharyya</i>	1019	O	
Implementation aspects of Compliance Report and the Cost Audit Report, 2011 ✍️ <i>V. R. Kedia & Dipti Kejriwal</i>	1026	Oil & Gas Reserves, methodology of calculations –its importance to Auditors & the need of Energy Audit ✍️ <i>Sankar Dattagupta</i>	8
K			
Knowledge Management : A Psychological Perspective ✍️ <i>Om Prakash Dani & M. S. Srinivasan</i>	46		

ARTICLES		ARTICLES	
Title	Page	Title	Page
Of High Tea, Technical assistance and the Pilgrim's Progress – Interpretation of words & phrases in Service Tax Law ✍ P. Ravindran	140	Role of CMAs in the Indian Insurance Industry ✍ P. K. Sinha & Sanchari Sinha	504
P		Risk Management in Banks and Financial Institutions ✍ Dr. Sankarshan Basu	654
Public-Private Partnership Projects: A Tool for Economic Enrichment ✍ Dr. Arindam Ghosh & Asit Gope	184	Risk Management and Sovereign Wealth Funds ✍ Dr. Harnita Chowdhary	656
Public-Private Partnership and its Application in India ✍ Dr. Sukamal Datta, CMA Tamal Taru Roy & Abhik Datta	201	Risk based loan pricing – an effective tool for Credit Risk Management in Banking Industry ✍ Ela Sen	660
Public-Private Partnership in Financial Market Regulation : a Case of Credit Rating Agencies ✍ Dr. Mausumi Bhattacharyya	206	Risk Management in Commercial Banks: A Glimpse ✍ K. R. Srivarahan	663
Public-Private Partnership in Port Sector – Guidelines and Regulatory Framework for Indian Major Port Trusts ✍ Dr M. Ravichandran & J. Kauthami	214	Risk Management in Banking Sector : An Overview ✍ Arindam Banerjee	679
Preparing the Basis of Estimate for a Project ✍ Subir Chakrabarty	766	Risk Management in Hospitality Industry – Role of CMAs ✍ P.K. Sinha & Sanchari Sinha	733
Profitability Analysis of Public Sector Undertaking : A case study of Hindustan Newsprint Limited (HNL) ✍ Dr. S. K. Khatik & Titto Varghese	1067	Role of CMAs towards Hospitality Management in Hospitality Industry ✍ Swapan Kumar Roy	742
Portfolio Diversification through Alternative Investments ✍ V. Gopalan	1157	Role of CMAs in adapting Contemporary Techniques in Hospitality Management ✍ P. Lakshmi	748
Performance Appraisal Report – Form III – Check List ✍ V. R. Kedia & Dipti Kejriwal	1159	Risks in Business Valuation : Role of CMAs ✍ P. K. Sinha & Sanchari Sinha	1113
R		Role of CMAs in Adapting Different Methods in Business Valuation Process ✍ Palash Garani	1130
Relevance of 'Cost of Capital' in investment decision making ✍ V. Gopalan	217	Role of Management Accountants in Valuing Business ✍ Arindam Ghosh & Asit Gope	1136
Role of Cost and Management Accountants in IFRS Regime ✍ CMA Arindam Banerjee	268	Role of CMAs in Business Valuation ✍ Vinay Tandon	1147
Real Inclusion of Cost and Management Accountants in Insurance Sectors is Imperative for its Growth ✍ Dr. A. Selvaraj	478	Reporting Intangible Assets : The Accounting Quandary ✍ Dr. Sujit Kumar Roy	1163
Role of Cost and Management Accountants (CMAs) in Indian Insurance Sector ✍ Ashim Paul	481	Revenue Approach to Human Resource Accounting ✍ Dr. Biraj Kumar Mohanty & Vijayalaxmi Hiremath	1168
Role of CMAs in Insurance Claim Management ✍ P. Srinivas Subbarao & P. Suseela Rani	488	S	
		Strategic Management Approach in Energy Sectors in India : The Role of Cost and Management Accountants ✍ Dr. Arindam Ghosh & Asit Gope	17
		Structural Devices to Boom Higher Education in Emerging India ✍ Parimal Kumar Sen & Soumen Bhattacharjee	114

