

# THE MANAGEMENT ACCOUNTANT

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## REGISTERED VALUERS & VALUATION



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

[www.icmai.in](http://www.icmai.in) 1



## **INSOLVENCY PROFESSIONAL AGENCY OF INSTITUTE OF COST ACCOUNTANTS OF INDIA (IPA OF ICAI)**

## **INSOLVENCY PROFESSIONAL AGENCY OF INSTITUTE OF COST ACCOUNTANTS OF INDIA (IPA OF ICAI)**

(Section 8 Company of the Institute of Cost Accountants of India)

### **About IPA of ICAI:**

The Insolvency Professional Agency of Institute of Cost Accountants of India (IPA of ICAI), a section 8 company incorporated under the Companies Act 2013 has been promoted by the Institute of Cost Accountants of India to enroll and regulate Insolvency Professionals (IPs) as its members in accordance with provisions of the Insolvency and Bankruptcy Code 2016, Rules, Regulations and Guidelines issued thereunder.

## **ENROL AND REGISTER AS AN INSOLVENCY PROFESSIONAL**

### **ENROLLMENT IS OPEN: For Professionals & Advocates and Graduates having Management Experience**

IPA of ICAI enrolls the professionals as 'Insolvency Professionals' under Regulation 7 read with Regulations 4 & 5 of Insolvency and Bankruptcy Board of India (Insolvency Professionals) Regulations, 2016, if

**1. He/she has passed the 'Limited Insolvency Examination', conducted by the Insolvency & Bankruptcy Board of India (IBBI) and**

**2. Has/she has ten years of experience as -**

- (a) a cost accountant enrolled as a member of the Institute of Cost Accountants of India,**
- (b) a chartered accountant enrolled as a member of the Institute of Chartered Accountants of India,**
- (c) a company secretary enrolled as a member of the Institute of Company Secretaries of India, or**
- (d) an advocate enrolled with a Bar Council.**

**OR**

**3. He/she has fifteen years of experience in management, after receiving a Bachelor's degree from a University established or recognized by law.**

### **Insolvency Professional may function as:**

- ❖ Interim Insolvency Professional in Corporate, Individual and Partnership Insolvency Process; Fast Track Corporate Insolvency Process; and Fresh Start Process;
- ❖ Resolution Professionals for Corporate, Individual and Partnership Insolvency Process; Fast Track Corporate Insolvency Process; and Fresh Start Process;
- ❖ Liquidator in Liquidation Process for Corporate Persons;
- ❖ Liquidator in Voluntary Liquidation for Corporate Persons;
- ❖ Bankruptcy Professional for Bankruptcy of Individual and Partnership Firm.

### **Why to enrol as Insolvency Professional .....**

- ❖ It's a niche area of practice with opportunities galore
- ❖ With the first mover's advantage, there is an opportunity to create a brand name
- ❖ Adequate handholding from IBBI and the IPA of ICAI

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**CEO, Insolvency Professional Agency of Institute of Cost Accountants of India**

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# The Institute of Cost Accountants of India

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

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

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

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

## **MISSION STATEMENT**

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

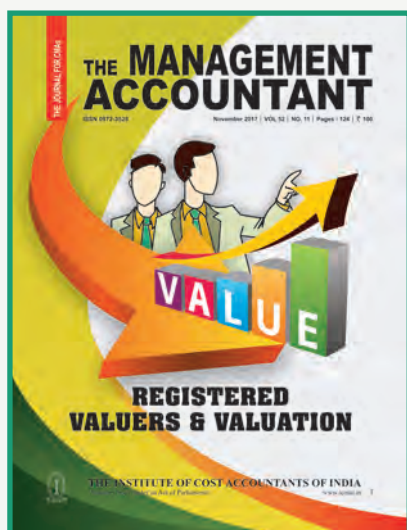
## **VISION STATEMENT**

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

## **IDEALS THE INSTITUTE STANDS FOR**

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

*Behind every successful business decision, there is always a CMA*



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## Greetings!!!

Credible valuations are vital to the efficient working of the capital markets, businesses, government and all its stakeholders. With emergent shareholder's activism, importance of independent valuations is arising all over the world including India. Business/Asset valuation is critical for strategic business decisions including Fund Raising, M&A, Sale/Liquidation of businesses, Strategic business decisions like Family or Shareholders disputes, Voluntary value assessment or may be just to comply with certain regulatory or accounting requirements in India under RBI, Income Tax, Companies Act, SEBI Laws etc. Better Corporate Governance is also leading to requirement of Independent Business Valuations. Different Regulators in India have prescribed different valuation methodologies for different purposes. More recently, a few regulators have prescribed Fair Value methodology to be computed as per internationally accepted valuation guidelines. However in most of the cases, there is neither any guidance on the basis for selection of a particular methodology nor much of details on its manner of application including its technical nitty-gritty.

## Companies Act 2013, Sec. 247 (Registered Valuers)

The Companies Act 2013 is one of the landmark legislations enacted in recent years to bring forth transparency, ease of doing business and protecting minority shareholders. Section 247 of the Companies Act, 2013 contains provisions exclusively regarding registered valuers. Effective valuation will not only help in eliminating doubts relating to arbitrary valuation and window dressing but will also act as an assurance to the concerned stakeholders and regulators regarding the authenticity of the valuation of the asset or liability under consideration and consequently helps in ease of doing business.

A Cost Accountant is now recognised as a 'Registered Valuer' under the new valuation rules issued by the Corporate Affairs Ministry (under section 247 read with sections 458, 459 and 469 of the Companies Act, 2013 (18 of 2013). The notification of these rules -- Companies (Registered Valuers and Valuation) Rules 2017 is expected to bring clarity regarding various aspects of valuation and registered valuers and has major impact on industry, professionals, stakeholders and the government as well.

Introduction of valuation standards will ensure that

the valuation reports disclose a true, fair and complete view and result in greater objectivity in valuation procedures. The increased transparency and fairness in the valuation system would also boost stakeholders' confidence alongside improving government revenues by way of plugging of loopholes in valuation.

The requirement of registered valuers will definitely enhance professional opportunities for both the Cost Accountants and other professionals as well. Cost Accountant being recognised as a valuer presents enormous opportunity to practising members of the Institute to exhibit their expertise and knowledge in this field acquired over time.

This year, India has leapfrogged into the 100th rank in the World Bank's Ease of Doing Business rankings, jumping 30 notches from last year, in an endorsement of the string of reforms implemented by the government that lead to better business conditions. India is the only large country this year to have achieved such a significant shift. Moreover, with implementation of a series of reforms including enactment of Insolvency and Bankruptcy Code (IBC), India has climbed to 4th position in protecting interest of minority investors and in "resolving insolvency" parameters. To facilitate the Government to boost up the ranking in the forthcoming years, CMAs can act as a registered valuer of properties and assets of liquidation estate under the Code and Regulations being framed under Insolvency and Bankruptcy Code (IBC)-2016.

This issue presents a good number of articles on the cover story theme 'Registered Valuers and Valuation' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at [editor@icmai.in](mailto:editor@icmai.in). We thank all the contributors to this important issue and hope our readers enjoy the articles.



# THE MANAGEMENT ACCOUNTANT

## :- PAPERS INVITED :-

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

### Theme Governance in Real Estate

December 2017

#### Subtopics

- ◆ RERA Act 2016
- ◆ Consumer forum & Public Recourse
- ◆ Land Development & Regulations
- ◆ Developers' Liabilities & Liberties
- ◆ Government's role
- ◆ Valuation & Pricing
- ◆ Regulatory issues & audit
- ◆ Role of CMAs

### Theme Paradigm shift in Indian Banking System

January 2018

#### Subtopics

- ◆ Managing Risk, Regulations and Capital
- ◆ Digitisation and Cyber security
- ◆ Prospective M&A of banks in India
- ◆ Strategic Cost Management issues in banks
- ◆ Credit issues and Regulators role
- ◆ Transitional Cashless economy
- ◆ HR issues & performance parameters
- ◆ Role of CMAs

### Theme Transforming Energy Sector

February 2018

#### Subtopics

- ◆ Game Changers & Trends in Energy Systems
- ◆ Power & Utilities scenario
- ◆ Conventional vs. Non-conventional power
- ◆ Power Generation & Distribution
- ◆ Present industry challenges
- ◆ Government Initiatives
- ◆ Role of CMAs

### Theme Fair Value Accounting : Changing Contour of Financial Reporting in India

March 2018

#### Subtopics

- ◆ Corporate Reporting & Accounting Standards
- ◆ Financial Instrument Measurement through Fair Value Accounting
- ◆ Fair Value in Service Sector
- ◆ Fair Value Accounting and Auditing Standards
- ◆ Fair Value Accounting for Mergers and Acquisitions
- ◆ Role of CMAs

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

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# PRESIDENT'S COMMUNIQUÉ



*"Managers and investors alike must understand that accounting numbers are the beginning, not the end, of business valuation."*

*-Warren Buffett*

**CMA SANJAY GUPTA**

*President*

*The Institute of Cost Accountants of India*

***My Dear Professional Colleagues,***

***Namaskaar!!!***

At the outset of just completed festive season, I wish all the stakeholders, members, students and their families a very bright future and prosperous life. Hope these festivals illuminate the country with its brilliance and bring the light of happiness, togetherness, spiritual enlightenment and prosperity for everyone.

The Institute organized Diwali Milan on 16th October 2017 at Indian Habitat Centre, New Delhi. We were fortunate enough to have the gracious presence of Shri P.P. Chaudhary, Hon'ble Union Minister of State for Corporate Affairs and Law & Justice and Shri Arjun Ram Meghwal, Hon'ble Minister of State of Parliamentary Affairs, Water Resources and River Development and Ganga Rejuvenation, G.O.I and many CEOs, CFOs and eminent personalities.

On 17th October 2017, I along with CMA P Raju Iyer, CCM and CMA Niranjan Mishra, CCM, welcomed Shri Injeti Srinivas, IAS new Secretary, MCA at Shastri Bhawan. I also attended a meeting chaired by Secretary, MCA, to discuss the 'Report of the Committee on Corporate Governance constituted by SEBI under the Chairmanship of Mr. Uday Kotak' on 27th October 2017 at Shastri Bhawan, New Delhi.

**India Scores a Century in the World Bank's Ease of Doing Business Index**

I join the CMA fraternity in congratulating the initiative of GOI in going upward, in the Ease of Doing Business rank, from 130 in the year 2017 Survey to 100 in 2018 Survey of World Bank. I am delighted to share that our Institute played a significant role in adding value to MCA's initiative by conducting survey on Ease of Doing Business among the stakeholders in the areas of (a) start of business, (b) protecting minority interest, (c) resolving insolvency and submitting report to MCA before the World Bank Survey.

India for the first time has been placed into the club of the 100 nations in the World Bank's Ease of Doing Business global rankings from its 130th position last year, riding on sustained government reforms which include making taxpaying easier; resolving insolvency problem; access to credit and protection of minority investors (As stated by the bank's latest The World Bank's 'Doing Business 2018: Reforming to Create Jobs' report released on Tuesday 31 October 2017). The report captures reforms implemented in 190 countries between the period June 2, 2016, to June 1, 2017. India made paying taxes easier by requiring that payments are made electronically to the Employees Provident Fund and introducing a set of administrative measures easing compliance with corporate income tax, the report said. The World Bank further added that, the new indirect tax regime of Goods and Services Tax was, however, not a part of the report and will be a part of the evaluation process from next year.



While there has been substantial progress, India still lags in areas such as starting a business, enforcing contracts and dealing with construction permits, the report notes. Tackling these challenging reforms will be the key to India sustaining the momentum towards a higher ranking. To secure changes in the remaining areas will require not just new laws and online systems but deepening the ongoing investment in the capacity of states and their institutions to implement change and transform the framework of incentives and regulation facing the private sector. To expedite and implement Government's initiative with all earnestness, our Institute, as a part of our professional social responsibility drive is taking various collaborative activities in this regard. The Insolvency Professional Agency of Institute of Cost Accountants of India has been promoted by the Institute to enrol and regulate Insolvency Professionals (IPs) as its members in accordance with provisions of the Insolvency and Bankruptcy Code 2016, Rules, Regulations and Guidelines issued. The Institute's decision to introduce the GST Helpdesk was welcomed by representatives of corporate houses and professionals present at the event and is expected to go a long way to eliminate the confusion that exists regarding GST and its provisions. Moreover, institute is highly abetting the missions like Startup India, Skill India, GST Reform, etc. GST and other reforms that are planned, we look forward to an equally impressive improvement of India's ranking in Ease of doing business next year. It is not too distant in the future that India would break into the league of top 50 countries.

### **Companies (Registered Valuers and Valuation) Rules, 2017**

Ministry of Corporate Affairs (MCA) has notified the provisions governing valuation by registered valuers [section 247 of the Companies Act, 2013] and the Companies (Registered Valuers and Valuation) Rules, 2017 (the Rules), with effect from 18th October, 2017. A registered valuer would carry out valuation in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities, as per chapter XVII of the Companies Act. The mechanism to prescribe valuation standards and syllabus for conduct of valuation education courses as well as specify the requirements with regard to the contents of the valuation report have been laid out in the rules. Among other requirements, the registered valuers have to be members of the registered valuers organisations (RVOs), recognised by the authority.

The RVOs have to comply with certain norms including an internal governance structure that "should provide for enforcement of a code of conduct on the registered

valuers, training and conduct of educational courses for the valuation of specific asset classes for which the RVO concerned is recognised".

To administer and perform functions under these rules, the MCA by way of notification has specified the Insolvency and Bankruptcy Board of India (IBBI) as the responsible authority. Section 247 of the Act requires that where a valuation is to be made of any property, stocks, shares, debentures, securities or goodwill or any assets or net worth of a company or its liabilities under the provisions of the Act, the same shall be valued by a person having the requisite qualifications, experience, registered as a valuer and member of a registered valuers organisation, in the manner prescribed in the Rules.

The notified Rules lay down the criteria for individuals, partnership entities and companies to be eligible to be registered as valuers under the Act. Apart from this, the Rules contain other aspects pertaining to registered valuers and valuation as Process for registration as valuers, Recognition of registered valuer organisations, Valuation standards and Transitional arrangement.

I would like to stress upon the fact that though these rules have created an opportunity for professionals to practice this profession however it must be kept in mind that it is a very arduous task and due to the fact that it will be regulated by the Government it serves a lot of responsibilities on the Professionals. Cost and Management Accountants with their expert domain knowledge will be the most sought after professionals for this area. I urge the members interested in practicing this field to enrich their conceptual and practical knowledge in Business valuation principles, valuation approaches and methodologies.

### **TECHNICAL DIRECTORATE**

#### **Cost Accounting Standards Board (CASB)**

#### **● Revision of Cost Accounting Standard – 4 in light of implementation of GST:**

I would like to inform that the Cost Accounting Standards Board (CASB) in its recently concluded meeting deliberated on revision of Cost Accounting Standard-4 (CAS-4) "Cost of Production for Captive Consumption". With introduction of tax on Goods and Services w.e.f. 1-7-2017, the concept of 'captive consumption' is no more relevant. However, the concept of cost of production or manufacture is still relevant under GST Rules. As per rule 30 of CGST Rules, 2017, where the value of a supply of goods or services or both is not determinable by any of the preceding rules, the

# PRESIDENT'S COMMUNIQUÉ

value shall be one hundred and ten percent of the cost of production or manufacture or cost of acquisition of such goods or cost of provision of such services. CASB in the said meeting constituted a small group to discuss and finalized the CAS-4 as per the GST laws. The small group has already started the discussion and revision in CAS-4 will be submitted to CASB in its next meeting.

## Technical Cell (Cost Audit, Compliance and Others)

### ● **Impact of IND AS and GST on CASs, CRA-1 and CRA-3:**

I wish to also inform that the Technical Cell (Cost Audit, Compliance and Others) of the Institute held its meetings on 10th, 24th & 25th October 2017 to discuss the impact of IND-AS and GST on principles that are required to be incorporated in items of cost for various input costs e.g. Material; Packing Material; Utilities; Direct Expenses; Repairs and Maintenance; Overheads; Research and Development; Quality Control; Pollution; Service Centre Cost etc. Consequentially there will be effect on CRA-1 of Companies (Cost Records and Audit) Rules as the principles enunciated in CRA-1 are broadly based on the Cost Accounting Standards issued by the Institute. The cell also deliberated upon the impact of IND-AS and GST on Annexure to Cost Audit Report (CRA-3) particularly on Para 6 of Part D of the Annexure: "Reconciliation of Indirect Taxes (for the Company as a whole)". The detailed report shall be sent to the Ministry of Corporate Affairs for carrying out necessary changes / modifications in CRA-1 and CRA-3.

## INSOLVENCY PROFESSIONAL AGENCY OF INSTITUTE

IPA of Institute has organized a Workshop on Insolvency & Bankruptcy Code, 2016 & Practical Issues on October 7, 2017. The speakers CMA Krishna VrindJain, and CMA Yogesh Gupta have very well covered the practical issues and information relating to the role of IRPs/RPs in first 150 days and the various challenges being faced by IRPs/RPs while performing their duties and aspects of important case laws decided by Supreme Court/High Courts/NCLT/NCLAT. In open house: question and answer session Shri Ajay K. Jain, Advocate, Supreme Court and Independent Director of IPA of the Institute joined the team and addressed the individual queries of the participants.

IPA of the Institute has also been associated with ASSOCHAM in organizing a National Conference on New Corporate Insolvency Regime and Real Estate Regulation Act on October 25th, 2017 at New Delhi to discuss the various technicalities and challenges being faced by the stakeholders with respect to new Insolvency Law. I had

an opportunity to present my views as speaker on various topics relating to functioning of Insolvency professionals, how IBBI can play a proactive role to build capacity and to introduce discipline and enabling environment for more resolution applicants.

Insolvency and Bankruptcy Board of India (IBBI) is directly seeking inputs from industry, trade bodies and other associations over Roundtables on draft rules and regulations for Insolvency Resolution process of individuals and firms. CMA P.V.Bhattad, Past President & CCM, attended roundtable discussion at Indore on 23rd October 2017 and at Jodhpur on 30th October 2017. Dr. Mukulita Vijaywargiya and Dr. Navrang Saini were the co-coordinators from IBBI for Indore and Jodhpur respectively. The draft rules and regulations, the inputs from public comments and the roundtables will be considered by the Advisory Committee on Individual Insolvency and Bankruptcy which will meet on 8th November, 2017.

## INTERNATIONAL AFFAIRS DEPARTMENT

I attended 3rd Annual IR Convention at Amsterdam on 'Growth of Integrated Reporting in India' organised by CII and International Integrated Reporting Council (IIRC) on 12-13 October 2017 as a panellist for the session on "Accountants will save the World" in which I expounded on "under your leadership, how are you hitting refresh to the role of Cost & Management Accountants in India". Introductory note and welcome address was delivered by Mr. Sachin Joshi, COO & Principal Counsellor, CII, Other eminent panelists were Mr. Richard Howitt, CEO, IIRC, Mr. Rakesh Agarwal, VP-Finance, Compliance & Accounts, Reliance Industries Ltd., Mr. John Mulhall, CFO, Tata Chemicals Ltd., Mr. Saradindu Dutta, Executive VP, ITC Ltd.

## MEMBERSHIP DEPARTMENT

I feel pleasure to congratulate and welcome all the new 381 Associate members who were granted membership and the 88 members who were advanced to Fellowship during the month of October 2017.

## ADVANCED STUDIES DIRECTORATE

Advanced Studies directorate of the Institute organized an International Seminar in association with Commerce Alumni Association and Department of Commerce of University of Calcutta and IAA Kolkata Branch on the topic "Contemporary Issues on Accounting and Taxation and Prof. Arun Kumar Basu First Memorial Lecture" on 28 October 2017 at Institute Headquarters Auditorium, Kolkata. There was an august participation of more than 200 academicians and professionals. The Seminar was inaugurated by Hon'ble Chief Guest Prof. Swagata Sen,



Pro-Vice-Chancellor for Academic Affairs, University of Calcutta, Guest of Honour Prof. J.K Das, Head, Department of Commerce, University of Calcutta and Special Guest CMA Avijit Goswami, Council Member of the Institute, Prof. D. R. Dandapat, President, Commerce Alumni Association and Dean, Faculty Council for P.G. Studies in Commerce, Social Welfare and Business Management, University of Calcutta and others. The first technical session was on "Fair Value Accounting: Changing Contour of Financial Reporting in India" was chaired by Prof. Bhabatosh Banerjee, Former President, Commerce Alumni Association and President, IAARE. Prof. T. P. Ghosh, Professor of Accounting and Finance, Institute of Management Technology (IMT), Dubai deliberated on 'Fair Value of Accounting'. Shri Narayan Chandra Guriya, Joint Commissioner of Commercial Taxes, Government of West Bengal was the Key note Speaker of second technical session. He addressed on various aspects of GST.

## TRAINING AND PLACEMENT DIRECTORATE

### ● Campus Placement Drive

As informed through my previous communiqué, the Institute organized campus placement program for the CMAs qualified in June 2017 term examination pan India basis. We have already placed approximately 170 qualified CMAs in various organizations and our team members are relentlessly trying to place the remaining qualified CMAs shortly. I truly thank the corporate leaders on their faith in our qualified students and choosing best of the talent available with the Institute. I would again like to thank the industry partners for collaborating with the Institute over the years. I am sure that the CMAs placed through this campus placement, would contribute towards the growth of their respective organization and economy and raise the stature of our profession through their career development path.

I congratulate all the qualified CMAs who got placed during this season. I urge all qualified CMAs to remain attached with the Institute by taking membership of the Institute to build a long-term and meaningful professional relationship.

### ● CFO & HR Discussion Meet

I along with CMA Manas Kumar Thakur, IPP and CMA Niranjana Mishra, CCM attended CFO & HR Discussion Meet organised by the Institute on the theme "Skill Development & Employability-Agenda for Economic Development" on 22nd October 2017 at Hotel The Crown, Bhubaneswar, Odisha. Shri Subroto Bagchi, Chairman, Odisha Skill Development Authority, Govt. of Odisha graced the

occasion as Chief Guest.

## PROFESSIONAL DEVELOPMENT COMMITTEE

### ● Companies (Registered Valuers and Valuation) Rules, 2017 – A New Professional Avenue

I am glad to share that Ministry of Corporate Affairs has issued Companies (Registered Valuers and Valuation) Rules, 2017 wherein a new professional avenue have emerged for Cost Accountants. The members of Institute having requisite experience can get registered as "Registered Valuer".

### ● Inclusion of Cost Accountant Qualification for the Post of Chief Financial Officer in Reserve Bank of India

On Institute's representation and subsequent meeting with officials, the Reserve Bank of India has included qualification of Cost Accountants in the eligibility criteria for the post of Chief Financial Officer in banks.

### ● Representation with Government, PSUs, Banks and Other Organizations

PD Directorate continued sending representation letters to various organizations for inclusion of cost accountants for providing professional services in the area of Accounts, Internal Audit / Concurrent Audit/ Taxation, Stock audit and other assignments. Due to their untiring efforts, IFCI Limited has included Cost Accountants for Forensic Audit and issued a corrigendum in this regard.

Further, the eminent organizations like NMDC Limited, West Bengal State Seed Corporation Limited, Bureau of Indian Standards, Madras Fertilizers Limited and NHPC Ltd. recognized CMA profession in their Tenders/EOIs in the month of October.

The list of organizations that were represented and those who recognized cost accountants can be seen at the PD Portal.

I wish prosperity and happiness to members, students and their families on the occasion of Kartik Purnima & Guru Nanak Jayanti and pray for the success in all of their endeavours.

With warm regards,



CMA Sanjay Gupta  
1<sup>st</sup> November, 2017



## ICAI-CMA SNAPSHOTS



*Shri P.P. Chaudhary, Hon'ble Union Minister of State for Corporate Affairs and Law & Justice and Shri Arjun Ram Meghwal, Hon'ble Minister of State of Parliamentary Affairs, Water Resources and River Development and Ganga Rejuvenation, graced the occasion of Diwali Milan organised by the Institute on 16th October 2017 at Indian Habitat Centre, New Delhi.*

*Shri P.P. Chaudhary, Hon'ble Union Minister of State for Corporate Affairs and Law & Justice graced the occasion of Diwali Milan organised by the Institute on 16th October 2017 at Indian Habitat Centre, New Delhi.*



*CMA Sanjay Gupta, President of the Institute with Shri P.P. Chaudhary, Hon'ble Union Minister of State for Corporate Affairs and Law & Justice and Shri Arjun Ram Meghwal, Hon'ble Minister of State of Parliamentary Affairs, Water Resources and River Development and Ganga Rejuvenation in the occasion of Diwali Milan organised by the Institute on 16th October 2017 at Indian Habitat Centre, New Delhi.*

*CMA Sanjay Gupta, President, CMA P.V.Bhattad, Past President and CMA Anit Anand Apte, Council Member of the Institute welcoming Shri Arjun Ram Meghwal, Hon'ble Minister of State of Parliamentary Affairs, Water Resources and River Development and Ganga Rejuvenation in the occasion of Diwali Milan organised by the Institute on 16th October 2017 at Indian Habitat Centre, New Delhi.*







*President of the Institute, CMA Sanjay Gupta, CMA P Raju Iyer and CMA Niranjan Mishra, council members felicitating new Secretary, MCA, Shri Injeti Srinivas at Shastri Bhawan*



*IPA of the Institute organized in association with ASSOCHAM a National Conference on New Corporate Insolvency Regime and Real Estate Regulation Act on October 25th, 2017 at New Delhi.*



## ICAI-CMA SNAPSHOTS



*CMA Dr A Mayil Murugan, chairman, SIRC presenting representation of the Institute for skill development project assignments to Shri Kadambur Raju, Hon'ble Minister, Information and Broadcasting, Tamil Nadu. CMA H Padmanabhan, vice president of the Institute, CMA Dr I Ashok council member and CMA Jyothi Satish, secretary, SIRC were also present in the programme*

*Smt Vanathi Srinivasan, VP BJP Tamil Nadu State Unit and spokes person BJP lighting the lamp at the inauguration of GST Capacity Building five days training program organized by SIRC. CMA H Padmanabhan, vice president, CMA K Sanyasi Rao, past chairman SIRC, guest lecturers Shri Ravindran P, Shri Srinivasan, and CMA Jyothi Satish, secretary SIRC were also present in the programme*



*CMA H Padmanabhan, vice president of the Institute addressing at ICAI SIRC Communication and Soft Skill program on GST and its impact on Economy. From Right: CMA Ashok B Naval, council member, CMA Manas Kumar Thakur, immediate past president of the Institute, CMA Sathyakumar, resource person and CMA Jyothi Satish secretary SIRC*

*The ICAI Campus Placement program at SIRC addressed by CMA H Padmanabhan, vice president of the Institute. CMA Dr I Ashok, council member and corporate executives were among other eminent dignitaries present in the programme*







*A Round Table Conference on Rules and Regulations relating to Insolvency and Bankruptcy of Individuals and Partnership had been organized by the Institute on October 23, 2017 at Indore in association with Insolvency and Bankruptcy Board of India and Insolvency Professional Agency of the Institute.*

*From Left: CMA PV Bhattad, past president of the Institute, Dr. Mukulita Vijaywargiya, whole time member of the Insolvency Bankruptcy Board of India, CMA Sudeep Saxena, past chairman & treasurer of Indore Dewas Chapter were present in the programme*

*A Round Table Discussion on Rules & Regulations to Insolvency & Bankruptcy of Individuals and Partnership had been organized by the Insolvency and Bankruptcy Board of India in association with the Jodhpur Chapter of the Institute & Jodhpur Industries Association on October 30, 2017*



*IPA of the Institute organized a workshop on Insolvency & Bankruptcy Code 2016 & Practical Issues on October 7, 2017. CMA JK Budhiraja, Chief Executive Officer, Insolvency Professional Agency and Senior Director (Technical) of the Institute, CMA Krishna VrindJain, CMA Yogesh Gupta and Shri Ajay K. Jain, Advocate, Supreme Court and Independent Director of IPA of the Institute were the speakers of the workshop*



**Glimpses of CFO & HR Discussion Meet on the theme 'Skill Development & Employability-Agenda for Economic Development' organised by the Institute at Hotel "The Crown", Bhubaneswar, Odisha on October 22, 2017**



*Shri Subroto Bagchi, Hon'ble Chairman, Odisha Skill Development Authority, chief guest on the occasion, CMA Sanjay Gupta, president of the Institute, CMA Manas Kumar Thakur chairman, Training & Education Facilities and Placement Committee of the Institute, CMA Niranjan Mishra, chairman, Taxation Committee of the Institute, CMA Siba Prasad Kar chairman, Bhubaneswar Chapter, CMA Pranab Kumar Chakrabarty, chairman, EIRC were among the eminent dignitaries present in the programme*



# An international seminar on 'Contemporary Issues on Accounting and Taxation & Prof. Arun Kumar Basu First Memorial Lecture'

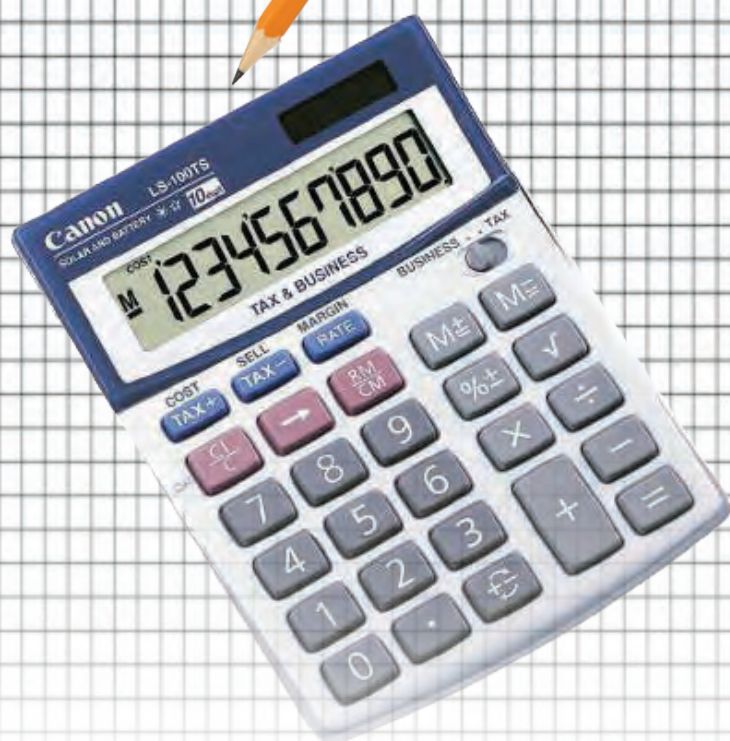


An international seminar on 'Contemporary Issues on Accounting and Taxation & Prof. Arun Kumar Basu First Memorial Lecture' had been jointly organized by Commerce Alumni Association, Department of Commerce, University of Calcutta and the Institute on October 28, 2017 at J.N. Bose Auditorium, Kolkata.

Prof. Swagata Sen, Pro-Vice Chancellor for Academic Affairs, University of Calcutta, Prof. D. R. Dandapat, President, Commerce Alumni Association and Dean, Faculty Council for P.G. Studies in Commerce, Social Welfare and Business Management, University of Calcutta, Prof. J.K Das, Head, Department of Commerce, University of Calcutta, CMA Avijit Goswami, Chairman, CAT Committee of the Institute, Prof. Ashish Kumar Sana, General Secretary, Commerce Alumni Association, Prof. Bhabatosh Banerjee, Former President, Commerce Alumni Association and President, IAARE, Prof. T.P. Ghosh, Professor of Accounting and Finance, The Institute of Management Technology (IMT), Dubai, Prof. Sunil Kumar Gandhi, Secretary, IAA, Kolkata Branch and Professor, Department of Commerce, University of Kalyani, CA Subhayan Basu, Ananda Mohan College, Kolkata, Shri Narayan Chandra Guriya, Joint Commissioner of Commercial Taxes, Government of West Bengal, Dr. Ram Prahlad Chowdhary, Treasurer, CAA and Associate Professor, Department of Commerce, C.U, CMA DP Nandy, Director, Research & Journal, Advanced Studies, Training and Placement of the Institute were among the eminent dignitaries who attended the programme.



# Registered Valuers & Valuation



**S**ection 247 is newly inserted Section in the Companies Act 2013, having no similar or corresponding section or provisions in the Companies Act 1956. Section 247 deals

with Valuation in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities; which can be done by Valuer, appointed by the audit committee or in its absence by the Board of Directors of that company;

subject to the following conditions:

Valuer shall make an impartial, true and fair valuation of any assets which may be required to be valued; exercise due diligence while performing the functions as Valuer; make the valuation in accordance with such rules as may be prescribed; not undertake valuation of any assets in which he has a direct or indirect interest or becomes so interested at any time during or after the valuation of assets;



**CMA Ashok Agarwal**  
Practicing Cost Accountant  
Delhi

Valuer, if contravenes prescribed conditions, is punishable with fine not be less than twenty-five thousand rupees which may extend to one lakh rupees;

Valuer, if contravenes with intention to defraud the company or its members, is punishable with imprisonment upto one year and fine one lakh to five lakh rupees;

Valuer, if punished for contraventions, to refund the remuneration received by him to the company and pay for damages to the company or to any other person for loss arising out of incorrect or misleading statements of particulars made in his report.

Section 247 has been enforced wef 18th October 2017. The Central Government has delegated the powers and functions vested in it under section 247 to the Insolvency and Bankruptcy Board of India, subject to the condition that the central Government may revoke such delegation of powers or it may exercise the powers under the said section if in its opinion such a course of action is necessary in the public interest.

### Registered Valuer

A person shall be eligible to be a registered valuer if he is a valuer member of a registered valuers organisation, recommended for registration as a valuer by that organisation, has passed the valuation examination within three years preceding the date of making an application for registration, possesses the specified qualifications and experience, not a minor, not declared to be of unsound mind, not an undischarged bankrupt and is a person resident in India; and also has

not been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months or for an offence involving moral turpitude, and a period of five years has not elapsed from the date of expiry of the sentence; etc., etc.

### Registered Valuers Organisation

An organisation may be recognised as a registered valuers organisation for valuation of a specific asset class or asset classes if:

- (i) it has been registered under section 25 of the Companies Act, 1956 or section 8 of the Companies Act, 2013 with the sole object of dealing with matters relating to regulation of valuers of an asset class or asset classes and has in its bye laws the requirements specified in Annexure-III of the Companies (Registered Valuers and Valuation) Rules, 2017.
- (ii) a professional institute established by an Act of Parliament enacted for the purpose of regulation of a profession;

The organisation shall be recognised if it –

- (a) conducts educational courses in valuation, in accordance with the syllabus determined by the authority for individuals who may be its valuers members, and delivered in class room or through distance education modules and which includes practical training;
- (b) grants membership or certificate of practice to

individuals, who possess the qualifications and experience as specified in respect of valuation of asset class for which it is recognised as a registered valuers organisation;

- (c) conducts training for the individual members before a certificate of practice is issued to them;
- (d) lays down and enforces a code of conduct for valuers who are its members, which includes all the provisions specified in Annexure-I of the Companies (Registered Valuers and Valuation) Rules, 2017;
- (e) provides for continuing education of individuals who are its members;
- (f) monitors and reviews the functioning, including quality of service, of valuers who are its members; and
- (g) has a mechanism to address grievances and conduct disciplinary proceedings against valuers who are its members.

A registered valuers organisation shall convert into or register itself as a company under section 8 of the Companies Act, 2013, and include in its bye laws the requirements specified in Annexure- III of the Companies (Registered Valuers and Valuation) Rules, 2017, within one year from the date of commencement of these rules (before 18.10.2018).

### Qualifications and Experience to be eligible for being registered

## as a Valuer:

An individual shall have the following qualifications and experience to be eligible for registration, namely:-

- (a) post-graduate degree or post-graduate diploma, in the specified discipline, from a University or Institute established, recognised or incorporated by law in India and at least three years of experience in the specified discipline thereafter; or
- (b) a Bachelor's degree or equivalent, in the specified discipline, from a University or Institute established, recognised or incorporated by law in India and at least five years of experience in the specified discipline thereafter; or
- (c) membership of a professional institute established by an Act of Parliament enacted for the purpose of regulation of a profession with at least three years' experience after such membership and having qualification mentioned at clause (a) or (b).

Qualifying education and experience and examination or training for various asset classes, is given in an indicative manner in **Annexure-IV** of the Companies (Registered Valuers and Valuation) Rules, 2017.

## Valuation Examination

The authority shall, either on its own or through a designated agency, conduct valuation examination for one or more asset classes, for individuals, who possess the qualifications and experience and have completed their

educational courses as member of a registered valuers organisation, to test their professional knowledge, skills, values and ethics in respect of valuation.

## Registration as a Valuer

An individual eligible for registration as a registered valuer may make an application to the authority in Form-A or a partnership entity or company eligible for registration as a registered valuer may make an application to the authority in Form-B of Annexure-II of the Companies (Registered Valuers and Valuation) Rules, 2017 along with non refundable application fee. If the authority is satisfied, after such scrutiny, inspection or inquiry as it deems necessary, that the applicant is eligible, it may grant a certificate of registration to the applicant to carry on the activities of a registered valuer for the relevant asset class or classes within sixty days of receipt of the application, excluding the time given by the authority for presenting additional documents, information or clarification, or appearing in person, as the case may be.

## Conditions of Registration

The registration granted is subject to conditions that the valuer:

- (a) at all times possess eligibility and qualification and experience criteria as specified;
- (b) at all times comply with provisions of the Act, rules and Bye-laws or internal regulations of registered valuers organisation;
- (c) in his capacity as registered valuer, not conduct valuation of assets other than for which he has been registered by authority;

- (d) take prior permission of authority for shifting his membership from one registered valuers organisation to another;
- (e) take adequate steps for redressal of grievances;
- (f) maintain records of each assignment undertaken by him for at least three years from completion of such assignment;
- (g) comply with Code of Conduct of registered valuers organisation of which he is a member;
- (h) in case a partnership entity or company is registered valuer, allow only partner or director who is a registered valuer for asset class that is being valued to sign and act on behalf of it;
- (i) in case a partnership entity or company is registered valuer, it discloses to company concerned, extent of capital employed or contributed in partnership entity or company by partner or director, as the case may be, who would sign and act in respect of relevant valuation assignment for company;
- (j) in case a partnership entity is registered valuer, be liable jointly and severally along with partner who signs and acts in respect of a valuation assignment on behalf of partnership entity;
- (k) in case a company is the registered valuer, be liable along with director who signs and acts in respect of a valuation assignment on behalf of company;
- (l) in case a partnership entity or company is registered valuer, immediately inform authority on removal of a partner or director, as the case may be,



- who is a registered valuer along with detailed reasons for such removal; and
- (m) comply with such other conditions as imposed by the authority.

### Conduct of Valuation

The registered valuer, while conducting a valuation, to comply with valuation standards as notified or modified; provided that until valuation standards are notified or modified by the Central Government, a valuer to make valuations as per-

- (a) internationally accepted valuation standards;
- (b) valuation standards adopted by any registered valuers organisation.

The valuer, in his report to state: background information of the asset being valued, purpose of valuation and appointing authority; identity of valuer and any other experts involved in the valuation; disclosure of valuer interest or conflict, if any; date of appointment, valuation date and date of report; inspections and/or investigations undertaken; nature and sources of the information used or relied upon; procedures adopted in carrying out valuation and valuation standards followed; restrictions on use of the report, if any; major factors that were taken into account during the valuation; conclusion; and caveats, limitations and disclaimers to the extent they explain or elucidate limitations faced by valuer.

### Transitional Arrangement

Any person who may be rendering valuation services under the Act, on the date of commencement of the Companies (Registered Valuers

and Valuation) Rules, 2017, may continue to render valuation services without a certificate of registration under the Companies (Registered Valuers and Valuation) Rules, 2017 upto 31st March, 2018: Provided that if a company has appointed any valuer before such date and the valuation or any part of it has not been completed before 31st March, 2018, the valuer shall complete such valuation or such part within three months thereafter.

### Cancellation or suspension of certificate of registration

The authority may cancel or suspend the registration of a valuer or recognition of a registered valuers organisation for violation of the provisions of the Act, any other law allowing him to perform valuation.

### Punishment for contravention

Where a person contravenes any of the provision, be punishable in accordance with sub-section (3) of section 469 of the Companies Act 2013.

### Punishment for false statement

If in any report, certificate or other document, any person makes a statement,—(a) which is false in any material particulars, knowing it to be false; or (b) which omits any material fact, knowing it to be material, he be liable under section 448.

### Model Code of Conduct

#### Integrity and Fairness

Valuer follows high standards of integrity and fairness in dealings with clients and other valuers; maintains integrity by being honest, straightforward,

and forthright in all professional relationships; endeavours to ensure that he provides true and adequate information, not misrepresent any facts or situations; refrains from being involved in any action that would bring disrepute to profession; keeps public interest foremost while delivering services.

#### Professional Competence and Due Care

Valuer renders at all times high standards of service, exercise due diligence, ensures proper care and exercise independent professional judgment; carry out professional services in accordance with relevant technical and professional standards specified from time to time; maintains professional knowledge and skill to provide competent professional service based on up-to-date developments in practice, prevailing regulations/guidelines and techniques; not to disclaim liability for his expertise or deny his duty of care, except to the extent that assumptions are based on statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer; not to carry out any instruction of the client insofar as they are incompatible with the requirements of integrity, objectivity and independence; to clearly state to his client the services that he would be competent to provide and the services for which he would be relying on other valuers or professionals or for which the client can have a separate arrangement with other valuers.

#### Independence and Disclosure of Interest

Valuer to act with objectivity in his professional dealings by ensuring that his decisions are

made without the presence of any bias, conflict of interest, coercion, or undue influence of any party, whether directly connected to the valuation assignment or not; not to take up an assignment if he or any of his relatives or associates is not independent in terms of association to the company; to maintain complete independence in his professional relationships and to conduct valuation independent of external influences; to disclose to clients, possible sources of conflicts of duties and interests, while providing unbiased services; not to deal in securities of any subject company.