ARTICLES		ARTICLES	
Title	Page	Title	Page
Statutory Usury : Interest Over-Kill in Indirect Taxation – Tax Payer’s Invoice as Potential Promissory Note to the Revenue <i>✍ P. Ravindran</i>	514	The Subaltern Tax Payer – Tax Hide-and-Seek in Budget 2011 <i>✍ P. Ravindran</i>	290
Sustainable Development and its reporting – A social commitment and changing role of business <i>✍ Parimal Ray</i>	519	Telecom Mergers and Acquisitions <i>✍ Puneet Jain</i>	524
Salient Features on the ‘Compliance Report’ under the Companies (Cost Accounting Records) Rules, 2011 and the ‘Cost Audit Report’ under the Companies (Cost Audit Report) Rules, 2011 <i>✍ V. R. Kedia & Dipti Kejriwal</i>	592	Total Cost Management <i>✍ Sekhar Ranjan Guha</i>	562
Salient Features of the Order Dt. 30 th June 2011 by MCA, CAB regarding automatic Cost Audit for 8 products <i>✍ V. R. Kedia & Dipti Kejriwal</i>	698	Total Cost Management – Strategic Management Tool <i>✍ R. Sundararaj</i>	568
Salient Features of the Appointment of Cost Auditor by Companies – Form 23C & Form 23D <i>✍ V. R. Kedia & Dipti Kejriwal</i>	881	TCM For Sustainable Performance Excellence <i>✍ P. K. Jayaram</i>	571
Strategic Wage Planning – A Life Cycle Approach <i>✍ Dr. Girish Jakhotiya</i>	906	Total Cost Management and its relevance in Current day business scenario <i>✍ Meena Ramji</i>	577
Sustainable Development and An Outline of Environmental Accounting <i>✍ Pranab Nag</i>	916	Total Cost Management : A Never-Ending Need for Redefinition <i>✍ Sujit Kumar Roy</i>	586
Service Sector in India & Role of Foreign Direct Investment <i>✍ Dr. Anirban Ghosh</i>	984	Technical evidences as foundation of facts in tax matters : Instruction No. 5/2011 dated 30-03-2011 of CBDT – an analysis and some suggestions including effective role of Cost Accountants <i>✍ Dev Kumar Kothari</i>	690
Service Sector in India : Role of CMAs <i>✍ Rajib Bhattacharya</i>	994	Telecom Mergers and Acquisitions <i>✍ Puneet Jain</i>	693
Strategic Role of CMAs in Credit Card Industry <i>✍ Prof. P. K. Swain</i>	1014	Tax Titbits <i>✍ S. Rajaratnam</i>	775
Strategic Pricing using Target Costing methodology – Case study of an Indian Auto ancillary company <i>✍ R. Jayaram & Dr. G. Balasubramanian</i>	1063	Taking the horse to the water : Refunds run thin at the tax credit trough <i>✍ P. Ravindran</i>	788
Special Audit by a Cost Accountant under Section 14A and 14AA of Central Excise Act, 1944 <i>✍ M. Govindarajan</i>	1152	Tax Titbits by <i>✍ S. Rajaratnam</i>	888
T		Target Costing : A Tool for Effective Profit Planning <i>✍ Dr. Sunil Karve & Prof. Minal Gupte</i>	1010
Tax Fight over Business supply of Food – The Conditional Annalakshmi from the High Courts of Bombay and Delhi – The Far-reaching Impact <i>✍ P. Ravindran</i>	40	Tax Titbits <i>✍ S. Rajaratnam</i>	1024
Transition to Higher Education – Progressive Overview <i>✍ Vipin Agrawal & Dr. Vidhi Agrawal</i>	103	The Management Challenges of the 21st Century : An Evolutionary Perspective <i>✍ Om Prakash Dani & M. S. Srinivasan</i>	1053
The ICT and Education : From blackboard to keyboard <i>✍ Dr. Anirban Ghosh</i>	135	The Influencing Factors on Cash Turnover of National Stock Exchange – An Empirical Study <i>✍ Ranjan Dasgupta & Sujit Dutta</i>	1055
TCM – To Most Powerful Tool <i>✍ D. Muthamizh Vendan Murugavel</i>	143	The shape of things to come : Revised concept paper on Service Tax <i>✍ P. Ravindran</i>	1155