### Confidentiality

Valuer not to use or divulge to other clients or any other party any confidential information about subject company, which has come to his knowledge without proper and specific authority or unless there is a legal or professional right or duty to disclose.

### Information Management

Valuer to ensure that he maintains written contemporaneous records for any decision taken, the reasons for taking the decision, and the information and evidence in support of such decision; to appear, co-operate and be available for inspections and investigations carried out by the authority, any person authorised by the authority, the registered valuers organisation with which he is registered or any other statutory regulatory body; to provide all information and records as may be required by the authority, the Tribunal, Appellate Tribunal, the registered valuers organisation with which he is registered, or any other statutory regulatory body;

while respecting the confidentiality of information acquired during the course of performing professional services, to maintain proper working papers for a period of three years or such longer period as required in its contract for a specific valuation, for production before a regulatory authority or for a peer review.

### Gifts and hospitality

Valuer or his relative not to accept gifts or hospitality which undermines or affects his independence as a valuer; not to offer gifts or hospitality or a financial or any other advantage to a public servant or any other person with a view to obtain or retain work for himself, or to obtain or retain an advantage in the conduct of profession for himself.

### Remuneration and Costs

Valuer to provide services for remuneration which is charged in a transparent manner, is a reasonable reflection of the work necessarily and properly undertaken, and is not inconsistent with the applicable rules; not to accept any fees or charges other than those which are disclosed in a written contract with the person to whom he would be rendering service.

### Occupation, employability and restrictions

Valuer to refrain from accepting too many assignments, if he is unlikely to be able to devote adequate time to each of his assignments; not to conduct business which in the opinion of authority or registered valuer organisation discredits profession. **MA**

### References:

1. The Companies Act 2013
2. The Companies Act 1956

3. The Companies (Registered Valuers and Valuation) Rules, 2017.
4. MCA Notification S.O. 3393(E) [F.NO.1/27/2013-CL-V], dated 18-10-2017
5. Companies (Removal of Difficulties) Second Order, 2017, w.e.f. 23-10-2017
6. MCA Notification [F.NO.1/27/2013-CL-V (PART-I)], Dated 23-10-2017
7. MCA's website
8. Institute of Cost Accountants website.

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# VALUATION

## Present Scenario

### Key terms in Valuation

Important terms used in valuation by various stakeholders (persons, entities, government etc.) who deals in incurring and/or acquiring “Cost” i.e. incurred cost, decides and transact “Price” Base on cardinal or perceive principle of “Valuation” as opinion and/or judgment arrived in. This practice is as per prevailing economic, social, as per National (Statute Laws) as well as per generally acceptable national and international customs, system practice and makes transactions for past, present and its prospective future implication in society as required.

### Domain of Valuation

- ✦ Business and Transaction Valuation for taxes and allied requirements
- ✦ Share, Goodwill, Patent, Trademark Valuation (Intangible Assets).
- ✦ Human Resource Valuation
- ✦ Fixed Assets Valuation
- ✦ Inventory Valuation ( Current Stocks)



**CMA J. B. Mistri**  
Practicing Cost Accountant &  
Registered Valuer  
Ahmedabad

★ Merger, Acquisition, Reconstruction and Amalgamation.

★ The Assets Valuation shall cover Fair Valuation as per Ind. AS

★ Valuation under IBC Code 2016, (For RDBFCB Act and SARFESI Act )for resolution, liquidation, for Corporate Debtors (Bank/FIs/Companies/LLP, Individual, Partnership Firms with rules as frame there in from time to time.

★ Assessment of Property Transition for Village Panchayat, Nagrapaliks, Municipal corporation, State Revenue Taxes, Vehicles, Road-Toll Taxes and allied requirements and allied., Registration and Court Fees and allied.

★ Valuation under Direct Taxes: Capital Gain Tax, Transfer pricing provisions : Comparable uncontrolled Price (CUP), Cost Plus Methods, Resale Price Method, Profit Split Method, Transaction Net Margin Method & Indirect Taxation

★ Valuation Under Indirect Taxation: (Custom, Excise & Service Tax, Commercial Tax: Sales Tax & VAT etc.) GST ACT Valuation with Rules frame there in.

## Why Valuation is done?

★ Tax : (Direct, Indirect & State Taxes) For Estate/Gift, Buy/Sell Agreements

★ Bankruptcy and Litigation

● Liquidation or Reorganization

● Patent Infringement

● Partner Disputes

● Economic Damages

★ Financial Reporting

● Purchase Price Allocation, Impairment Testing and Stock Options and Grants, etc.

★ Strategic Planning/Transaction

● Value Enhancement

● Business Plan/Capital Raising

● Strategic Direction, Spin-Offs, Carve Outs, etc.

● Acquisitions, Due Diligence

★ Other matters to be attained for

● Employee Stock Ownership Plan (ESOP).

● Solvency and Fairness Opinions

● Damage Assessment

● Dissenting Shareholder Actions

● Dispute resolution mechanism.

● For arriving for dissenting shareholders claims

● In Arbitration and out of Court Settlement

● Marital Dissolutions

★ Valuation For:

● The Assets Valuation for Lending Purpose by Bank, Financial Institution Primary and as Collateral Security Lenders, Market Value purpose, Realizable Value and Liquidation purpose as Force/ Distress sale value for Recoveries,

● Assets Valuation Measurement Accounting and Disclosures for Restructuring, Take Over, Mergers and acquisition etc.

● Assets Valuation for Business Valuation and allied.

● Assets Valuation for discontinued operation

● Assets Valuation for settling Liabilities.

● Valuation: By Registered Valuer (Chapter XVII: Section 247 of Companies Act 2013 and Proposed Rules to be notified.

## Who are Stakeholders

● Individual,

● Family,



- HUF.
- AOP .
- Firms(LLP).
- Public and Private Trusts and by Trustees.
- Limited Companies.
- Public Sector Undertaking and Independently owned and operated by State & Local Bodies ( Primary & Public Health Services)
- This will cover for Measuring, Accounting and Disclosures with implication of Impairment, Fair Value Measurement, under Various Ind. As, IFRS, Impairment, Componentization and allied requirements.

### Fair value definition

*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. Here valuer (valuator/ appriser) performs key role to arrive fair valuation.*

### Valuation Under IBC 2016

Registered Valuer u/s 247 of Companies Act ,2013 (including Professional Valuer) shall perform key role for calibration and judgmental implication to provide diagnostic tool for future preventive and corrective action prevailing in economic sphere to enhance piece, prosperity of the society , who shall perform under Insolvency and Bankruptcy Code 2016 and Rules framed as Successful for resolution, liquidation, bankruptcy decision process so as arrive and enhance value system with state of affairs of various entity having ease and hassle free entry and/or exist route for business in the interest of consumer, society and shall have calm cool and compose and healthy and prosperous environment as required by Directive Principle of Good Governance Practice.

### Fair Valuation: As over view as Per IND as 113

- ✳ Transition to Ind. AS:

Indian corporate are in the process of transitioning to a new set of accounting standards called the Indian Accounting Standards (Ind. AS) which converge closely

with the International Financial Reporting Standards (IFRS).

### ✳ Advantages of Transition:

- Improved Comparability
- Transparency
- Qualitative Financial Statements
- Global Acceptability

### ✳ Fundamental changes due to Ind. AS

Significant increase in focus on “FAIR VALUE” accounting (Approx. 75% of Balance Sheet size need Fair Value)

### Applicability of IND. AS

- 2016-17:Companies (listed and unlisted) whose net worth is equal to or greater than 500 crore INR
- 2017-18:Unlisted companies whose net worth is equal to or greater than 250 crore INR and all listed companies
- 2018-19 (onwards):When a company's net worth becomes greater than 250 crore INR
- Registered Valuer shall be most competent person to provide Fair Valuation as an Expert.

### How Business Valuation is done (Methods/Approach)

- Net asset based method/replacement cost model
- Market approach
- Income approach

### Net Asset Based Method

Net Assets/Book Value approach indicates the Value of the Business by adjusting the assets and liabilities appearing in the Balance Sheet of the Company which is being valued as the Value Analysis date.

The Fixed Assets and Current Investments related to the fixed assets, being adjusted by carrying out a Present Market Value calibrations as certified by

Registered Valuer. (Revaluation Module) where considered appropriate. Then, Net current assets as on the value analysis date are added to Value of Fixed Assets, and subtracted with long term and contingent liabilities which are likely to be materialize.

## Various Assets:

### ★ TANGIBLE

- LAND
- BUILDING
- INVENTORIES
- PLANT AND MACHINERY

### ★ IN-TANGIBLE

- GOODWILL
- PATENTS
- KNOW-HOW
- BRAND

## Land & Building

- Under Ind. AS16, Assets classification and Valuation measurement (Tangible Assets ) shall Cover For Property Like Real Estate Properties, Plant and Machinery, Utilities, Furniture and Fixtures, Vehicles etc and can be Grouped based on entity specific requirements.

## Land

- Like Agriculture Land, Non Agriculture Land, Specific Intended Use Land known as N.A. land Industrial, Residential, Commercial, Public Utilities and services For Railways, Port, Civil Aviation, State Transport & Bus Depots, Ware Houses for Water ways, Public Road and like Garden Amusement, Archeological and related sites etc.
- Land: From Ownership perspective of various entity i.e. owned and/or lease (Short term or Long term) with riders with intended uses, covenants etc.

- Based on above with Valuation of Intended purpose valuation are required to be carried out for Various Stake holders and implication to entities

## Building

- Residential Buildings
- Industrial Buildings
- Commercial Buildings
- Hotel, Tourism, Leisure's and amusement Parks
- Buildings related to Roads, Marine and Air Services infrastructure, Logistic and Ware housing etc.
- Buildings for of Government, Local Bodies owned Like, Metropolitan Cities, Municipal Corporations, Panchayat, Public Services, Health like water, sanitation, waste deposal and environment supporting systems.
- Other if any.

## Present & Prospective Valution Scenario

- Fair Value calibration under Ins AS 113
- C A U/S 247 Registered Valuer (CA,CMA,CS,ENG. ETC)
- Valuation under RERA ( Real Estate Regulation Act)
- Valuation under GST including Rules framed under GST, Transactions and Audit Implication.
- Valuation Bill introduced and lapse in 2009. And in near future such Bill and Act with Regulatory Authority shall be required for good governance as well as for foreign investment and cross border transaction.
- National Valuation Standards (to be frame) with IVS (International valuation standards) to be followed in Indian environment and cross border transactions.
- Reporting of Asset Valuation to Oversees to person of Indian origin and Foreigners.

## Plant and Machinery

- Plant and Machinery related Production of Goods and Services to Specific Industries: Engineering, Chemical & Process Plants, Marine Vessels, Air, Vehicles, Power Sectors Like Hydro, Thermal, Nuclear, Equipments for Agricultures, Defence Equipments Like Air, Marine and Army Equipments on Land, Air, Water and distance war equipments like Missile and Aero Space Engineering, Mining Mineral, Exploration, Drilling equipments etc. Ware housing and Logistic Managements and allied.
- Plant and Machinery spherically for Spectrum, Telecommunications, wireless devices, Towers etc.
- Services and Support Functional Equipments Known as Utilities like Power Supply, DG Sets, Electric Installation, Air Supply, HVAC Equipment, Air, Water and Waste Disposal equipments, CIP-Cleaning and Treatment equipments, Connecting of Air, Water, HVAC pipelining, Measuring and Delivering equipment, Fire Hydrants, Mechanized automated Material and Services Handling equipments like cranes etc for Loading and Unloading of Raw Material, Work in-Progress and Finished Goods, Equipments for Preventive and Corrective Maintenance .
- Quality Control and Quality Assurance, Recoding and Measuring Like Weigh Bridge/Scales, Liquid and Gas dispensing, and related facilities.
- Hardware and Software and Integration and Automation with Instrumentation etc.
- Tools and Tackles with Dies and Jigs & Fixtures if amortized with life in periodic use and or Quantitative output in measurable terms and allied.
- Componentization of above various plant and equipments other if any with Life, depreciation, Impairment etc.

### Other Tangible Assets

- Inventory

Inventory in terms of goods for sale, organizations manufactures , Service providers and and not-for - profit - also have inventories (fixtures, furniture, supplies, etc.) that they do not intend to sell. Manufacturers', distributors and wholesalers' inventory tends to cluster in warehouses . Retailer's inventory may exist in a warehouse or in a Shops or store accessible to Customers Inventories not intended for sale to customers or to clients may be held in any premises an organization uses.

In manufacture, trade, warehousing and services are mainly classed as :

- Raw materials and components scheduled for use in making a product.
- Work in progress : WIP - materials and components that have begun their transformation to finished goods.
- Finished goods : Goods ready for sale to customers.
- Goods for resale - returned goods that are salable.
- Stocks in transit.
- Consignment stocks
- Maintenance supply
- In servicing of Products during Installation, commissioning trial run etc.  
Inventory in Agriculture, Marine, Explorations, Minerals, Mines, Construction, Farming, Animal Husbandry etc.

## Valuation of Intangible Assets

- An *intangible asset* is a non-monetary asset that manifests itself by its economic Properties. It does not have physical substance but grants rights and economic benefits to its owner.
- An *intangible asset* is distinguishable from *goodwill*. *Goodwill* is any future economic benefit arising from a business or a group of assets which is not separable from the business or group of assets in its entirety.
- Valuations of intangible assets are required for

many different purposes including acquisitions, mergers and sales of businesses or parts of businesses, purchases and sales of intangible

assets, reporting to tax authorities, litigation and insolvency proceedings, and financial reporting.

## Example of Revaluation Module

Sr. No.	Asset in Currency XX	Gross Block	Net Block	Present Value
1	Land	10,299,271	10,299,271	2,635,675,963
2	Building	30,322,191	21,854,242	59,200,400
3	Office Furniture	2,400,292	612,561	630,000
4	Plant & Machinery(General)	111,546,894	55,755,327	84,000,000
5	Plant & Machinery (Specific Industry)	1,163,203,733	296,703,707	477,000,000
6	Vehicles	76,656,883	24,422,374	30,000,000
7	Computers and hardware	5,583,643	1,195,497	1,522,000
8	Solar Plant and Machineries XX -MW	718,782,652	463,109,919	492,780,000
9	Solar land -YY MW	32,970,595	32,970,595	32,970,595
10	Solar Land ZZ –MW Total ( 1 to 10)	39,167,440 2,190,933,594	39,167,440 946,090,933	39,167,440 3,852,946,398
11	Add : Capital work in Progress	-	-	710,243,814
	Fixed Asset as at _____ Date (1 to 10)	2,190,933,594	946,090,933	4,563,190,212

## Market approach

Market multiple approach indicates the Value of the business by comparing it to publicly traded companies and/or market transactions in similar lines of business.

The approach based on the segment the business operates as per universal factors affecting market conditions such as demand for products, availabilities of inputs like Raw Materials, infrastructures, price elasticity of demand, tax and duty regime, impact of business cycles etc.

An analysis of these comparable companies then gives an opportunity to access the Value of the Business under consideration.

### ✱ Market Transaction (M&A) Approach

☐ In the Guideline Merged and Acquired Company Method, the value of the business is indicated based on multiples paid for entire companies or controlling interests.

### ☐ Public Market Transaction Approach

- Public Buyer or Seller Transactions
- Control Value

### ☐ Private Market Transaction Approach

- Private to Private Transactions
- Control Value

## Income approach



Popularly known as discounted Cash flow approach indicates the Fair Market Value of the business based on the Value of Cash Flow that can business generate in future. This method involves estimation of post-tax cash flow for the Projection period as per normal working cycle and its requirements. These cash flows are then discounted at a cost of Capital that reflects the risk of the business and capital structure.

✱ The various forms:

- Capitalization of Earnings/Cash Flow Analysis (Gordon Growth Model)
- Discounted Cash Flow Analysis (DCF)
- Dividend Discount Model (DDM)

#### X- Factors in Valuation in Fair Valuation

- Choice of Peer Entities
- Cross Holdings & Investments
- Excess Cash / Non operating Assets
- Accounting Practices and Tax issues
- Discounts and Premiums

Value of Taxable Supply: Sec. 15-GST

- Value of supply of goods and/or services on which CGST/SGST is to be discharged shall be the 'Transaction Value', where
  - ☐ Supplier and recipient of supply are unrelated
  - ☐ Price is actually paid/ payable – AND price is the sole consideration for the supply.

GST ACT: Valuation Implication

- Officers / Directors of one another's business
- Partners in business
- Employer – employee
- A person directly/ indirectly owns/ controls/ holds 25 of shares of both the persons



*Valuation is not just a figure but it calibrates different knowledge wisdom of art, science, social economics, local laws regulation and many human and potential hidden dimensions. Richer dimensions, assumptions, facts and figure and many such aspects, richer and real shall be the Valuation*



- One directly/ indirectly controls the other
- Both are directly/ indirectly controlled by a third person
- Together, they directly/ indirectly control a third person
- Members of the same family
- Sole agent / distributor of the other

Transaction value: Include and Exclude

- Transaction Value INCLUDES:
- Amounts charged by supplier to recipient in respect of any taxes, duties, cesses, fees and charges levied under any statute, other than taxes paid under GST regime;
- Amount incurred by Recipient which is liable to be paid by the Supplier;
- Charges by Supplier to Recipient being:
  - ☐ **Incidental expenses** (e.g.: packing, commission)
  - ☐ **Charges for anything done by the Supplier** at the time or before the supply, in respect thereof
  - ☐ **Interest/ late fee/ penalty** for delayed payment of consideration
  - ☐ **Subsidies directly linked to price** – for supplier receiving the subsidy (excluding Central and State Govt subsidies; i.e., Government subsidies will not be included in transaction value)

Transaction Value EXCLUDES discount:

- Before/ at the time of supply
  - ☐ **Single condition:** Such discount is duly recorded in the invoice
- After the supply: Cumulative conditions:

- ☐ Agreement establishing discount entered into before/ at the time of supply
- ☐ Discount specifically linked to relevant invoices
- ☐ ITC reversed by the recipient to the extent of discount

## Issue KEY Impetus under GST

- Relating to Anti proffering and allied.
- Fair pricing and consumers affairs attainment.

## Transaction value: Recourse to Rules

### Where value cannot be determined u/s 15(1), i.e.

1. Price is not the sole consideration
2. Supplier-recipient are related persons: Recourse to Rules even if the Supplier-Recipient relationship:
  - Did not influence the price;
  - Precedes agreement to the supply;
  - Has no bearing on pricing;
  - Has no bearing on Agreement to the Supply;
  - Has no relevance to the Supply;
  - Was to meet with different criteria or purpose;

(Rules will apply both ways – supplier to recipient and recipient to supplier) **MA**

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## Employee Engagement Analytics: Enhancing the Firm Value



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*Firms need valuation for different reasons. Firm value is an important measure of its overall performance and firms strive to maximize value for their shareholders. Among the several factors affecting firm value; employee engagement is a significant factor. Through an intensive review of relevant literature, this paper attempts to establish that employee engagement has a significant positive impact on firm value. This paper also suggests that Real Time Employee Engagement Analytics by using Artificial Intelligence and other tools is having a huge potential to develop as a focus area for firm value enhancement.*



## Firm Value as a Performance Measurement Tool

(Neely, Gregory, & Platts, 2005) defined Performance Measurement as “process of quantifying the efficiency and effectiveness of action”. According to (Al-Matari, Al-Swidi, & Bt Fadzil, 2014), Performance Measurement is highly significant in an organization’s effective management and for enhancing its processes, because measurable things are only best manageable.

Performance of a firm can be measured in several ways. Some of the ways to measure financial performance, as suggested by (Al-Matari, Al-Swidi, & Bt Fadzil, 2014) are: Tobin’s Q, Return on Assets, Profit Margin, Divided Yield, Return on Equity, Earnings Per Share, Sales Growth, Return on Sales, Sales to Assets, Sales per Employee, Price-Earnings Ratio, Expense to Assets, Cash to Assets, Return on Capital Employed, Expenses to Sale, Annual Stock Return, Operating Cash Flow, Cost of Capital, Labor Productivity, Market Value Added, Return on Investment, Operation Profit, Log of Market Capitalization, Market-to-Book Value, Stock Repurchases, Output per Staff, Return on Revenue, Return on Fixed Assets, Cost Per Service/Client Provided, Profit per Employee, etc.

Firm Value is a significant performance measure for any firm. (Koller, Goedhart, & Wessels, 2015) found value as an important performance measurement tool because “it (value) takes into account the long term interests of all the stakeholders in a company, not just the shareholders. Alternative measures are neither as long term

nor as broad.”

Firms need valuation for measurement of performance because as (Silverman, 2015) stated “valuations:

- ✱ Set a basis of value for a business when no valuation has been previously performed.
- ✱ Set a base line value for the business and develop a strategy to improve the profitability of the business and increase the value of the business for an exit strategy.
- ✱ Determine the annual per share value of an Employee Stock Ownership Plan.
- ✱ Value a portfolio of IP – patents, trademarks, copyrights, proprietary processes, etc.
- ✱ Justify the per share equity value in a company for annual shareholder meetings.
- ✱ For shareholder or partnership investments or buyouts.
- ✱ For buy-sell purposes and funding the agreement.
- ✱ Obtain bank financing or alternative investment.
- ✱ Value a business for a business bankruptcy.
- ✱ Identify whether the business is growing, stagnant or declining in value restructure the business.”

Views of (Macey, 2011) that Corporations “strive to maximize value for shareholders” highlight

the importance of firm valuation as a performance measurement tool. Even (Jensen, 2002) while speaking on value maximization and its importance, states that firm value is an organization’s scorecard and all managers while making decisions should aim at increasing the firm’s total long run market value.

Thus, value is one of the most sought after comprehensive indicator of firms’ performance.

## Factors Influencing Firm Value

Several factors affect firm value. (Villalonga & Amit, 2006) found that “percentage of ownership in the firm by non-family block holders; proportion of non-family outside directors on the board; market risk, corporate diversification, R&D expenditures relative to sales; capital expenditures relative to property, plant, and equipment; dividends relative to the book value of equity; leverage; firm size (measured as log of assets); and the firm’s age since its founding” affects firm value. (Carter, Simkins, & Simpson, 2003) also found that board diversity has a positive impact on firm value. (Baek, Kang, & Park, 2004) stated that “there is negative relationship between risk and firm value and a positive association between past performance and value”.

Among the factors affecting Firm Value, employee engagement is a significant one. (Kahn, 1990) stated that “disengaged employees displayed incomplete role performances and were effortless, automatic or robotic.” Later in his further research he found that high levels of engagement causes positive outcomes. In their study, (Harter, Schmidt, & Hayes, 2002) concluded that “employee satisfaction

and engagement are related to meaningful business outcomes at a magnitude that is important to many organizations”.

Upon reading the above text in light of earlier part of this article, where it was discussed that firm's value is a key indicator of firm's performance, it can be inferred that employee engagement has a significant role in firm's valuation.

### Employee Engagement as a Key Factor in increasing Firm's value:

#### The concept of employee engagement:

Employee engagement has been defined in several different ways. According to (Kahn, 1990), “engagement means to be psychologically present when occupying and performing an organizational role”. (Robinson, Perryman, & Hayday, 2004) defined employee engagement as “a positive attitude held by the employee towards the organization and its value. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organization.” It is also defined as “passion for work” (Truss, Soane, Edwards, Wisdom, Croll, & Burnett, 2006) or “the amount of discretionary effort exhibited by employees in their jobs” (Frank, Finnegan, & Taylor, 2004).

In nut shell employee engagement is a positive state of mind of the employee in which he goes the extra mile while discharging his ordinary duties.

#### Employee Engagement and Firm Value

Employee Engagement has a significant relation with Firm valuation. (Edmans, 2012) found

that the “companies listed in the ‘100 Best Companies to Work For in America’ generated 2.3-3.8 % per year higher stock returns than their peers from 1984-2011.” According to (Baumruk & Gorman, 2006), “engaged employee consistently demonstrates three general behaviors which improve organizational performance:

- ✱ Say - the employee advocates for the organization to co-workers, and refers potential employees and Customers
- ✱ Stay-the employee has an intense desire to be a member of the organization despite opportunities to work elsewhere
- ✱ Strive-the employee exerts extra time, effort and initiative to contribute to the success of the business”

(Mullen & Copper, 1994) also demonstrated the positive relationship between employee's engagement at individual level and the performance outcomes of team. (Simha & Vardhan, 2015) in their study found that employee engagement impacts following significantly in a positive manner : employee retention, employee productivity, increased sales, greater revenue, greater profitability, faster business growth and success, decrease in absenteeism, and higher levels of organizational commitment.

The above text indicates the impact of engaged employee on organizational performance. At the same time disengaged employees display behavior detrimental to organizational performance.

“Employees who are not engaged are likely to be spinning (wasting their effort and talent on tasks that may not matter much), settling (certainly do not show full commitment, not dissatisfied enough to make a break) and splitting (they are not sticking around for things to change in their organization), have far more misgivings about their organization in terms of performance measures such as customer satisfaction” (White, 2006) ; (Perrin, 2003) . (Meere, 2005), found that “both operating margin and net profit margins reduced over a three year period in companies with low engagement, while these measures increased over the specified period in companies with high levels of engagement.” Report by (Accord Management Systems, 2004) reveals that “disengaged employees are more likely to cost their organization.”

Thus we see that employee engagement has a significant positive impact on firm performance and its value.

### The Way Ahead: Enhancing the Firm Value through Real Time Employee Engagement Analytics using AI Tools

#### The Concept of Employee Engagement Analytics

Data analytics helps us examine large data sets to understand hidden patterns, trends, correlations and other meaningful insights. Data analytics is finding wide applications in all fields of management, including HR. (Lawler, Levenson, & Boudreau, 2004) emphasized that HR analytics can add value to their organization by focusing on HR practices and policies which impact

organizational performance. (Lawler & Mohnnan, 2003b) mentioned that HR has a potential to become a strategic partner provided it uses metrics to its advantage.

(Fitz-enz, 2010) observed that “while there was little consensus about which Human Capital Measures (HCMs) are leading, employee engagement seems to be one likely candidate for most survey participants”. As per (Deloitte, 2016), employee engagement has now become a CEO-level issue.

Thus we see that in the promising field of HR Analytics, Employee Engagement Analytics has emerged as a prominent HCM.

### The Emerging Area of Real time Employee Engagement Analytics :

Real time analytics has gained prominence in every area of management including HR. Efforts for analyzing employee engagement can produce best results when they are subjected to real time analytics.

(Deloitte, 2016) emphasizes on the “always on” approach which Employee Engagement needs to adopt, in line with sites such as LinkedIn where users are “always on” the search for new possibilities.

While emphasizing on the need to use new solutions emerging in the workplace for assessing employee engagement (Deloitte, 2016) says “A new generation of ‘pulse’ survey tools and open anonymous feedback systems can allow employees to rate managers, executives, and just about everything else at work on a near-real-time basis. The thoughtful use of such tools can create a true ‘listening environment’ for employees while giving leaders

critical insight into what’s working and what’s not working in the company. The movement toward this always-on, feedback-based approach to engagement is growing rapidly, disrupting traditional models of measuring and managing employee engagement.”

(Gloor, 2017) suggested framework to understand employee patterns by analyzing “organization from the inside, by mining e-mail, Skype, and calendar data; and from the outside, by crunching Twitter, Wikipedia, and blog data”. He suggested that data-driven tools help in showing real-time correlations between coaching and engagement, and other vital trends.

Real time data analytics is further made effective by right use of Artificial Intelligence (AI) tools.

(Oran, 2016) writes that many organizations like Citigroup, Goldman Sachs, and UBS Group use AI software to assess traits like teamwork, etc. He further added that AI tools help in predicting which employees will succeed at a given job, which employees are best suited for a particular role, etc. These AI tools, by analyzing resumes, documents, video interviews and other methods help generate key employee patterns.

Thus we see that real time analysis of employee engagement is a key emerging trend and it very important for firms to adopt.

### Conclusion:

After the comprehensive review of literature and its synthesized segmental articulation in previous sections of this paper, it can be concluded that employee

engagement is a vital factor in enhancing firm value.

Prudent management always strives for enhancing firm value because it is a holistic measure of performance. Thus it is apparent that employee engagement levels need to be monitored on regular basis.

In today’s globally competitive era, firms cannot afford the lead and lag effect in monitoring employee engagement and thereafter taking necessary corrective actions. Therefore the use of artificial intelligence tools in the field of employee engagement analytics is turning out to be a thrust area for the firms striving to enhance their value. **MA**

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## Whether Amortisation is to be included for valuation in GST?

1. Value of the goods / services is to be determined in accordance with Section 15 of the CGST Act, 2017 read with CGST Rules, 2017.
2. Section 15(1) of CGST Act, 2017 stipulates, the value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of

the supply are not related and the price is the sole consideration for the supply.

3. We need to determine whether price is the sole consideration in situations where moulds, dies, tools etc. are supplied to the supplier.

3.1 Section 15(1) specifically states that the transaction value is to be accepted only when recipient and seller are not related and price is the sole consideration. To understand whether the supply of moulds, dies, tools etc. is to be included or not as part of consideration, we need to determine whether the same would qualify as consideration. Consideration is defined in section 2(31)



**CMA A. B. Nawal**  
Council Member and Chairman  
Corporate Law Committee  
Institute of Cost Accountants of India

## Quote

***“consideration” in relation to the supply of goods or services or both includes-***

***(a) any payment made or to be made, whether in money or otherwise, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government;***

***(b) the monetary value of any act or forbearance, in respect of, in response to, or for the inducement of, the supply of goods or services or both, whether by the recipient or by any other person but shall not include any subsidy given by the Central Government or a State Government;***

***Provided that a deposit given in respect of the supply of goods or services or both shall not be considered as payment made for such supply unless the supplier applies such deposit as consideration for the said supply;***

## Unquote

Inducement means advantage, benefit, or consideration that causes a party to enter into a binding agreement, or motivates it to perform more efficiently and cost effectively. Act of providing moulds, dies, tools, etc by the recipient is no doubt for the inducement of the supply of goods by the supplier.

The words “in respect of” are wide enough to permit charges being made as terminals so long as any of these things viz. stations, sidings, wharves, depots, warehouses, cranes and other similar matters have been proved and are being maintained. The Words “in respect of” used in S.3(14) mean “for the provision of “ and not “for the use of “. Sahadasa Saharanpur Light Railway Co Ltd. V Upper Doab Sugar Mills Ltd. , AIR 1960 SC 695 , 701, 702 (Indian Railways Act (9 of 1890) S 3 (14)

The words “in respect of” admit of a wide connotation. In the context of Section 23 (IB), the expression means, “being connected with”, Union of India V Vijay Chand Jain, “AIR 1977 SC 1302[FERA(46 of 1973), S 23(IB)]

In Respect of and In : The phrase “in respect of” has a wider connotation than the word in and so long as the speaker's action is relatable to any of the provisions dealing with his powers for regulating the procedure and conduct of business in the Legislature the courts jurisdiction would be ousted. An authority who is conferred Jurisdiction to decide a question, has jurisdiction to decide it either rightly or wrongly and so long as he is acting within his Jurisdiction., he is immune from interference by a Court of Justice. Godavaris Misra V Nandakishore AIR 1953 Orissa 111, 116.

## Definition of response :

1 1: an act of responding

2 2: something constituting a reply or a reaction: such as a : a verse, phrase, or word sung or said by the people or choir after or in reply to the officiant in a liturgical service b : the activity or inhibition of previous activity of an organism or any of its parts resulting from stimulation c : the output of a transducer or detecting device resulting from a given input

The Phrases used in the definition of in respect of, in response to, or for the inducement of, has been made wider and further paid by recipient or any other person w.r.t supply and goods & services has been included in the definition of the consideration. It means value of supply will include all the amount which the supplier was liable to pay but which is incurred by the recipient or any other person.

Payment signifies the partial or complete discharge of an obligation by its settlement in the form of the transfer of funds, assets, or services equal to the monetary value of part or all of the debtor's obligation.

Definition of consideration itself includes payment in money or other form. In this case had the recipient not supplied the moulds, dies, tools, etc, then the recipient would have had to either buy the same or then obtain the same on lease / rent etc. for fulfilment of the order of supply to the recipient. The recipient supplied the moulds, dies, tools, etc which will be considered as payment in other than money form to the recipient for fulfilment of the order.

3.2 Even if we go through the legislative history, we will notice that price is not considered the



sole consideration whenever there is supply of moulds, dies, tools etc. Transaction value can be adopted subject to the buyer and seller are not related and price is the sole consideration. In case of supply of moulds, tools, dies etc by the buyer, the condition of price being the sole consideration is not satisfied. Hence one is required to go to Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 to determine the valuation. The authority to charge amortization under the erstwhile Central Excise provisions flows from Section 4 of Central Excise Act, 1944 because price is not the sole.

### Quote

**Section 4. Valuation of excisable goods for purposes of charging of duty of excise. -**

**(1) Where under this Act, the duty of excise is chargeable on any excisable goods with reference to their value, then, on each removal of the goods, such value shall -**

**(a) in a case where the goods are sold by the assessee, for delivery at the time and place of the removal, the assessee and the buyer of the goods are not related and the price is the sole consideration for the sale, be the transaction value;**

**(b) in any other case, including the case where the goods are not sold, be the value determined in such manner as may be prescribed.**

### Unquote

As per Rule 3 of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000, the value of any excisable goods shall, for the purposes of clause (b) of sub-section (1) of section 4 of the Act, be determined in accordance with these rules. Accordingly, amortisation is considered in accordance with Rule 6 of the said Rules which states:

### Quote

**“Where the excisable goods are sold in the circumstances specified in clause (a) of sub section (1) of section 4 of the Act except the**

**circumstance where the price is not the sole consideration for sale, the value of such goods shall be deemed to be the aggregate of such transaction value and the amount of money value of any additional consideration flowing directly or indirectly from the buyer to the assessee.”**

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

**Explanation 1. - For removal of doubts, it is hereby clarified that the value, apportioned as appropriate, of the following goods and services, whether supplied directly or indirectly by the buyer free of charge or at reduced cost for use in connection with the production and sale of such goods, to the extent that such value has not been included in the price actually paid or payable, shall be treated to be the amount of money value of additional consideration flowing directly or indirectly from the buyer to the assessee in relation to sale of the goods being valued and aggregated accordingly, namely:-**

**(i) value of materials, components, parts and similar items relatable to such goods;**

**(ii) value of tools, dies, moulds, drawings, blue prints, technical maps and charts and similar items used in production of such goods;**

**(iii) value of material consumed, including packaging materials, in the production of such goods;**

**(iv) value of engineering, development, art work, design work and plans and sketches undertaken elsewhere than in the factory of production and necessary for the production of such goods.**

Unquote

4. Considering the above background, it becomes necessary to apply a reasonable value to the supply of moulds, dies, tools, etc by the recipient and include the same in valuation of the goods by the supplier.
5. If the recipient supplies moulds, dies, tools, etc in addition to the consideration in money, one will have to refer to Rule 27 of CGST Rules, 2017.

Quote

***Value of supply of goods or services where the consideration is not wholly in money - Where the supply of goods or services is for a consideration not wholly in money, the value of the supply shall,-***

***(a) be the open market value of such supply;***

***(b) if the open market value is not available under clause (a), be the sum total of consideration in money and any such further amount in money as is equivalent to the consideration not in money, if such amount is known at the time of supply;***

***(c) if the value of supply is not determinable under clause (a) or clause (b), be the value of supply of goods or services or both of like kind and quality;***

***(d) if the value is not determinable under clause (a) or clause (b) or clause (c), be the sum total of consideration in money and such further amount in money that is equivalent to consideration not in money as determined by the application of rule 30 or rule 31 in that order.***

We need to follow the sequence below to determine the value:

- Open market value of such supply
- Sum total of consideration in money + money equivalent of consideration in other form if such amount is known at the time of supply

➤ Value of supply of goods or services or both of like kind and quality

➤ Sum total of consideration in money + money equivalent as determined by application of rule 4 or rule 5 in that order

6. Reasonable value of such moulds, dies, tools is to be included for valuation of goods and value of the supply needs to be determined in accordance with Rule 27. The manner of inclusion of reasonable value can be by way of amortization provided the same results in a value which is determined in accordance with Rule 27 of CGST Rules, 2017.

7. One of the views against amortization is that Section 15(2) of the CGST Act, 2017 covers only the amount which the supplier was liable to pay but which is incurred by the recipient. It is argued that the supplier is not liable to pay any amount on the moulds, dies, tools, etc and hence not covered by Section 15(2). However, it is important to note that Section 15(2) will come into picture only if Section 15(1) is satisfied.

8. Taxability is on supply of goods or services and therefore value has to be determined of such supply. In the present case, moulds / tools has been supplied by the recipient to the supplier and after using the same, supplier is supplying the goods and therefore value has to be determined in terms of Sec 15(2) of CGST Act 2017 read with Rule 27 of CGST Rules 2017 and therefore, in our opinion, value of amortization of tools / moulds supplied to be added while determining taxable value of such supply. Same principal will apply when any free goods are supplied by the recipient to the supplier and supplier uses the same for supplying the goods to the recipient. Therefore value of goods / services supplied freely by recipient should be added while determining the taxable value of supply. **MA**

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# The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

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**Research Bulletin, Vol. 43, No. IV (ISSN 2230 9241)**

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We invite you to contribute research paper/article for “Research Bulletin”, a peer-reviewed Quarterly Journal of The Institute of Cost Accountants of India. The aim of this bulletin is to share innovative achievements and practical experiences from diverse domains of management, from researchers, practitioners, academicians and professionals. This bulletin is dedicated to publish high quality research papers providing meaningful insights into the management content both in Indian as well as global context.

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# Mobile Banking in India

In the last few years the use of mobile phones has increased rapidly and has become an important tool in our daily life. It is now used not just for communication but also for a plethora of other activities such as taking photos, playing games, driving directions, as an educational aid, for shopping and of course for carrying out banking and financial transactions. Here we will examine a few aspects of 'Mobile Banking' and its adoption within India.



The Cambridge dictionary defines 'Mobile Banking' as the

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act of sending, receiving or managing money using a mobile phone. Mobile banking refers to a host of services provided by a bank or financial institution which can be accessed by its customers from handheld devices such as mobile phones and tablets using different mobile based applications. These applications may be specialized software commonly referred to as 'Apps' or general utility functions inbuilt in all mobiles. Not all banks provide the same set of services and the services may be transactional or non-transactional. The services may or may not be chargeable and using them may cause separate mobile or internet charges to be incurred by the customer.

## Mobile Banking vs. Internet Banking vs. Mobile Payments

Internet Banking also known as 'Net Banking' or 'Online Banking' is a similar service but not the same

as mobile banking. Internet banking is conducted using an internet connection and a browser to login into the bank's portal and accessing the various services on offer. The device may be a personal computing device such as a desktop or a laptop, or it may be a handheld device such as a mobile phone or tablet and requires an internet connection to connect to the bank's website. It does not require any specialized software and any standard browser can be used to access the banking facilities. Online banking portals of different banks can be accessed using the same browser as it is the webpage of the bank which differs from bank-to-bank and not the browsing application (such as internet explorer).

The term Mobile banking on the other hand is exclusively used to mean certain banking services which are accessible only using a handheld device such as a mobile phone. It requires a specialized software application (or App) specifically designed by the bank to help a mobile device connect to the banking facility using an internet connection or a mobile network. Mobile banking cannot be accessed on a personal computer or any device other than a handheld device. Further, banking app of each bank is different and app of one bank cannot be used to access the services of another bank. A customer having accounts in multiple banks will need to install apps of all such banks which he wishes to use.

Mobile payments also known as mobile wallets or e-wallets are payment related services carried out using mobile devices. The services here too are tied to an 'App' of a payment service provider, which could be a bank or any other licensed organization. The wallet stores a monetary value which can be directly used to make a payment just like a debit or credit card. Mobile payments also allow contactless payments where the customer has to only wave his mobile at a specific payment point for the correct amount to be deducted from his e-wallet.

### Accessibility

Mobile banking can be accessed through a variety of devices using different technologies. The device may be a basic mobile phone with the most basic features or a smartphone with advanced features or a handheld tablet. The type of device being used determines the features that can be accessed and all the features may not be available on all types of devices.

The most basic form of mobile banking uses short

messaging service or SMS and can be used on both basic phones and smartphones. It is commonly known as 'SMS Banking' and involves sending short messages with specific keywords to a designated phone number of the bank to retrieve the desired information or execute the required action. Customers can avail of only a few services using this form of banking due to less flexibility and a number of restrictions. This method is also not secure due to low level of encryption used to communicate between the parties and so is not suitable for entering high value transactions. Yet this form has wide acceptance due to ease of use and low cost of ownership of basic mobile handsets.

The most frequently used method is through a specialized software application commonly known as a 'Mobile Banking App'. An 'App' is a software program that is designed to run only on mobile devices and in a way to preclude its use on personal computers. A 'Mobile Banking App' is designed by the bank releasing it to enable its customers to connect to its banking services using the internet, but without using a browser. A customer needs to download and install the specific app and authenticate himself using credentials provided by the bank in order to use the services. Mobile apps provide a lot of flexibility in terms of services offered. It uses a higher level of encryption than SMS banking to secure the communication between the bank and its customer and there are inbuilt safeguards to prevent frauds. There are fewer restrictions as compared to the other methods and varies from bank to bank.

A major limitation of mobile banking apps is that these can only be used on smartphones and not on basic mobiles, thus excluding those who are not conversant with using smartphones. Security is another concern with mobile apps and like any activity that uses the internet this too is prone to threats such as malware, scams, frauds, data skimming to name a few.