ARTICLES		ARTICLES	
Title	Page	Title	Page
Tax Titbits <i>✍ S. Rajaratnam</i>	1182	Voluntary Guidelines on Corporate Governance and Corporate Social Responsibility (CSR) – a tool to enhance the Brand value of a country <i>✍ Nilakanta Shastry Tata</i>	703
U		W	
Understanding Behavioural Finance <i>✍ Dr. Swapan Kumar Roy</i>	858	Water Crisis and Water Management in India <i>✍ V Sylviya Johnsi Bai & J. Kamala Juliet Isaac</i>	355
V		World Food Inflation : Persisting trends and Issue <i>✍ Prof. Dr. Badar Alam Iqbal</i>	937
Value of Credit Default Swaps <i>✍ P. V. Antony & Ragesh M.</i>	54		

ARTICLES		ARTICLES	
Title	Page	Title	Page
COMMUNIQUE		ICWAI Elections, 2011	305, 387, 547, 608, 708
President's Communique	6, 90, 182, 266, 350, 474, 558, 646, 730, 854, 978, 1102	Cost Auditor by Companies	537,
Our New President	649	Management Development Programmes 2011-12	541, 842, 1090, 1196
Our New Vice-President	650	Government Notification	543
Chairman's Message	651	From the Government	611, 712,
Communique PD Chairman	857	ICWAI News	632, 711, 714, 832, 957
Chairman's Communique	981, 1105, 1106	Best Cost Management Practices Adopted	834, 1088
New Committee 2011-12	652		1194
EDITORIAL		Guidelines for Payment of Membership Fee at Reduced Rate	841
Editorial	5, 89, 181, 265, 349, 473, 557, 645, 729, 853, 977, 1101	Exam Notification	844
OTHERS		Annual Report	941
Admission to Membership	68, 157, 800, 1074, 1200	Attention of Members	1083
Signature Card of ICWAI Members	78, 172	Regions & Chapters News	1094
EIRC Seminar	79	CAPA	1184
Election Notification	81, 231	Mails to the Editor	1193
Hearty Congratulations	173	Guidelines of Payment for Membership at Reduced rate	1198
Hearty Congratulations & Announcement	174	Index 2011	1210
Union Budget 2011-2012 Highlights	224	Regions & Chapter News	1218
Institute Notification	226	INDEX TO PAGE NOS.	
Examination Time Table & Programme	228, 302, 384, 1092	Month	Pages
For Attention of Practising Members	257, 341, 465, 549, 838	January	1-84
Notification	299, 379, 1186	February	85-176
		March	177-260
		April	261-344
		May	345-468
		June	469-552
		July	553-636
		August	637-724
		September	725-848
		October	849-972
		November	973-1096
		December	1097-1220

SIRC

National Seminar on XBRL

A National Seminar on XBRL (eXtensible Business Reporting Language) was organised on 10th November, 2011 at Chennai. Shri B.R. Prabhakar, Chairman, SIRC welcomed the delegates and briefed the importance of the Seminar. Shri M. Gopalakrishnan, President, ICWAI gave an overview about XBRL and its applications in the current scenario. Shri S. Manjesh Roy, Regional Head, SEBI, Chennai was the Chief Guest of the event who rendered the Key Note Address. Shri P. Raju Iyer, Secretary, SIRC proposed vote of thanks.

There were two technical sessions held during the Seminar. The 1st Technical Session was handled by Shri S.A. Murali Prasad, Director, SAM Consultancy Services (P) Ltd., during which the basic Concepts of XBRL, global Initiatives on XBRL, understanding MCA Taxonomy and XBRL based Financial Reporting were explained with suitable Presentations. Ms. Sneha Rajagopal, Vice President (XBRL and Accounting Services), Data Tracks India who handled the 2nd Technical Session elaborated on 'Implementing XBRL solutions', 'MCA Validation Tool' and 'Taxonomy Editing and Extensions'. A good number of delegates took part in this Seminar and gave an excellent feedback on this.

WIRC

Carr Meeting

Discussion Meeting on Exposure Draft of Guidance Note on Maintenance of Cost Accounting Records was held at WIRC Office, Mumbai on 5th November 2011.

ICWAI has compiled Guidance Notes on Maintenance of Cost Records (Exposure Draft). A meeting was convened by WIRC to discuss the said draft and to offer the views/suggestions there on. The meeting was attended by senior members of the profession and a detailed deliberation took place on the Exposure Draft.