Another form of mobile banking that has been introduced in India, known as 'Unstructured Supplementary Service Data' or just 'USSD', uses a technology which is already inbuilt within most mobile networks. It has been promoted by National Payments Corporation of India (NPCI) and is now widely available within the country with more than 50 participating banks and multiple language support. To maintain simplicity a single number \*99# is designated across all GSM telecom service providers to access it. The

service is similar to the SMS feature on mobiles as all communication between the customer and the bank happens with short messages involving designated keywords. However, unlike SMS banking, USSD communication is session specific and creates a real time link. This allows a two-way exchange of information comprising of requests and responses between the user and the server. Once the session ends no further communication for that particular session can be done and the customer needs to start a new session with the service. The advantage here too is that this service is available on basic mobile phones and does not require an internet connection, hence making it simpler and cheaper.

### Mobile Banking Services

The main objective of mobile banking is anywhere and anytime banking. Naturally the services are available round the clock with little or no downtime. Certain accounts and services may not be accessible through mobile banking, and there may be restrictions on the number and value of transactions. The facilities commonly provided by mobile banking can be classified under the following broad heads.

#### Information services

1. Account balance inquiry, such as mini or detailed statements
2. Inquiry on term deposits, recurring deposits, their maturities
3. Inquiry about credit card and debit card usage and statements
4. Information about mutual funds, investments, insurance policies
5. Access to loan statements and liabilities
6. Demat inquiry services
7. Account and balance related alerts

#### Transaction services

1. Funds transfers within and outside the bank to linked accounts

2. Immediate payments services (IMPS)
3. Third party payments such as utility bill payments, subscriptions
4. Recharges and topping-up of mobiles, DTH services, e-wallets
5. Ticketing services for trains, buses, movies
6. Forex services such as buying forex or travel cards
7. Investment and portfolio management services
8. Buying or renewing insurance policies

#### Support services

1. Cheque book requisitions, status of card requests
2. Reporting and blocking lost or stolen cards, stop-cheque requests
3. Status of approvals and requests
4. Branch and ATM locations, timings, details of services provided
5. Customer loyalty and rewards services

#### Current usage trends in India

The use of mobile banking has been rising over the past few years and today transactions done using mobile devices constitute a major chunk of the total transactions done across banks. Increase in the number of mobile users boosted by the falling prices of handsets, better and cheaper internet connectivity, greater use of smartphones are some of the infrastructural factors behind this rise. Changing demographics, a large young population, promotion by the government and private businesses are some of the other major factors. Convenience and changing expectations of the people, however, are the biggest reasons for the huge increase.

As per data published by the RBI, the volume of mobile transactions has increased from a little over 63 million in June 2016 to almost 116 million in June 2017, an increase of 83% (YoY), which corresponds to an increase of 168% in rupee terms. Comparative statistics for the Jan-June period for the years 2016 and 2017 are given below in table 1 and the growth in volume is shown in the graph 1.

**Table 1: Comparison of volume and value of mobile transactions**

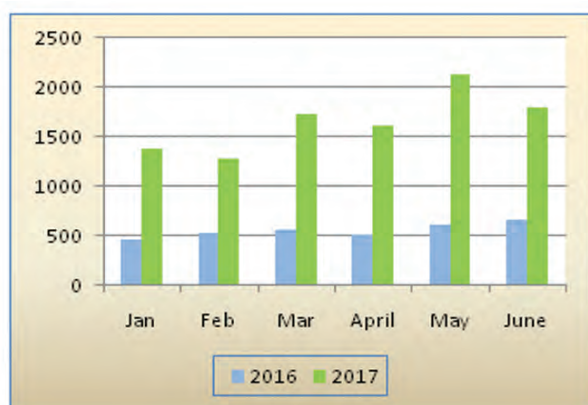
Period	Volume (in Millions)		Value (in Rupees Billions)		Increase in volume (YoY)	Increase in Value (YoY)
	2016	2017	2016	2017		
Jan	42.8	106.13	465.21	1383.05	147.97%	197.3%
Feb	44.65	95.41	540	1279.93	113.68%	137.02%



Mar	49.48	113.65	572.8	1730.88	129.69%	202.18%
April	48.67	106.27	524.83	1612.65	118.34%	207.3%
May	61.73	114.26	618.13	2134.2	85.1%	245.27%
June	63.17	115.73	673.48	1807.65	83.2%	168.4%

Source: Reserve Bank of India, Bankwise value and volume data

**Graph 1: Comparison of monetary value of mobile banking transactions (all figures in Rupees billions)**



Source: Created using data from Reserve Bank of India

In order to promote the use of mobile banking RBI has permitted a large number of banks and financial institutions to provide mobile banking services. As of September 5th, 2017, this number stands at 315. This includes a variety of banks classified below under a few major heads.

Public and private sector banks like SBI, BOI, HDFC Bank, Axis Bank;

Foreign banks operating in India like HSBC, Citibank, Barclays;

Payments banks like Airtel Payments Bank, Jio Payments Bank, Paytm Payments Bank;

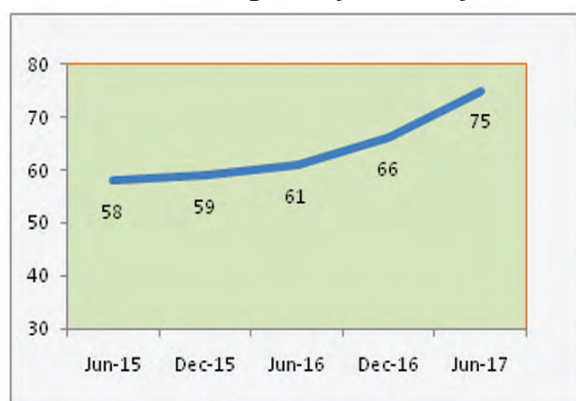
Gramin banks (RRBs) like Assam Gramin Vikas Bank, Bihar Gramin Bank;

Co-operative and Sahakari Banks.

However, till date not all the banks have started their

mobile banking services. The graph 2 below shows the number of banks with mobile banking transactions for a two year period starting June '15.

**Graph 2: Number of banks with mobile banking transactions for the period Jun-15 to Jun-17.**



Source: Created using data from Reserve Bank of India

Note: The data above considers the various constituents of the State Bank group to be one as all the subsidiaries were merged with the SBI in April 2017.

The current market for mobile banking is dominated by a few large banks. The top eleven (11) banks with more than a million transactions per month together constitute over 90% of the total market in the country. These banks already had strong ecosystems built around their existing operations when mobile banking was introduced in India. They benefitted from their existing huge branch network, large customer bases, strong financials and greater adoption of technologies. Consequently, they could move swiftly to capture the mobile transactions market. The table below shows the volume of transactions of these top banks for the month of June 2017.

**Table 2: Banks with over a million transactions as on Jun-17**

Banks with million+ transactions per month	Jun-17	
	Volume	Value (Rs.'000)
Axis Bank	10359147	126886563
Bank of Baroda	2368225	12435132
Canara Bank	3020274	22670022
Federal Bank	1339606	10971266
HDFC BANK	32130772	188304282
ICICI BANK	16039376	796751852
Indian Bank	1251597	7732432
Indusind Bank	2602205	43589310
Kotak Mahindra Bank	4644386	65059038
State Bank of India	29344236	411970529
Yes Bank	1173152	11055522
<b>Total of above (1)</b>	104272976	1697425949
<b>Total of all banks (2)</b>	115729014	1807648321
<b>% of (1) over (2)</b>	90	94

*Source: Created using data from Reserve Bank of India*

The data shows ICICI Bank is the leader with the highest value of transactions followed by SBI, HDFC Bank and Axis Bank. These also happen to be the largest banks operating in India. Clearly the existing scale of operations had an impact on their current market share of mobile transactions.

### Conclusion

Mobile banking was first introduced in India in the early 2000's. Since then it has undergone major changes and today mobile based transactions constitute a big part of the total non-cash transactions done within the country. Moreover, its popularity and usage will keep on increasing for the foreseeable future. Currently only 75 of the 315 banks permitted by the RBI have started their mobile operations and as more banks offer their services the volume of transactions will increase. On the downside the increasing use of mobile banking has already thrown up several security challenges and

incidents of frauds have increased manifolds. A greater number of unsuspecting customers are falling prey to both old and new methods of frauds causing concern to the general public, the banks and the authorities. In the long run the adoption of these new age services will finally depend on how much of these concerns are effectively addressed by the banks. MA

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# Determinants of Credit Risk of Indian Banks:

## A Study on Pre and Post Structural Break

*This paper is a modest attempt to examine the structural break in the movement of credit risk of Indian banks with high and low market capitalization. Further, the study has examined the determinants of credit risk during pre and post structural break. Based on secondary data collected from "capitaline plus" corporate data based and various reports of the RBI for a period of 15 years (2000 to 2014), the study finds that there is structural break in the credit risk of both the bank groups in the year 2006. The regression results during pre and post structural break periods indicate that profitability, bank size and growth in GDP have negative influence on credit risk, while the influence of LLP is found to be positive. However, significant difference is observed relating to the impact of human capital on bank risk. The results indicate that human capital plays crucial role in managing the credit risk of Indian banks.*

Recently, there has been a great deal of interest among the researchers to identify the factors affecting the credit risk of banks due to the devastating consequences of the financial crises observed in different countries (Chaibi and Ftiti, 2015; Manab et al., 2015; Kufo, 2015). Credit risk has been identified as the dominant risk for banking sector by the Basel committee (2001) as it is associated with the core banking activity of lending to the customer and is the combined outcome of default risk and exposure risk. The empirical literature provides significant impact of both bank-specific factors and macroeconomic factors on the credit risk of banks (Ahmad and Mahamed, 2007; Chaibi and Ftiti, 2015; Manab et al., 2015). In Indian context also, researchers have empirically identified the determinants of credit risk of Indian commercial banks (Ranjan and Dhal, 2003; Arora, 2013; Maji and Hazarika, 2016). However, the empirical evidence relating to the role of bank employees in managing credit risk is very scanty (Maji, 2015) as the researchers mainly concentrated on the impact of certain common factors like profitability, bank size, bank capital, interest rate margin,




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loan growth, loan loss provision, growth in GDP, inflation and interest rate on loan.

The success of a bank, like any service sector, to a significant extent depends upon the experience, imaginative mind and knowledge of the bank employees since they perform the core banking activities of deposit mobilization and granting of loans. The role of human capital (bank employees) is immense in the lending activities as it involves correct assessment and interpretation of probable threats relating to the financial loss associated with granting loans and advances. The importance of bank employees has further been enlarged in financing large industrial projects which involve the social and environmental risks along with the risk of default. Although the plethora of empirical evidences highlighted the significant role of human capital

in enhancing financial soundness of banks (Yalama and Coskun, 2007; Malik, Aslam & Latif, 2012; Maji and Goswami, 2015; Ghosh and Maji, 2015), the contribution of bank employees in managing credit risk of banks has not been given due importance in the empirical literature. This paper contributes to the extant literature by proving empirical evidence on the influence of human capital in managing credit risk of Indian banks along with commonly used bank-specific and macroeconomic determinants of credit risk.

Further, it is evident from the extant literature that while examining the determinants of credit risk,

researchers have assumed that there is no structural break in the distribution of credit risk over the study period. However, based on the recommendations of the Basel Committee on Banking Supervision, the apex authority of many country as well as individual banks has taken several steps in order to reduce the credit risk and to improve the financial soundness of banks. In India, the RBI and the Central Government have taken many reformative steps since the financial sector reforms in 1991 to reduce the credit risk of Indian banks. Hence, it cannot be legitimate to expect that there is no significant change in the movement of credit risk over a long period. This paper also contributes to the empirical literature by examining the structural break in the movement of credit risk of Indian banks after the banking sector reforms in 1998. Thus, the main purpose of this paper is to look into the structural change in the credit risk of Indian banks and to investigate the factors affecting the credit risk of Indian banks during pre and post structural break.

The rest of the paper is organized as follows. Apart from the introduction in section I, section II deals with the data and methodology adopted in this study. Section III is devoted for analysing the structural break of credit risk of Indian banks. Section IV presents the empirical results on the determinants of credit risk, followed by concluding remarks in section V.

## Data and Methodology

### Sample and Study period

We have used secondary data of listed Indian public sector and private sector banks over a period of 15 years from 1999-2000 to 2013-14. The sample for the study consists of 39 banks which have been segregated into two categories: banks with high market capitalization and banks with low market capitalization. The attempt here is to determine the change point for banks that are out-performing, as well as for banks with a modest or low performance, based on their market capitalization. For this purpose, firms with average market capitalization of top 33rd percentile of the distribution is considered as firms with high market capitalization while the firms with market capitalization in excess of 66th percentile of the distribution is considered as firms with low market capitalization. We have collected relevant secondary data from the 'Capitaline Plus' corporate database, Reserve Bank of India database and various reports of economic survey.

## Measurement of Variables

### Response Variable (credit risk)

Credit risk of banks is the response variable of the study. To measure credit risk, Non-performing assets (NPA) ratio has been used, which is in line with the existing literature (Berger and DeYoung, 1997; Ahmed and Ariff, 2007; Chaibi, and Ftiti, 2015). We have used gross NPA (GNPA) as proxy of credit risk. GNPA is defined as the ratio between gross non-performing assets and gross advances.

### Bank specific determinants of credit risk

Human capital efficiency (HCE): HCE is computed following the value added intellectual coefficient (VAIC) model suggested by Pulic (2000). Firstly, value added (VA) is computed which is the difference between input and output. While output is defined as the total revenue generated by a firm during a period of time, input is the total of all costs incurred by a firm in creating revenue except for employee cost which is considered as value creating entity rather than an expense (Chen et al. 2005; Clarke et al., 2011; Maji and De, 2015; Maji and Gowami, 2016). Mathematically VA can be expressed as:

$VA = NP + T + I + D + A + EC$ ; where NP is net profit after tax, T is corporate tax, I is the payment of interest, D is depreciation, A is amortization and EC is the employee cost. The payment of salaries and wages to employees is used for computing employee cost (EC) (Pulic, 2000). Human capital (HC) encompasses skill, experience, know-how, knowledge and effectiveness of employees and HCE reflects the efficiency of the human capital (HC) in generating added value. Following this model, HCE is defined as:  $HCE = VA/HC$ .

Apart from HCE, other bank specific determinants have also been employed in this study, such as, profitability (ROA) which has been defined as the ratio between operating profit and total assets, bank size (SIZE) for which we have used natural log of total assets, loan loss provision (LLP) is defined as the ratio of current loan loss reserve to gross advances and regulatory capital (DCAR) for which we have used the capital adequacy ratio (CAR). The CAR is defined as:

$$CAR = \frac{(\text{Tier I Capital} + \text{Tier II Capital})}{(\text{Risk Weighted Assets})}$$
. We have used a dummy variable of CAR (DCAR) instead of a continuous variable in order to avoid the problem of

endogeneity. For segregating the actual CAR values into binary digits, median is used as a threshold limit to avoid the influence of the outliers present in the data set. Thus, DCAR takes value '1' if the CAR of the bank is equal to or more than median value, otherwise it is '0'.

Macroeconomic determinant of credit risk: A sizeable number of researchers have advocated that growth in GDP has a direct impact on the credit risk of banks (Das and Ghosh, 2007; Ahmed and Mahamed, 2007; Ramanadh and Rajesham, 2013). We have used the real growth in GDP as a determinant of credit risk.

### Change Point Analysis: CUSUM Method

The CUSUM method is widely used in research to extricate the change points in the time series data due to its simplicity and capability of incorporating any functional form of time series (Taylor, 2000). To detect change in mean, the CUSUM method first computes the cumulative sum of the data points in the time series, followed by the use of bootstrapping to make inferences. In this study, we follow the procedure suggested by Taylor (2000) for constructing CUSUM charts and bootstrapping. To detect the change point in the credit risk of Indian banks during the study period, first the year wise mean of GNPA for all the select banks are computed. Then, the cumulative sum for the data points relating to mean of credit risk are obtained.

In this study, the confidence level of equal to or above 95% is considered as significant change of mean credit risk.

### Regression Model

Panel data regression model is employed to estimate the coefficients that take into account the heterogeneity across groups or time (Green, 2003). The outcome of Breuch-Pagan test advocates that for all the cases except one (results are shown in the respective tables) the estimates of pooled OLS is inconsistent. Hence, Hausman test is used to determine whether fixed effect or random effect regression model is appropriate for the present dataset. The outcome of Hausman test indicates that barring a few cases, fixed effect regression model is found to be appropriate to estimate the coefficients (test results are shown in the respective table).

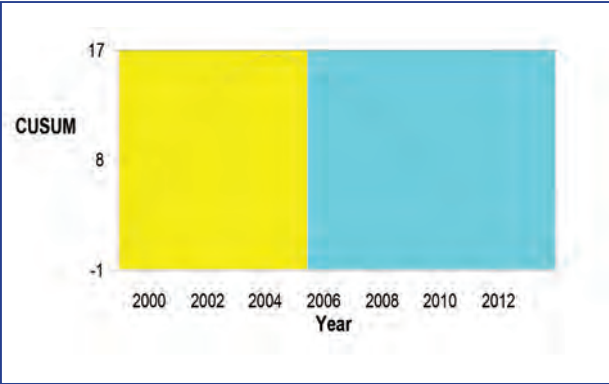
To examine the impact of the explanatory variables used in this study on credit risk (CR) of Indian banks the following regression model is employed:

$$R_i = \beta_1 + \beta_2 HCE_i + \beta_3 ROA_i + \beta_4 LnSIZE_i + \beta_5 LLP_i + \beta_6 GGDP_i + \beta_7 D_{CAR_i} + \varepsilon_i \dots (\text{mod } b - 1)$$

### Change Point Analysis of Credit Risk for banks with high and low market capitalization

The CUSUM chart and the details of significant change of GNPA for banks with high market capitalization are shown in figure 1 and table 1 respectively. The chart (figure 1) depicts an upward movement of the CUSUM values of GNPA till 2004, however in between the period of 2004-2005 the movement is observed to be more or less stable, while after the year 2005 the slope shows a declining trend. The confidence interval (table 1) indicates that the change point occurs in between 2004-2006, while the significant change is found in the year 2006. Consequently, the GNPA during the pre change period is observed to be 6.8438 which reduce to 2.2038 in the post change period.

**Fig. 1: CUSUM chart of GNPA for banks with high MC**



**Table 1: Significant changes of GNPA for banks with high MC**

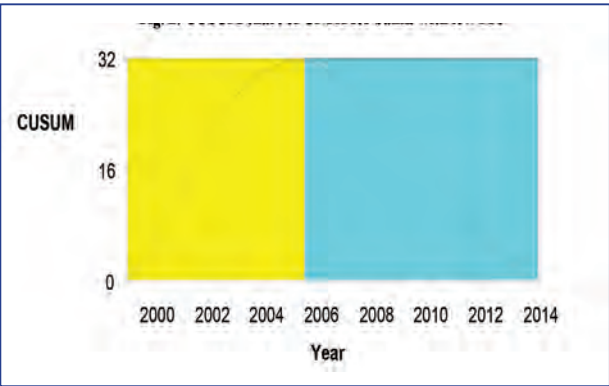
Year	Confidence Interval	Confidence level	From	To
2006	(2004, 2006)	100%	6.8438	2.3028

Notes: Confidence Level= 90%, Confidence interval= 95%, Bootstraps= 1000, Sampling Without Replacement; Results are computed using Change-Point Analyzer, version 2.3.

Similarly, the CUSUM chart and the details of significant change of GNPA for banks with low market capitalization are shown in figure 2 and table 2 respectively. The chart (figure 2) shows an upward slope from 2000 to 2005, while depicting a constant movement between 2005 and 2006 and a shift in

direction from 2006 wherein a downward sloping movement is observed till the end of 2014. The result (table 2) indicates that the change point occurs during the year 2006 with 100% confidence level. The GNPA of banks prior to the change point is observed to be 12.124, which decreases to 3.2592 after the change point.

**Fig. 2: CUSUM chart of GNPA for banks with low MC**



**Table 2: Significant changes of GNPA for banks with low MC**

Year	Confidence Interval	Confidence level	From	To
2006	(2006, 2006)	100%	12.124	3.2592

Notes: Confidence Level= 90%, Confidence interval= 95%, Bootstraps= 1000, Sampling Without Replacement; Results are computed using Change-Point Analyzer, version 2.3.

### Regression results

The data have been segregated into two panels of pre and post change periods for banks with high market capitalization as well as for banks with low market capitalization. Since the results of CUSUM method indicate that the change of GNPA has occurred after 2005 for both high and low market capitalization banks, we have included the year 2006 in the post-change period panel for both the categories of banks. Thus, the panel of pre-change period consists of data from 2000 to 2005 and panel of post-change period contains data from 2006 to 2014. The period of pre and post change for banks with low market capitalization remains the same. The regression results for pre and post change periods are undertaken to look into the



relative influence of bank specific and macroeconomic variables on credit risk.

## For banks with high market capitalization

The regression results for banks with high market capitalization during pre-change period (2000 to 2005) and post change period (2006 to 2014) are shown in Table 3. During the pre-change period (2000-2005) the estimated coefficient of HCE is positive but insignificant. This insignificant association is a depiction of inefficient utilization of human capital in dealing with lending activities. However, during the post change period (2006-2014) HCE is observed to have a negative association with credit risk and the result is significant at 5% level. This implies that a likely reduction in credit risk can be expected if human capital, i.e., bank personnel is efficient and well trained in aspects relating to credit evaluation and recovery of bank loan. The influences of ROA, LLP and DCAR on credit risk are observed to be the same during pre and post change period. For instance, the observed coefficient of ROA is negative and significant which implies that through proper credit risk management the

profitability of banks can be enhanced. Likewise, it can also be argued that banks which earn more profit are likely to take less risk. Similarly, the estimated coefficient of LLP is observed to be positive and significant which implies that banks are increasing the provision for loan loss with an expectation of increase in credit risk in future. The influence of DCAR on credit risk is observed to be negative but insignificant which depicts that regulatory capital has no significant influence on credit risk of banks.