The meeting was attended by Council Members Shri Sanjay Bhargave, Shri Amit Apte, and Smt. Aruna Vilas Soman. Also present were Shri Vijay Joshi, Chairman WIRC, Shri Shrenik Shah, Vice Chairman, WIRC, Shri Ashish Thatte, Secretary WIRC, Shri Neeraj Joshi, Treasurer, WIRC, Shri V. V. Deodhar, past President ICWAI, Shri V. C. Kothari Ex Council Member and other guests.

ICWAI Students Felicitation

WIRC had arranged a Students Felicitation programme on Saturday, 5th November 2011 at Sydenham College Auditorium, Mumbai for all the Students from Mumbai who have successfully completed Foundation, Intermediate and Final Examination of ICWA held in June 2011.

Shri P.S. Nadkarni, past President, ICWAI was the Chief Guest. Council Members Shri Sanjay Bhargave and Shri Amit Apte were also present on the occasion.

Prizes were distributed to the students by the dignitaries. Shri Shrenik Shah, Vice Chairman, WIRC proposed vote of thanks. About 100 students and parents were present for the programme.

NIRC

Holding of Faculty Meet

A meet of faculty of NIRC of ICWAI was held on 12th November 2011 at 6 P M at ICWAI Bhawan, New Delhi.

Shri B. L. Jain, Chairman, NIRC of ICWAI welcomed the faculty Members at the meet. Also present in the meet, were Shri Vijender Sharma, Secretary, NIRC Shri Rakesh Bhalla, Vice-Chairman, NIRC Shri Ravi Kumar Sahni, and Shri S K Bhatt, Members, NIRC. The main point of discussion was regarding the steps to be taken for improving the quality of coaching and Students facilities. The faculty members raised questions regarding the syllabus of ICWAI and the proposed changes to be made therein. It was discussed that more training programmes be organized for students. The queries were well replied by the Regional Council Members present in the meet. Shri. Vijender Sharma, Secretary, NIRC informed the faculty that there is lot of scope for Cost Accountants in the Industry and the requirement of Cost Accountants will increase in the days to come.

EIRC – Cuttack-Bhubaneswar Chapter

National Seminar on "Convergence of Internal & External Cost Reporting"

The Cuttack-Bhubaneswar chapter of the ICWAI jointly organized a National seminar on "Convergence of Internal & External Cost Reporting" at Hotel Crown, Bhubaneswar on 6th November 2011. The seminar was inaugurated by Shri Prafulla Chandra Ghadai, Hon'ble Minister of Finance & Public Enterprises, Government of Odisha by lighting of the sacred lamp. Among the distinguished guests, present were Shri C.J. Venugopal, I.A.S., Chairman and Managing Director of Industrial Promotion and Investment Corporation of Orissa Ltd (IPICOL), Shri M. Gopalakrishnan, President, ICWAI, Shri Kunal Banerjee, past President, ICWAI, Shri Rakesh Singh, Vice President, ICWAI, Shri S.C. Mohanty, Council Member, Shri N. Sahoo, Chairman of Cuttack-Bhubaneswar chapter, Shri S.P. Padhi, Chairman, PD & Research Committee, Shri K.C. Samal, E.D. (Finance), NALCO Ltd and others.

Hon'ble Minister, Shri P.C. Ghadai elaborated the initiatives taken by Government of Odisha on various developmental activities undertaken in Odisha and recognized the role of CMA's in such developmental activities. Shri C.J. Venugopal, I.A.S., CMD of Industrial Promotion and Investment Corporation of Orissa Ltd emphasized the need to move faster with technological changes in this era of globalization.

Shri M. Gopalakrishnan, President, ICWAI and Shri Rakesh Singh, Vice President, ICWAI highlighted the amended provisions of the Cost Audit and urged upon the CMA's to equip themselves with the changing scenario and cross border economy. The seminar was attended by members and professionals alike and was very interactive.

CEO/CFO's Meet

On 6th November 2011 evening, the CEO/CFO's meet was organized at hotel Crown, Bhubaneswar where about 40 such dignitaries were present. Shri S.C. Mohanty, Council Member, ICWAI coordinated the meet. Various industries related issues were deliberated at the said meet. Shri Vivek Pattnaik, I.A.S. (Retd), Shri Debaraj Biswal, CEO, Bhubaneswar Stock Exchange Ltd, Shri D.K. Roy, I.R.S. (Retd), Shri B.P. Mohapatra, Director (Finance), OPTCL & GRIDCO Ltd and others participated in the meet.

Lucknow Chapter of Cost Accountants
Presents
Regional Cost Conference
on the theme
Managing Cost Serving to the Nation
on 7th & 8th January, 2012

Lucknow Chapter of Cost Accountants is organising a two-days Regional Cost Conference on the theme "Managing Cost Serving to the Nation" to equip the participants with the latest changes that are going to affect the Society Business Houses to a large extent. It includes not only Cost & Management techniques but also covers the fiscal changes that are affecting the trade and commerce at large.

Paper Writers : Eminent experts of the fields will present and discuss the Cases. Chair will conduct the session with 2-3 presentations and followed by open discussion by the house.

Delegates: The Conference is for every individual from executive to top level of the management who are involved in planning and implementation from every occupation of different Industries, Services, Banking, Business (Private & Public) Professionals.

Saturday, January 7th, 2012

08 : 30 to 09 : 30	Registration
09 : 30 to 11 : 00	Inauguration
11 : 00 to 11 : 30	High Tea
11 : 30 to 13 : 15	Technical Session I Techniques of Management Accountancy to Manage Cost in Recent Global Slow Down
13 : 15 to 14 : 15	Lunch
14 : 15 to 16 : 00	Technical Session II Valuation of Inventory with special emphasis to Accounting Standards (AS) Vs. Cost Accounting Standards (CAS)
16 : 00 to 16 : 30	Tea
16 : 30 to 18 : 00	Technical Session III Treasury Management a Tool for Managing Cost of Capital
19 : 30 to 22 : 00	Cultural Evening & Dinner

Sunday, January 8th, 2012

09 : 30 to 11 : 15	Technical Session I Generally Accepted Cost Accounting Principle (GACAP) & Cost Accounting Standards (CAS)
11 : 15 to 11 : 30	High Tea
11 : 30 to 13 : 15	Technical Session II Introduction to GST & Compliance under Indirect Tax Regime

13 : 15 to 14 : 15	Lunch
14 : 15 to 16 : 00	Valedictory Session
16 : 00	End of the Programme

Contact for Conference

Lucknow Chapter of Cost Accountants

Shri Mahendra Singh Chairman M- +919335717339	Shri Hemendra Soni Secretary Tel : 0522-3919465 M-919335223464
--	--

Shri Shailendra Paliwal Vice-Chairman M- + 919838106838	Shri Radhakant Mishra Treasurer M- +919598881970
--	---

Shri Aman Aalviya
Past Chairman & Conference Co-ordinator
Tel : 0522-4024033
M- +919415017406

Conference Advisor

● Shri K. B. Saxena ● Shri Sudhanshu Dwivedi ● Shri S. B. Agarwal ● Shri R. R. Lal

Patrons

● Shri K. L. Prabhakar ● Shri V. Natrajan ● Shri R. K. Singh
● Shri D. C. Bajaj ● Shri J. K. Puri ● Shri Bheem Singh Goel
● Shri G. L. Yadav ● Shri S. S. Yadav ● Shri D. D. Srivastava
● Shri Vijay Prakash ● Shri Vidyanshu Krishan ● Shri S. K. Mohan.

Technical Committee

● Shri O. P. Saxena ● Shri Atul Gupta ● Shri Subhash Agarwal
● Shri Sanjeev Awasthi ● Shri B. P. Yadav

Reception Committee

● Shri Vashudev Vasandhani ● Shri Jeewan Chandra ● Shri Manoj Mishra ● Shri Sandeep Kumar ● Shri Jaya Singh

President - ICWAI

Shri M. Gopalakrishnan

Vice President - ICWAI

Shri Rakesh Singh

Central Council (Northern Region) of ICWAI

Shri Rakesh Singh	Central Council Member	+919350240553
Shri Hari Krishan Goel	Central Council Member	+919350345924
Shri Sanjay Gupta	Central Council Member	+919810041074

Northern India Regional Council of ICWAI

Shri B. L. Jain	Chairman	+919818239634
Shri Rakesh Bhalla	Vice-Chairman	+919779010685
Shri Vijender Sharma	Secretary	+919810166877
Shri Arvind Kumar	Treasurer	+919956391342
Shri S. K. Bhatt	Member	+919971066266
Shri Saurabh Srivastava	Member	+919911285340
Shri Ravi Kumar Sahni	Member	+919810063419