The estimated coefficient of LnSize is found to be negative and significant. This is primarily due to reasons such as resource allocation and risk diversification which is possible in case of large banks. However, during the post change period negative but insignificant association is observed between LnSize and credit risk. The estimated coefficient of GDP is observed to be negative, as during sound financial health of an economy the probability of default on the part of the customers in repayment of bank loan is less. However, this association is observed to be insignificant during the pre change period.

**Table 3: Regression results for banks with High MC during Pre and Post Change period**

Variable	Pre- Change period (2000-2005)				Post Change Period (2006-2014)			
	Coeff	t- stat	R <sup>2</sup>	F-stat	Coeff	t-stat	R <sup>2</sup>	F-stat
Constant	21.665	2.83***			4.960	2.33**		
HCE	0.030	0.86			-0.082	-2.49**		
ROA	-1.107	-2.22**			-0.863	-4.94***		
LnSize	-1.251	-1.84*	0.2060	2.55**	-0.029	-0.19	0.485	-
LLP	0.848	1.88*			0.824	4.75***		
GDP	-0.209	-1.13			-0.127	-2.81***		
DCAR	-0.699	-0.88			-0.005	-0.03		

Dependent variable: CR; Models used: Fixed effect regression model (Pre-Change period) and Random- effects regression model (Post- Change period). \*\*\*, \*\*, \* indicates significant at 1% level, 5% level and 10% level respectively.

Panel data test results: For Pre-Change period: Breush-Pagan test: Chi square value= 3.00886\*; Hausman test: Chi square value= 31.1754\*\*\*

For Post-Change period: Breush-Pagan test: Chi square value= 97.0803\*\*\*; Hausman test: Chi square value= 8.04796

### For banks with low market capitalization

The regression results for banks with low market capitalization during pre-change period (2000 to 2005) and post change period (2006 to 2014) are shown in Table 4. The influence of HCE on credit risk of banks is observed to be negative but insignificant during the pre change period. However, a significant negative association between HCE and credit risk is found during the post change period. This implies that, even for banks with low market capitalization HCE continues to be an important variable which if properly managed and utilized can aid in reducing credit risk. The influence of ROA, LnSize and GDP is observed to be negative and significant during both pre and post change period. The estimated coefficient of the categorical variable DCAR is observed to have an insignificant association with credit risk. The coefficient estimates of LLP are positive for both the periods but not significant during post change period.

**Table 4: Regression results for banks with low MC during Pre and Post Change period**

Variable	Pre- Change period (2000-2005)				Post Change Period (2006-2014)			
	Coeff	t- stat	R <sup>2</sup>	F-stat	Coeff	t-stat	R <sup>2</sup>	F-stat
Constant	77.567	6.37***			31.840	6.08***		
HCE	-0.049	-0.13			-0.217	-1.88*		
ROA	-2.211	-3.22***			-1.922	-4.75***		
LnSize	-6.593	-5.44***	0.600	14.77***	-2.024	-4.66***	0.580	22.57***
LLP	1.468	3.28***			0.519	1.54		
GDP	-0.475	-2.56**			-0.401	-3.56***		
DCAR	1.080	1.06			-0.285	-0.96		

Dependent variable: CR; Models used: Fixed effect regression model. \*\*\*, \*\*, \* indicates significant at 1% level, 5% level and 10% level respectively.

Panel data test results: For Pre-Change period: Breush-Pagan test: Chi square value= 23.5875\*\*\*; Hausman test: Chi square value= 22.3833\*\*\*

For Post-Change period: Breush-Pagan test: Chi square value= 1.31599; Hausman test: Chi square value= 31.0217\*\*\*

### Conclusion

This paper has made a modest attempt to examine the determinants of credit risk for Indian banks with high and low market capitalisation. Using the change point analysis, the point of structural break during the study period is observed to have occurred in the year 2006 for both the categories of banks. Consequently, from the regression results in the pre and post change period it was observed that the influence of ROA, LnSize and GDP on credit risk is negative. On the other hand the impact of LLP is positive for both the periods. In case of DCAR no significant association is observed. However, significant change has been observed in the case of the impact of HCE. While the influence of HCE

was insignificant during pre change period, the same was observed to be negative and significant in the post change period. This implies that along with other variables, HCE has played a significant role in reducing credit risk of banks during the post change period. The findings of the study is in line with the theoretical proposition that bank employees play an important role in managing credit risk of banks. **MA**

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# Economic Development and Indian Public Sector Enterprises



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Indian Public Sector Enterprises have brought visible change in the country with respect to issues of welfare, employment, education, health, poverty, growth and development of backward areas of the country. It occupies an important place in the national economies of most countries of the world irrespective of their political orientation. In a PSU majority (51% or more) of the paid up share capital is held by central government or by any state government or partly by the central governments and partly by one or more state governments. Post Independence, India was grappling with grave socio-economic problems, such as inequalities in income and low levels of employment, regional imbalances in economic development and lack of trained manpower, weak industrial base, inadequate investments and infrastructure facilities, etc. Hence, the roadmap for Public Sector was developed as an instrument for self-reliant economic growth. The country adopted the planned economic development policies, which envisaged the development of PSUs. Initially, the public sector was confined to core and strategic industries. The second phase witnessed nationalization of industries, takeover of sick units from the private sector, and entry of the public sector into new fields like manufacturing consumer goods, consultancy, contracting and transportation etc. The predominant considerations for continued large investments in PSEs were to accelerate the growth of core sectors of economy, to serve the equipment needs of strategically important sectors and provide strength

for the economy to achieve a significant degree of self-sufficiency in the critical sectors (Singh, V. S., 1986).

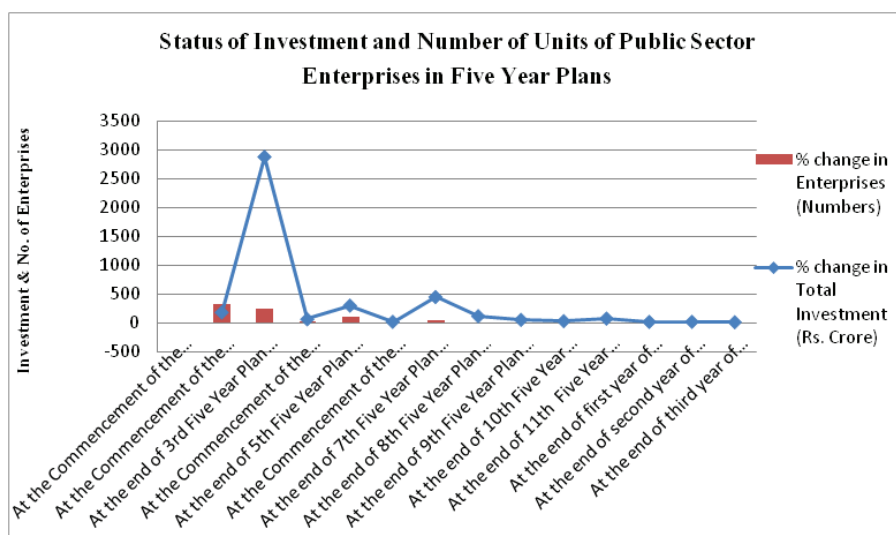
Public Sector Undertakings (PSUs) have laid a strong foundation for the industrial development of the country. The public sector is less concerned with making profits. Hence, they play a key role in nation building activities, which take the economy in the right direction. PSUs provide leverage to the Government (their controlling shareholder) to intervene in the economy directly or indirectly to achieve the desired socio-economic objectives and maximize long-term goals. PSUs serve the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. As agriculture is the backbone of Indian economy, Public Sector Banks (PSBs) play a crucial role in pushing the agricultural economy on to the progressive pathway and helping develop rural India. In order to improve the performance of PSEs in a liberalized economy, the Government of India announced on 24th July, 1991 as a part of the statement on Industrial Policy, a statement of public sector also. The objective of liberalization has been to make Indian industries more efficient and globally competitive. During the first five years of economic liberalization (1991-96), the government sold shares of 46 selected public enterprises (maximum of 20% in each) to mutual funds and investment institutions in the public sector (Naib, Sudhir, 2004).

**Table 1 Status of Investment and Number of Units of Public Sector Enterprises in Five Year Plans**

Particulars	Total Investment (Rs. Crore)	% Change in Investment	Enterprises (Numbers)	% Change in No. of Enterprises
At the Commencement of the 1 <sup>st</sup> Five Year Plan (1.4.1951)	29	-	5	-
At the Commencement of the 2 <sup>nd</sup> Five Year Plan (1.4.1956)	81	179.31	21	320
At the end of 3 <sup>rd</sup> Five Year Plan (31.3.1966)	2410	2875.3	73	248
At the Commencement of the 4 <sup>th</sup> Five Year Plan (1.4.1969)	3897	61.70	84	15.1
At the end of 5 <sup>th</sup> Five Year Plan (31.3.1979)	15534	298.61	169	101
At the Commencement of the 6 <sup>th</sup> Five Year Plan (1.4.1980)	18150	16.84	179	5.92
At the end of 7 <sup>th</sup> Five Year Plan (31.3.1990)	99329	447.27	244	36.3
At the end of 8 <sup>th</sup> Five Year Plan (31.3.1997)	213610	115.05	242	-0.8

Particulars	Total Investment (Rs. Crore)	% Change in Investment	Enterprises (Numbers)	% Change in No. of Enterprises
At the end of 9 <sup>th</sup> Five Year Plan (31.3.2002)	324614	51.97	240	-0.8
At the end of 10 <sup>th</sup> Five Year Plan (31.3.2007)	420771	29.622	247	2.92
At the end of 11 <sup>th</sup> Five Year Plan (31.3.2012)	729298	73.32	260	5.26
At the end of first year of 12 <sup>th</sup> Five Year Plan (31.3.2013)	845534	15.94	277	6.54
At the end of second year of 12 <sup>th</sup> Five Year Plan (31.3.2014)	992095	17.33	290	4.69
At the end of third year of 12 <sup>th</sup> Five Year Plan (31.3.2015)	1096057	10.48	298	2.76

*Source: Public Sector Enterprises (PSEs) Survey, Various Issues.*



From the above table 1 it has been observed that the total investment at the commencement of the First Five Year was Rs. 29 crore and the numbers of enterprises were 5 only. But the investment made in the public sector enterprises as on 31.03.2011 is Rs. 6, 66,848 crore which is 14.81 percent more than the investment as on 31.03.2010. At the end of third of the 12th Five Year plan, the number of enterprises were 298 and the investment made in the public sector enterprise was 10,96,057 crore. It is concluded from the above discussion that there is an increasing trend in the number of public sector enterprises and also in the investment made during the different five year plans. This shows that Govt. of India is relying more on the public sector enterprises for the economic development of the country.

### Literature Review

Sharma (1973), analyzed the problems of the public sector enterprises and presented a profile of defects in policies of management and defects in the methods or tools of management. The author stressed the need to remove the defects in the policies and tools of management in order to increase the efficiency of public sector enterprises. Verma (1978), observed that the possible areas of development of public sector are development of human resource, dissemination of knowledge of science and technology, institution of economic activity, improvement of economic infrastructure and social and environmental improvements. Singh (1979), studied the share of public sector in the total employment in the economy. Author concludes that the central Government





*Prior independence, there was virtually no public sector in the Indian economy except for railways, posts and telegraphs, post trusts, ordinance and air craft factories and a few state-managed industries. The issue of public sector versus private sector assumed greater significance immediately after the attainment of independence when the country was faced with the gigantic problem of accelerating the pace of economic development. The Government of India has been pursuing three sets of reforms, i.e, disbanding the complex network of industrial controls, industrial licensing and permits system, liberalizing foreign trade and currency transactions and instituting several measures to facilitate foreign direct investment inflows. These measures were launched in the year 1991 and the liberalization process is still continuing. The multitudes increase in average per capita emoluments of employees may be the result of Government policies to retain efficient employees in these enterprises and to enhance their efficiency to compete in the global market. With the increase in the export, public sector is called upon to play a major role in easing the position in the context of the balance of payments position of a country.*



enterprises accounts for nearly one-fifth to one fourth and state Government enterprises accounts for nearly 50 percent of the total employment respectively. Hassan (1987), conducted a study on “Public Sector Enterprises (PSEs) in Economic Development”. It focuses the attention of some vital aspects viz, the importance of the public sector in the economy of Jammu and Kashmir state, production techniques followed by these units, and income and employment generated. Mishra, Nandgopal and Sankar (1991), opined that the manufacturing state level Public Sector Enterprises (PSEs) are operating in vital areas of the economy. Their efficiency and effective working would strengthen not only their functioning but also the effectiveness of state Government. They concluded that the financial performance of these enterprises has become very crucial and need to mobilize finances for their own growth. Singh (2012), studied the impact of economic liberalization on Indian public sector enterprises. The author find out that the objective of liberalization has been to make Indian industries more efficient and globally competitive. Author concluded that Public enterprises occupy an important place in the national economies of most countries of the world, irrespective of their political orientation.

The present research is divided into four sections. The present section deals with introduction and following section describes the research methodology of the study. The third section makes the analysis of the data and interpretation thereof and the last section gives the concluding remarks.

### Need and Scope of the Study

In order to develop agriculture and industry, diversify public economy and overcome economic backwardness Public Sector Enterprises (PSEs) have acted as an instrument for self-reliant economic growth of India. In India, the Industrial Policy Regulation of 1956 gave the public sector a strategic role in the economy. Massive investments have been made over the past five decades to set up a number of public sector enterprises (PSEs). Many of these enterprises successfully expanded production and opened up new areas of technology. It is important to note that the private enterprises failed to orientate it in line with national goals and the lofty hopes of the society and therefore, the public enterprise are likely to be invited. It was argued that the removal of entry and licensing barriers would expose Indian firms to international competition and compel them to improve

their efficiency and productivity and introduce new proceeds and products. Removal of import restrictions and currency transactions will enable them to import better quality materials, components and technology.

The present study examines the performance and contribution of Indian public sector during 1991-2015 within the frame work of both macro-economic stabilization and micro-structural change with special reference to its growth, development and contribution to the economic development of India.

### Objectives of the Study

The following objectives have been visualized for the present study:

To analyze the growth and development of Indian Public Sector Enterprises; and

To analyze the contribution of Indian public sector in the economic development of India.

To achieve these objectives the following hypothesis has been tested:

There is no significant change in the contribution of Indian public sector enterprises in the economic development of India.

### Research Methodology

The secondary data has been used to study the objectives of the present study. It has been collected from various published reports of Public Enterprises Survey and records of Government of India. In order to study the contribution of Indian public sector enterprises in the economic development of the country in terms of employment, per capita annual emoluments, exports and central exchequer, the entire study period has been divided into two parts. The division of the study period has been made into two parts keeping in view the desirability to assess the impact of any policies or scheme which takes place at least five years to gear up its inception. The first half includes initial twelve years and the second half includes the last twelve years of the study period. The averages of the two halves with the help of mean have been calculated for certain identified variables. Further, t-test has been applied to study the change in the mean scores of employment, average annual per capita emoluments, exports and central exchequer during the two halves of the study.

Keeping in view the nature of study the data collected have been analyzed and interpreted with the help of following methods:

### Mathematical Methods

#### Statistical Methods

##### 1) Mathematical Methods

In the present study, the data collected have been analyzed with the help of mathematical methods such as simple average and percentage methods where needed.

##### 2) Statistical Methods

Statistical methods provide indispensable tool for collecting, organizing, analyzing and interpreting data expressed in numerical terms. The statistical methods used in study are as follows: Measure of Central Tendency or Averages Mean, and Test of Difference for Small Samples (t-test).

#### t-test

It has been used to test the difference between the mean of financial and operating performance based on different ratios of Indian public sector enterprises before and after disinvestment.

$$t = \frac{\bar{d}\sqrt{n}}{S}$$

The value of S is calculated as follows:

$$S = \sqrt{\frac{\sum(d - \bar{d})^2}{n - 1}} \quad \text{or} \quad \sqrt{\frac{\sum d^2 - n(\bar{d})^2}{n - 1}}$$

If the calculated value of t exceeds to t 0.01 percent, we say that the difference between various means is significant at 1 percent level, if it exceeds t 0.05 percent, the difference is significant at 1 & 5 percent level. If the calculated value of t is less than the table value at 5 percent and 1 percent level, we conclude that the difference between two means is not significant and hence the sample might have been from a population having same means.

### Results and Discussion

The present study examines the performance of

Indian public sector within the frame work of both macro-economic stabilization and micro-structural change with special reference to its growth, development and also its contribution to the economic development of India. For that its contribution to the employment, average annual per capita emoluments, exports and central exchequer has been examined in the present study.

Table 2 Status of Employment and Average Annual Emoluments in Public Sector Enterprises

Years	No. of Employees (in lakh)	Average Annual Per Capita Emoluments (Rs.)	% Increase in Average Annual Emoluments
1991-92	21.79	56508	14.90
1992-93	21.52	64983	15.00
1993-94	20.70	72043	10.86
1994-95	20.62	82517	14.54
1995-96	20.52	106876	29.52
1996-97	20.08	110662	3.54
1997-98	19.59	129582	17.10
1998-99	19.00	138179	6.63
1999-00	18.06	168339	21.83
2000-01	17.40	219672	30.49
2001-02	19.92*	193554	-11.89
2002-03	18.66	225986	16.76
2003-04	17.62	248481	9.95
2004-05	16.93	286888	15.46
2005-06	16.49	284057	-0.98
2006-07	16.14	325774	14.68
2007-08	15.65	410898	26.13
2008-09	15.35	541716	31.84
2009-10	14.90	609816	12.57
2010-11	14.75**	615765**	0.98
2011-12	14.50	728420	18.3
2012-13	14.04	830263	13.98
2013-14	13.49	906665	9.20
2014-15	12.91	986598	8.82
$\bar{X}$ 1 <sup>st</sup> 12 years (i.e. 1991-92 to 2002-03)	19.82	130741.00	
$\bar{X}$ Last 12 years (i.e. 2003-04 to 2014-15)	15.23	564611.00	
t - value	8.16	-5.67	
P	.000	.000	

\* During the year 2001-02, BSNL has been included in the survey. \*\* Projected

Source: Public Enterprises Survey, 2014-15, vol. 1.



Table 3 Status of Contribution of Public Sector Enterprises in Exports and Central Exchequer (Rs. in Crore)

Years	Exports	Growth of Exports	Contribution to Central Exchequer	Growth of Central Exchequer
1991-92	8980	26.72	19951	2.20
1992-93	10338	15.12	22449	12.52
1993-94	11872	14.84	22988	2.40
1994-95	13216	11.32	27472	19.51
1995-96	16269	23.10	30878	12.40
1996-97	18924	16.32	39009	26.33
1997-98	20483	8.24	42289	8.40
1998-99	18828	-8.07	46934	10.98
1999-00	19737	4.83	56157	19.65
2000-01	24772	25.51	61037	8.68
2001-02	20887	-15.68	62866	2.99
2002-03	26980	29.17	81926	30.31
2003-04	34894	29.33	89035	8.68
2004-05	42264	21.12	110599	24.22
2005-06	45954	8.73	125455	13.43
2006-07	65620	42.79	147728	17.75
2007-08	67678	3.14	165993	12.36
2008-09	74206	9.65	151543	-8.70
2009-10	77745	4.77	139830	-7.72
2010-11	91774	18	156751	12.1
2011-12	124492	35.7	160801	2.58
2012-13	139228	11.8	163212	1.5
2013-14	122719	-11.9	220166	34.9
2014-15	103071	-16	200585	-8.89
$\bar{X}$ 1 <sup>st</sup> 12 years (i.e. 1991-92 to 2002-03)	17607.00		42830.00	
$\bar{X}$ Last 12 years (i.e. 2003-04 to 2014-15)	82470.00		152642.00	
t - value	-6.46		-9.36	
P	.000		.000	

Source: Public Enterprises Survey, 2004-15, vol. 1.

\* Projected

The highest percentage increase in the average annual emoluments has been recorded for the year 2008-09, which is 31.84 percent more than the year 2007-08. On the other hand, a decline of 11.89 and 0.98 percent has been worked out for the years 2001-02 & 2005-06 respectively as against the previous years. It may be on account of inclusion of Bharat Sanchar Nigam Limited (BSNL) where the emoluments of employees were less as compared

to other public sector enterprises. Overall there is an increasing trend in the emoluments of the employees as compared to their respective previous years. It shows that Govt. of India is more concerned about the welfare of their employees. The calculated t value reveals that the change in the number of employees is significant at 1 percent level of significance. The average emoluments for the first twelve years have been worked out Rs. 1,30,741.00 as against Rs. 5,64,611.00 for the last twelve years of the study period. On applying t-test, a significant increase at 1 percent level of significance has been observed in the average per capita emoluments of employees after the introduction of Liberalization, Privatization & Globalization (LPG) in our country. Thus, the above analysis reveals that the multitudes increase in average per capita emoluments of employees may be the result of Government policies to retain efficient employees in these enterprises and to enhance their efficiency to compete in the global market. However, reduction in the number of employees is a matter of great concern which requires special attention of the management of these enterprises as well as Government of India.

Table 3 reveals that the exports of public sector enterprises show an increase over the study period. It recorded Rs. 8,980 crores for the year 1991-92, which increased continuously except the years 1998-99, 2001-02, 2013-14, and 2014-15 and reached at Rs.

1,03,071 crores during the year 2014-15. On applying t-test on the mean scores of first twelve years and last twelve years of the study period, a significant increase has been recorded at 1 percent level of significance in the exports of these enterprises. The contribution of these enterprises towards national exchequer show multitime increase during the study period. Thus, the contribution of these units in the form of dividends, corporate taxes, excise duty, custom and other duties has increased manifold which clearly reveals the significant contribution of Indian public sector enterprises on the economy of the country. The calculated t-value for the mean scores of initial twelve years and last twelve years of the study period has been found significant at 1 percent level of significance, which leads to conclude that apart from generation of internal resources, these enterprises have been making substantial contribution to augment the resources of the central government through payment of dividends, corporate taxes, excise duty, customs duty and other duties, thereby helping in mobilization of funds for financing the needs for planned development of the country. The increase in the exports of the public sector enterprises is due to the combined efforts of both the manufacturing and service sectors. With the increase in the export, public sector is called upon to play a major role in easing the position in the context of the balance of payments position of a country.

Table 4 Status of The Budget and Disinvestment Proceeds (Rs. in Crore)

Years	Disinvestment Target	Amount Realized	% of Amount Realized to Target Amount	Fiscal Deficit	Disinvestment Amount as % of Fiscal Deficit	Internal Debt	Disinvestment Amount as % of Internal Debt
1991-92	2500	3038	121.52	36323	8.36	172750	1.76
1992-93	3500	1913	54.66	40173	4.76	199100	0.96
1993-94	3500	-	0	60257	0	245712	0
1994-95	4000	4843	121.07	57704	8.39	266467	1.82
1995-96	7000	361	5.16	60243	0.60	307869	0.12
1996-97	5000	380	7.60	66,937	0.57	344476	0.11

Years	Disinvestment Target	Amount Realized	% of Amount Realized to Target Amount	Fiscal Deficit	Disinvestment Amount as % of Fiscal Deficit	Internal Debt	Disinvestment Amount as % of Internal Debt
1997-98	4000	902	18.79	88937	1.01	388988	0.23
1998-99	5000	*5371	107.42	113349	4.74	459696	1.17
1999-00	10000	**1860	18.60	104717	1.78	728627	0.26
2000-01	10000	1,871	18.71	118816	1.58	803698	0.23
2001-02	12000	5632	46.73	140955	3.99	913061	0.62
2002-03	12000	3348	27.90	145072	2.31	1020689	0.32
2003-04	12200	15547	117.78	123273	12.61	1141706	1.36
2004-05	4000	2684	67.10	125202	2.14	1275971	0.21
2005-06	No Target Fixed	1570	NA	146435	1.07	1389758	0.11
2006-07	No Target Fixed	-	0	142573	0	1544975	0
2007-08	No Target Fixed	4181	NA	126912	3.29	1808359	0.23
2008-09	No Target Fixed	-	0	336992	0	2028549	0
2009-10	No Target Fixed	23553	NA	412307	5.71	2337682	1.01
2010-11	40000	22763	56.91	381408	5.97	2736754	0.83
2011-12	40000	13894	34.74	412817	3.37	3110618	0.45
2012-13	30000	23956	79.85	490190	4.89	3764566	0.64
2013-14	40000	15819	39.55	502859	3.15	4240767	0.37
2014-15	43425	24348	56.07	512626	4.75	4775900	0.51
2015-16***	41000	32148	78.41	555648	5.79	5298217	0.61
<b>Total</b>	<b>329125</b>	<b>209982</b>	<b>63.80</b>	<b>5302732</b>	<b>3.96</b>	<b>41304955</b>	<b>0.51</b>

Source: Economic Survey, Various Issues.

\* Out of Rs.5371.11, Rs. 4184 crore constitute receipts from cross purchase of shares of ONGC, GAIL and IOC.



\*\* Out of Rs.1479.27, Rs.459.27 crore constitute receipts from cross purchase of shares of ONGC, GAIL and IOC.

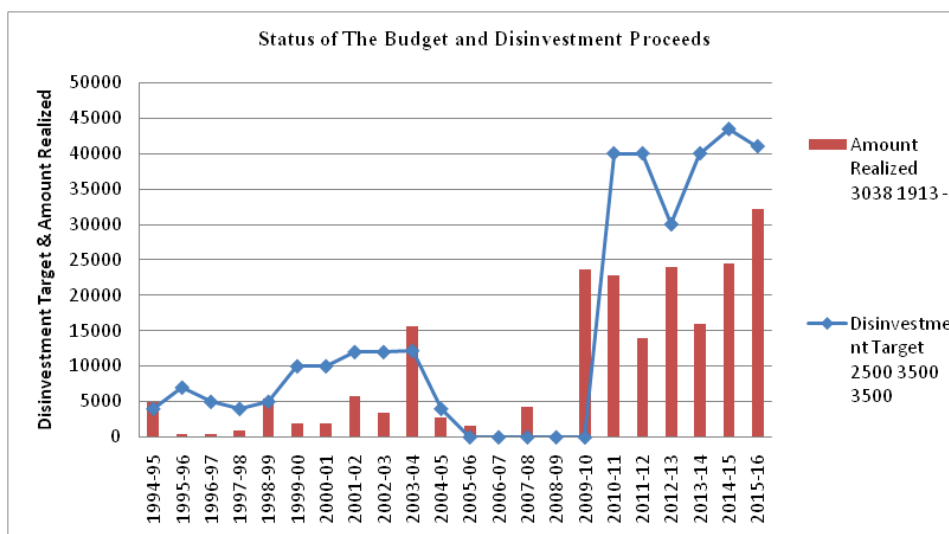
\*\*\*FY 2015-16- An amount of Rs.1023.42 crore has also been realised as buyback tax on account of buyback transactions.

Note:\*Fiscal deficit from 1999-2000 onward is based on changed system of account of made in the budget for 1999-2000. Accounting to this, loans to states against state's share in the small saving collections are to be made from the especially created 'National Small Savings Fund' under the Public Account.

It has been revealed from the above table that the disinvestment programme of the Government from 1991-92 to 2015-16 had targeted to raise a total of Rs. 3,29,125 crore, but the amount raised was only Rs. 2,00,982 crore, leading to an under subscription of approximately 63.80 percent. There is, thus, a large gap between the amount planned to be raised and the amount actually raised. Except for the two years

of disinvestment, firstly in 1991-92 and secondly in 1998-99 in no other year could the Government realize revenues greater than the targeted level of disinvestment. The Government of India raised Rs. 3,038 crore in 1991-92 against the target of Rs. 2,500 crore and Rs. 5,371 crore in 1998-99 against the target of Rs. 5,000 crore.

The total disinvestment proceeds from 1991-92 to 2015-16 is Rs. 3,29,125 crores, while the total fiscal deficit is about Rs. 53,02,132 crores in the corresponding period. This means that on an average 3.96 percent of the fiscal deficit has been financed through divestiture. Only in the first, fourth and twelfth year of disinvestment the percentage of disinvestment proceeds to the fiscal deficit is highest as compare to other years of disinvestment. On the other hand the total internal debt is about Rs. 4,13,04,955 crores in the corresponding period. This means that on an average only 0.51 percent of the internal debt has been financed through divestiture. Contribution of disinvestment proceeds is almost negligible in retiring internal debt on account of market borrowings.



## Conclusion and Suggestions

Public enterprises include all governmental activities including public industrial or commercial enterprises. It occupies a strategic and crucial position in the Indian economy. The expansion of the public sector was aimed at the fulfillment of our national goals, that is, the removal of poverty, the attainment of self reliance, reduction in inequalities of income, expansion of employment

opportunities, removal of regional imbalances, etc. Public enterprises are expected to be the principal agent for rapid economic and social transformation by developing infrastructure and the core sector and by closing the gaps in the industrial structure. Indian public sector has been playing an important role in generation of income, capital formation, employment, infrastructure, strong industrial base, export promotion

and import substitution, contribution to central exchequer, checking concentration of income and wealth, and removal of regional disparities. It is no exaggeration to say that the economy would sink or swim depending upon the efficiency with which these enterprises operate. Some of the main suggestions based on these findings are as under:

PSEs should be given professional management and full autonomy in the matter of pricing, investment and employment.

Chronically sick PSEs should be closed down and their assets should be transferred to the asset management companies to get a right price for the assets.

Clear objectives should be set for each PSU and financial targets be laid down at the beginning of each financial year.


There is a need for executive development and training of PSU executives to make them more effective to deal with crisis situations.

Private sector should be encouraged for its role in economic development with meeting the canons of equity and social justice.

Disinvestment must promote and catalyse the process of domestic resources generation instead of simply raising the dependence on foreign capital.

The proceeds from disinvestment should be utilized partly for restructuring PSUs which can become viable, partly for meeting the requirement of adequate funds for voluntary retirement scheme where downsizing labour fund is necessary and yet another part is to be used for investment in the social sectors like education, health, water supply and the like.

There should be more provision for the research and development programmes of the public sector units in order to compete in this global competition and also to improve their efficiency in financial control, cost control and quality control.

To improve the efficiency of the employees in the efficient utilization of their potential there should be more provision for their training and development programmes. 

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## Direct Selling industry

**D**irect Selling involves selling of products and services directly to the consumer. The industry has its origins in the US in the late 19th century. Worldwide, the industry is a 180 Billion\$ industry. Interestingly, Asia Pacific accounts for the largest share (44%) followed by the Americas. The industry has close to 10,000 companies. Business for Home website maintains a database of top 1000 companies and have further listed top 100 direct selling companies across the world.



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Daniel W. Pullin, University Vice President for Strategic Planning and Economic Development for the University of Oklahoma, says: "Direct selling is one of the purest forms of entrepreneurship. Direct selling provides the opportunity to run a business where financial success is tied directly to the effort expended and the impact created. While the costs of entry are low, the upside is limitless. Success in direct selling is a function of the combination of effort, ability, creativity and adaptability. These components describe history's great entrepreneurs, most of which began selling a product or service directly to a customer. Direct selling provides a robust opportunity for the budding entrepreneur."

### Scenario in India

The industry is relatively new in India. The pioneers





# worldwide

have been Amway, Avon, Tupperware, Qnet, Herbalife which set shop in India between 1995 and 2000. The industry did not have formal recognition until last year and regulations were not in place. However there has been a steady growth in this industry. By year 2015, the industry grew to a market size of INR 8000 crores. As a percentage of total retail sales, India has a much lower penetration compared to leading Asian countries like China and Malaysia. This shows that India has a potential for growth. Over the next few years (by 2025), the industry is expected to grow to INR 64,500 crores.

Gone are the days when Direct Selling industry was considered to be a not so respectable profession in India. There was a perception that people who had nothing to do in their life, get into Direct Selling. The perception is changing fast and in fact there are enough signs that this industry could be the saviour for India in the next

10 to 15 years. There are a few strong indicators for this to happen. Opinion around any industry is formed by the industry stakeholders. Who are they and what do they say about the industry?

## NitiAayog view of the industry.

Chairman of NitiAayog, Mr Amitabh Kant says that the employable population in India is increasing year after year. This trend is expected to continue till year 2030. This will lead to an increase in the demand for jobs. Is the supply of jobs increasing? Across industries, it is known that number of jobs available is decreasing. Over the next decade or so, the unemployment rate is expected to grow continuously. Mr Amitabh mentions that Manufacturing and Direct Selling industries can only contribute for creating earning opportunities. He also goes on to mention that the perception of various authorities has started changing for genuine direct selling companies. Before September 2016, everyone used to believe that direct selling companies are equivalent to a money circulation / Ponzi scheme. With the introduction of Direct Selling Guidelines by the Ministry of Corporate Affairs, direct selling profession is slowly being accepted as a respectable profession.

The image below is a snapshot of an article in Employment News which recognises this industry's potential for creating earning opportunities.



## Educational institutes have started adopting the industry

University and college education prepares students for the possible professions in the market. The courses offered in universities and colleges are an indication

of the respected professions. Delhi University has introduced a chapter on Network Marketing in the Bachelor of Commerce course. The chapter defines

- ✱ what Network Marketing is
- ✱ various forms of Network Marketing
- ✱ typical products promoted through this channel
- ✱ the benefits of working in this field
- ✱ how to select the right network marketing company.

Karnataka State University has introduced a course on Direct Selling for its MBA course. The below image is a snapshot of the course launch. This is just the beginning. Many colleges and universities will be introducing the course pretty soon. The day is not far when students graduating from colleges start looking for opportunities in this growing industry. The so called campus placements may start seeing Direct Selling companies offering entrepreneurship opportunities to students.



## Direct Selling contribution to various initiatives of the government

FICCI has collaborated with the world renowned consulting company KPMG to study this industry in India since 2013. In the latest report which was published in 2016, FICCI and KPMG have pointed out how this industry has a potential to contribute to some of the key policies of government. Most important among these are

- ➡ Skill India: By 2022, Skill India scheme has an objective of creating the capacity to train a minimum of 500 million people. Due to the nature of Direct Selling business, the representatives involved get inherently trained on marketing, communication skills, personality development and leadership skills. Some of these companies which outsource production to small and medium sector companies in India also impart manufacturing know-how. In 2013, the industry contributed in

training 5 million individuals on these skills. And it is expected to grow every year.

- ➡ Women Empowerment: Government of India has launched more than 15 schemes to improve the social standing of women and to enable them to become independent. Presence of many women centric products attracts many women to work in this industry and they learn to become independent. In 2013, 58% of the overall 5 million representatives were women.
- ➡ Make in India: The objective of this scheme is to boost manufacturing in India and make it a global hub. More and more Direct Selling companies are sourcing production locally. They impart the know-how and sourcing products from Micro, Small and Medium Enterprises in India (MSME).
- ➡ Start-up India: This scheme aims at promoting

entrepreneurship in India. The representatives who are involved in Direct Selling are inherently getting trained to be entrepreneurs.

## Direct Selling Guidelines

There has been a history of Ponzi schemes in India which has tarnished the image of legitimate direct selling companies. If one looks back, this has happened in the US as well when this industry was new. One of the reasons for this lack of clarity is that legal framework to support the industry was not in place for a long time. The Direct Selling Guidelines issued by the Ministry of Corporate Affairs were issued in 2016. However the

background work for the same started in the year 2014. Relevant authorities in the government realised that a separate legislation is required for the industry and not a mere amendment to the Prize Chits and Money Circulation Act, 1978.

Based on the growth of direct selling companies in the past 5 years (prior to 2014), factors which distinguish these companies from Money Circulation Schemes, the team (pls refer to Inter ministerial committee in the subsequent section of this article) decided to come up with a framework for the Direct Selling Guidelines.



## Direct Selling Guidelines – A Major boost to the industry

FICCI has played a major role in pushing for reforms in the industry. They collaborated with KPMG, leading consulting company to come up with the recommendations for the industry.

In September 2016, Ministry of Corporate Affairs issued an advisory to all State Governments. This was based on an Inter-Ministerial committee represented by Ministry of Finance, Ministry of Corporate Affairs, Department of Legal Affairs, Department of Industrial Policy and Promotion and Department of Information Technology. The advisory is a formulation of model guidelines for the Direct Selling Industry. The guidelines are meant to serve as guiding principles for state governments to regulate the industry.

Many other countries in Asia recognised the power of this industry have already regulated the same. Countries like Philippines, Singapore and Malaysia are few to name. Many multinational companies which operate in these countries and have also been operating in India have already been following the guidelines (much before the guidelines came into force in India).

The guidelines serve well to reform the industry. They define very clearly what constitutes a legitimate direct selling company and what a ponzi scheme is. These guidelines cover following aspects of business:

- ➡ Setting up a Direct Selling business: Amongst many detailed requirements, one of the key requirement is the Direct Selling entity must be registered as a legal entity under the laws of India



- ➡ Conduct a Direct Selling business: Key point here is that the Direct Selling entity must issue proper identity documents to its direct sellers
- ➡ Obligation of Direct Sellers
- ➡ Relationship between Direct Selling entity and Direct Seller: The relationship shall be governed by a written agreement between the entity and the Direct Seller

- ➡ Conduct for protection of Consumer: The Direct Selling entity and the Direct Seller shall be guided by the Consumer Protection Act


Kerala government is the first state in India which has already implemented laws around this industry. With the industry opening up and various state governments implementing laws around the industry, thousands of companies are waiting to enter the Indian market.

## Fair Play

- ➡ Centre has asked the states to implement the guidelines for companies involved in direct sales to customers, bypassing retail stores
- ➡ Direct selling companies applauded the consumer affairs ministry for the guidelines
- ➡ Industry executives said these norms will weed out fraudulent players, help serious companies grow, protect consumers and disallow ecommerce platforms from offering their products without consent

### What The Guideline Says:

**The guidelines say** agreements between a company in this business and its agents should comply with provisions of the Indian Contract Act, 1872, and agents should not be asked or induced to buy more products than what can be expected to be sold to consumers. Further, agents should be allowed to withdraw their participation and get a refund for goods and services



## Conclusion

With important stakeholders in the country putting their weight behind the Direct Selling industry, the industry is poised to grow. With the guidelines coming in place, many multinational companies are looking at entering the Indian market. Many existing companies will adopt Direct Selling route to promote their products and services. It will truly create the New Age Entrepreneurs MA

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## Revenue Recognition as per ICDS IV and AS 9



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**T**en Income Computation and Disclosure Standards (ICDS) were notified by the Central Board of Direct Tax (CBDT) by all the assesseees for the Assessment Year starting 1st April 2016. These are applicable to all assesseees who follow an accrual system of accounting and having income under the heads “Profit and gain from business and profession” and “Profit under head Other Sources”. The ICDS are similar to the accounting standards issued by The Institute of Chartered Accountants of India. But one cannot presume that the standards are equivalent and replacing each other. There are, of course, several differences between the two; the fundamental objectives are also among these differences. This is because of the non-inclusion of basic tenets in ICDS and hence the differences between the two mechanisms !! The current articles focuses on the accounting policy (ICDS I and AS 1) and revenue recognition standards (ICDS IV and AS 9) of the above mentioned literature.

Let us first delve upon the first ICDS titled “**Accounting Policies**”. One may understand that the corresponding accounting standard is AS 1: **Disclosure of accounting policy**. AS 1 provides the basic framework to the management based on which it chooses the accounting policy to be followed for various transactions. ICDS 1 does not provide any basis of selection of accounting policies - be it materiality, prudence, substance over form etc.

Prudence is the concept where revenues are recognized in the books of accounts only if the recognition criteria is met and the collection of the revenue is highly certain. Similarly it is prudent to recognize all expenses and liabilities once they are known. The non-recognition of ‘Prudence’ in ICDS brings in more differences between the tax books and the books of accounts.

Materiality involves taking the right decision depending on the quantum of the income or expense involved in a transaction. ICDS discard the concept of materiality. In case the tax officials mandate a strict implementation of materiality, then petty items like punching machine, calculator also qualify as ‘Tangible Fixed Assets’ under ICDS.

AS 9 details the revenue recognition and measurement process. Thus it is worthwhile to have a look at both the recognition and measurement principles.

## Principles of Recognition

There are two key characteristics to recognizing revenue – that it must be realized or realizable. The fundamental governing principles in revenue recognition in conduct of business are described below.

### Recognition Principle 1:

The contractual revenue which cannot arise before a contract with a customer exists.

### Recognition Principle 2:

A reporting entity recognizes the contractual revenue when increase in its claims against it by its customers can be determined as occurred. The fair value of increase can be measured with sufficient measurement reliably.

### Recognition Principle 3:

Recognition of a reporting entity contractual revenue decrease in its claims against it, by its customers can be said to have occurred. The fair value of decrease can be measured with adequate scale.

### Recognition Principle 4:

Increase in assets or decrease in liabilities giving rise to the contractual revenue from the contractual promises which can either express or implied.

### Recognition Principle 5:

Recognition of the contractual revenue at its inception to the fair value of the contractual assets obtained on the date exceeds the fair value of the contractual liabilities simultaneously incurred. This is measured revenue with sufficient reliability.

### Recognition Principle 6:

Subsequent to the contract inception, recognition of the contractual revenue upon the reporting entity performance of its obligations under the contract, as evidenced by a decrease or increase in its contractual liabilities or contractual assets respectively. The fair value can be determined with sufficient reliability.

## Principles of Measurement

### Measurement Principle 1:

The fair value estimate of a reporting entity measuring the revenue arising from increase in assets or decrease in liabilities is such that have the highest relative reliability.



### Measurement Principle 2:

The fair value of estimate of revenue is consistent with level 3 of such fair value hierarchy. It is followed by means of the multiple valuation techniques that maximize market inputs. Either in the market or income approach, the use of information is necessary to apply the techniques.

### Measurement Principle 3:

The fair value of revenue arising from increase in the reporting entity contractual assets which reflects the effects of credit-risk, time-value of money and dilution risk.

### Measurement Principle 4:

This refers to the effects of credit-risk on fair value of entity revenue reflecting the expectations of recovery, if any, in case of breach of contract by the customer.

### Measurement Principle 5:

Any express or implied right of return and refund, allowance, rebate, discount, credit and other similar rights granted to customers that reduce revenue of the reporting entity contractual assets or increase in contractual liabilities at fair value measurement.

### Measurement Principle 6:

Revenue arising from increase in the contractual assets stems up from the reporting entity rights to the customers, stands the ready performance in case of occurrence or non-occurrence of a specified event at fair value. This reflects the assessment of a specified event which probably occurs.

From the above, it is very evident that revenue is accounted only if there is a high level of certainty. The revenue so recognized and measured would appear in the books of accounts. Revenue can be measured either as per the percentage completion method or the completed service method. The accounting policy of an organization with regard to revenue recognition can be one of the above ways. As per ICDS, revenue from service transactions shall be recognized by the percentage completion method only; the completed service method is not allowed. Under this method, revenue from service transactions is matched with the service transactions costs incurred in reaching the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed. In fact, ICDS on Construction Contracts also



*Adoption of ICDS could markedly alter the way the industry computes taxable income, as certain concepts in the existing accounting standards have been modified. In case of conflict between the provisions of the IT Act and the notified ICDS, the provisions of the Act shall prevail. Non-compliance with ICDS could lead to best judgment assessment by the assessing officer. Items not specifically covered by any ICDS (such as intangibles, leases, etc) will continue to be governed by AS and existing provisions of the Act. Prudence is the concept where revenues are recognized in the books of accounts only if the recognition criteria is met and the collection of the revenue is highly certain. Similarly it is prudent to recognize all expenses and liabilities once they are known. The non-recognition of 'Prudence' in ICDS brings in more differences between the tax books and the books of accounts.*



requires the revenue recognition on this basis. . Most of the organizations recognize service income as per the completed contract method. The same is not included in ICDS and this might cause companies to maintain tax books as per percentage completion method for income tax purpose. Practically speaking, professional consultancy firms, courier agency firms etc., where the contracts are of small values but the number of transactions is high, cannot use the percentage completion method. Recognizing revenue based on percentage completion for all petty jobs and services offered would be quite difficult.

The concept of certainty in collection of revenue is kept aside in the ICDS. So it happens that the receivable is recognized in tax computation but has not been accounted in the books. Moreover, deduction for bad debts may be taken for income tax purposes but the receivable has to be irrevocably written off in the books. This is practically impossible to write off incomes and also monitoring the status of the collection of each receivable. One cannot keep changing the accounting policy quite often. This mandates for separate books for the purpose of accounting and income tax, thereby burdening the industry.

Also ICDS lead to timing difference in the recognition of certain incomes / expenses and also double taxation of certain items. Suppose that there is a sale done by a dealer. Because the collection of revenue in the transaction is remote in the first year, the dealer does not record the same in the 'revenue' ledger. But the application of ICDS needs the revenue to be included for tax purposes in year 1 as its recognition cannot be postponed for lack of prudence. Say in year 2, the collection probability is high and the dealer has included in 'revenue'. As it is already included, it could suffer income tax again.

Apart from the above, ICDS IV does not define interest. Under ICDS IV it will not be possible to recognize in one year future estimated or any imminent loss. ICDS I relating to Accounting Policies specifically prohibits recognition of future losses. Such loss will be recognized only on the basis of percentage of work completed.

ICDS IV provides that royalty income should be recognized based on the agreements entered. However, in some cases, a 'systematic and rational way', which is considered to be more appropriate, is preferred to the

terms and conditions of the agreements signed.

Adoption of ICDS could markedly alter the way the industry computes taxable income, as certain concepts in the existing accounting standards have been modified. In case of conflict between the provisions of the I-T Act and the notified ICDS, the provisions of the Act shall prevail. Non-compliance with ICDS could lead to best judgment assessment by the assessing officer. Items not specifically covered by any ICDS (such as intangibles, leases, etc) will continue to be governed by AS and existing provisions of the Act.

With ICDS, the difference between the accounting income and taxable income is only going to widen. This will result in some companies coming under MAT, since, in the year in which expected loss from service transactions is booked in accounts, it will not be allowed for computing the taxable income. On the other hand, when for tax purposes such loss is allowed, the company may have book profit which may become taxable under section 115JB of the Act.<sup>2</sup>

In the words of Neeru Ahuja, Partner, Deloitte Haskins and Sells LLP, "ICDS, being tax accounting standards, seeks to prepone taxable income to current years – by recognizing incomes early and delaying the recognition of expenses. These divergent approaches bring up certain important tax issues, having significant impact". It may be easily said that two sets of books are needed to be mandatorily maintained by organizations and also adds to the woes faced by clients. In view of the differences owing to timing or absence of basic principles or otherwise, the department may be suggested to not make any adjustments made to the books of accounts if the amount of is less than, say INR one crore. After all, all of us desire an ease in doing business!! MA

## Footnotes

<sup>1</sup>yh [https://ctconline.org/pdf/chamber-journal/CJ\\_May\\_2015/2015\\_MAY\\_SS-4-SanjeevPandit](https://ctconline.org/pdf/chamber-journal/CJ_May_2015/2015_MAY_SS-4-SanjeevPandit).

<sup>2</sup>Principles of Revenue Recognition and Measurement – FASB (<http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175818825563&blobheader=application%2Fpdf>)

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## Impact of Digitization and Cyber Security Vigilance among the Stakeholders of Universities in Coimbatore District

In India, digitization has opened up new innovative and modern services for universities which are integrated into many plans and policies for the progress of higher education institutions to make best use of its effectiveness through digital mode of education system. Digitization is a multifaceted course of action. By holistic life-cycle, the concept of digitization initiatives will help to promote sustainable and successful development in the Indian education system. Due to digitization, the cyber security vigilance measures took vital role among the stakeholders of Indian Universities. It is inevitable to concentrate towards the cyber security activities and measures

due to the adoption of the digital education system today.

### Objectives of the Study

- To examine the impact of digitization and cyber security vigilance tools among the stakeholders of Universities in Coimbatore; and
- To know the implications and effectiveness of digitization on education and learning in the higher education system.

### Hypothesis of the Study

- $H_{01}$ : Digitization and cyber security vigilance



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strongly influence stakeholders quality education and learning style on the development of higher education standards in Universities

## Sample Design

The Multi Stage Sampling method is used for the present study in the selected area. In the first stage it is respondents are selected based on the Education Systems/Higher Education in the Universities levels / Institutions. Second stage area wise selection is done, where in Tamil Nadu, Coimbatore district is chosen and in the third stage, the study concentrated only on selected Universities stakeholders such as employees, employers (both including teaching and non-teaching members), research scholars, project assistants, technicians and others who use digitized tools and techniques in their routine life within the Universities for education and learning in improving the quality of education. The respondents for the current study is chosen based on the employment in educational institutions/Universities and the target respondents are all the stakeholders of University which includes only six Universities located in and around the Coimbatore district. The Universities is selected based on the number of universities situated in Coimbatore and those who are digitized their education and learning to improve the quality education. The sample size taken for the

study is 221.

## Statistical Tools and Techniques

The present study has used percentages and Structural Equation Model (SEM) - Amos (Analysis of Moment Structures) (IBM version 20.0) is used which is an easy-to-use program for visual SEM. With Amos, you can quickly specify, view, and modify your model graphically using simple drawing tools.

## Period of the Study

The study covered a period of one year from July to September, 2017.

## Sources of Data Collection

**Primary data** for the study are collected from the selected group of University stakeholders such as employees, employers (Including teaching and non-teaching staff members), students (UG and PG students), and research Scholars, project assistants in the selected University in Coimbatore District. **Secondary data** are collected from books, journals, research papers, newspapers, on-line sources, Reports of Economic Indicators, University web portal, India studies, and University Library resources (Both offline and Online sources) etc.,

## Analysis and Interpretation

The present study focused mainly on the impact of digitization and cyber security vigilance among the stakeholders of universities. With the help structure questionnaire, the collected data is presented here.

Socio Economic Profile of Respondents

**Table – 1: Demographic Profile of the Respondents**

Group	No. of Respondents (N)	In Percentage (%)
<b>Gender</b>		
Male	109	49.32
Female	112	50.68
<b>Total</b>	<b>221</b>	<b>100.0</b>
<b>Age</b>		
25 - 35	036	16.29
35 - 45	072	32.58
45 - 55	064	28.96

55 and Above	049	22.17
<b>Total</b>	<b>221</b>	<b>100.0</b>
<b>Marital Status</b>		
Married	079	35.75
Single	142	64.25
<b>Total</b>	<b>221</b>	<b>100.0</b>
<b>Educational Level/Positions</b>		
Pre University Level (PUC) / + II	11	4.97
Diploma/Certificate Course/Professional Degree	22	9.95
Under Graduates	68	30.77
Post Graduates	64	28.96
Master of Philosophy (M. Phil)	21	9.50
Doctoral Degree (Ph. Ds)	29	13.12
Post Doctoral Degree	06	2.71
<b>Total</b>	<b>221</b>	<b>100.0</b>
<b>Occupation</b>		
Students	036	16.29
Teachers/Faculty	049	22.17
Research Scholars	038	17.19
Non – Teaching Staff members	039	17.65
Administrators	032	14.48
Project Assistant/Fellowship	016	7.24
Technical Assistants/Technicians	010	4.52
Others if any	001	0.45
<b>Total</b>	<b>221</b>	<b>100.0</b>

Source: Survey Data, 2017, N – Number of samples, Sample size: N – 221

**Table – 2: Selected respondents of Universities in Coimbatore District**

University	Students (S)	Teachers (T)	Research Scholars (RS)	Non – Teaching (NS)	Admin	Project Assistant (PA)	Technicians (T)	Total (N)
	1	2	3	4	5	6	7	8

## CASE STUDY

Tamil Nadu Agricultural University	11 (4.98%)	10 (4.52%)	12 (5.43%)	7 (3.17%)	7 (3.17%)	4 (1.81%)	3 (1.36%)	54 (24.44%)
Karunya University	5 (2.26%)	8 (3.62%)	2 (0.91%)	2 (0.91%)	3 (1.36%)	2 (0.91%)	5 (2.26%)	27 (12.22%)
Karpagam University	4 (1.81%)	8 (3.62%)	5 (2.26%)	5 (2.26%)	2 (0.91%)	1 (0.45%)	0	25 (11.31%)
Bharathiar University	6 (2.71%)	9 (4.07%)	9 (4.07%)	5 (2.26%)	6 (2.71%)	1 (0.45%)	1 (0.45%)	37 (16.74%)
Avinashilingam University for Women	5 (2.26%)	8 (3.62%)	7 (3.17%)	6 (2.71%)	7 (3.17%)	2 (0.91%)	0	35 (15.84%)
Amrita Vishwa Vidyapeetham	9 (4.07%)	10 (4.52%)	6 (2.71%)	4 (1.81%)	11 (4.98%)	2 (0.91%)	1 (0.45%)	43 (19.46%)
<b>Total</b>	<b>40 (18.11%)</b>	<b>53 (23.98%)</b>	<b>41 (18.55%)</b>	<b>29 (13.12%)</b>	<b>36 (16.29%)</b>	<b>12 (5.43%)</b>	<b>10 (4.55%)</b>	<b>221 (100)</b>

Source: Survey Data, 2017

Note: The numbers mentioned in the parenthesis ( ) represents the percentages and the Percentages are shown in column wise; N – Number of samples, Sample size: N – 221

**Table – 3: Qualifications of the selected respondents in University Level, Coimbatore District**

University	PUC	Diploma	UG	PG	M. Phil	Ph. D	Post Doctoral	Total (N)
	1	2	3	4	5	6	7	8
Tamil Nadu Agricultural University	1 (0.45%)	4 (1.81%)	14 (6.33%)	12 (5.43%)	3 (1.36%)	2 (0.90%)	1 (0.45%)	37 (16.74%)
Karunya University	1 (0.45%)	2 (0.90%)	21 (9.50%)	6 (2.71%)	2 (0.90%)	1 (0.45%)	0	33 (14.93%)
Karpagam University	2 (0.90%)	8 (3.62%)	6 (2.71%)	12 (5.43%)	11 (4.98%)	8 (3.62%)	1 (0.45%)	48 (21.72%)
Bharathiar University	0	2 (0.90%)	7 (3.17%)	4 (1.81%)	3 (1.36%)	2 (0.90%)	0	18 (8.14%)
Avinashilingam University for Women	0	3 (1.36%)	6 (2.71%)	11 (4.98%)	2 (0.90%)	4 (1.81%)	1 (0.45%)	27 (12.22%)



Amrita Vishwa Vidyapeetham	1 (0.45%)	7 (3.17%)	12 (5.43%)	25 (11.31%)	3 (1.36%)	8 (3.62%)	2 (0.90%)	58 (26.24%)
<b>Total</b>	<b>5 (2.26%)</b>	<b>26 (11.76%)</b>	<b>66 (29.86%)</b>	<b>70 (31.57%)</b>	<b>24 (10.86%)</b>	<b>25 (11.31%)</b>	<b>5 (2.26%)</b>	<b>221 (100%)</b>

Source: Survey Data, 2017

ENR

Note: The numbers mentioned in the parenthesis ( ) represents the percentages and the Percentages are shown in column wise; N – Number of samples, Sample size: N – 221

**Table – 4: Impact of Digitization through ICT in among the stakeholders in the University level, Coimbatore District**

Sl. No.	DESCRIPTION	SA		A		N		D		SD	
		N	%	N	%	N	%	N	%	N	%
	Wireless Connectivity (WIFI)	61	27.60	50	22.73	28	12.67	55	24.89	27	12.22
	Virtual Libraries and Digital learning/ Digital Library (VL/DL)	73	33.03	44	20.00	42	19.00	45	20.36	17	7.69
	Virtual Learning Campus (VLC)/Virtual Class Rooms	54	24.43	37	16.82	51	23.08	41	18.55	38	17.19
	Tele-Education System (TES)	36	16.29	39	17.73	58	26.24	53	23.98	35	15.84
	Satellite Instructional Television Experiment (SITE) or EDUSAT	50	22.62	34	15.45	43	19.46	58	26.24	36	16.29
	Library Network (INFLIBNET)	56	25.34	42	19.09	49	22.17	48	21.72	26	11.76
	LCD Projectors (LCDPs)	65	29.41	34	15.45	42	19.00	42	19.00	38	17.19
	E-Learning (EL)	79	35.75	28	12.73	43	19.46	40	18.10	31	14.03
	Educational Media Resource Centers (EMRCs)	48	21.72	21	9.55	56	25.34	37	16.74	59	26.70
	Computer Based Training (CBT)	69	31.22	35	15.91	39	17.65	38	17.19	40	18.10
	Audio-Visuals Resource Centers(AVRC)	46	20.81	30	13.64	58	26.24	45	20.36	42	19.00

Source: Survey Data, 2017,

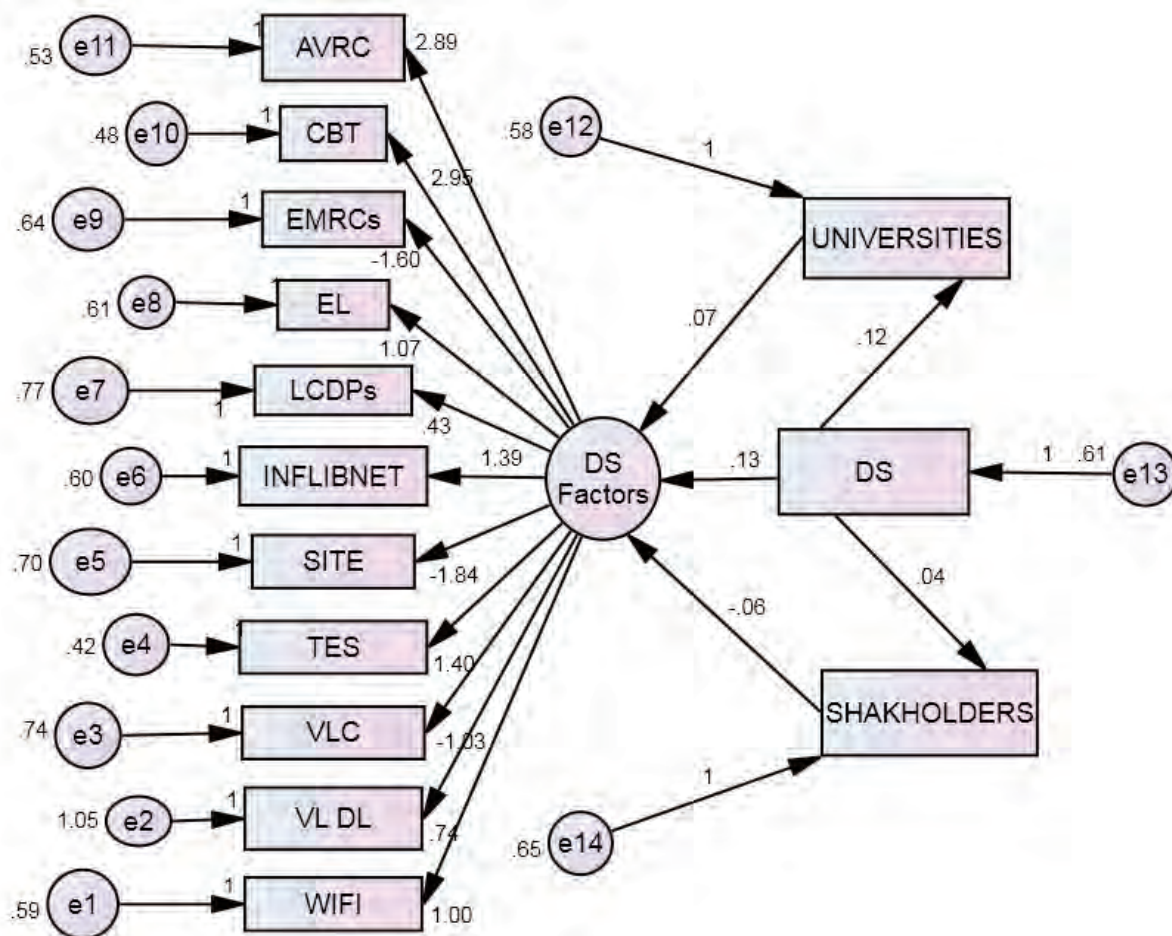
Note: (a) N – Number of samples, Sample size (N) – 221

(b) Strongly Agree (5); Agree (4); Neutral (3); Disagree (2); Strongly Disagree (1)

## CASE STUDY

### Testing of Hypothesis

It is a proposition formulated for empirical testing, a tentative descriptive statement that describes the relationship between two or more variables. In the study the hypotheses taken are:



- **H<sub>01</sub>:** Digitization and cyber security vigilance strongly influence stakeholders quality education and learning style on the development of higher education standards in Universities

### Model – 1: Impact of Digitization and Cyber Security Vigilance among the Stakeholders

(Digitalization factors influence the university stakeholders)

### Results and Discussion

Table – 5: Summary Results of Measurement Model

Model	X <sup>2</sup>	df	P - Value	RMSEA	PGFI/PCFI	NNFI	CFI	RFI	CMIN/DF
H <sub>0</sub>	324.425	210	0.000	0.028	0.792	0.307	0.849	0.183	1.899

Source: Survey data, 2017

*In India, digitization has become the most inevitable and essential component of our life. Currently it is forced to use new hi-tech tools and techniques to develop and to get in touch with the academicians such as students, faculty members, research scholars and other administrative members in various Universities and Higher Education Institutions across India.*


*In this circumstance, the study primarily focuses on the extent digitization and cyber security vigilance among the stakeholders such as students of both undergraduates (UG) and the post-graduate (PG), research scholars, faculty members, non-teaching assistants, administrative people, project staffs/scholars in the Universities of Coimbatore District. Where most of the students are involved in digital payment systems such as online applications for their admission, online fee payments through the NEFT, IMPS, tele-banking, mobile-banking/e-banking/ internet banking and other digital mode of payments at various level in their educational institutions. In this condition, an attempt is made to understand the impact of the digitization and cyber security vigilance measures at university level among the selected student respondents in Coimbatore District. The investigation is carried out with the help of a well thought-out questionnaire administered to the respondents (University stakeholders) and with the help of their responses analysis is made thereafter, which is followed by findings of the study with few suggestions.*

The Chi-Square ( $X^2$ ) value of 324.425 with the 210 degree of freedom is at the 0.05 (5%) significant level: its p – value is 0.000. This finding suggests that model fits the data acceptably from selected stakeholders of Universities in Coimbatore district. Corroborating evidence is provided by the RMSEA fit statistics 0.028 the obtained value of 0.008 is less than the cutoff 0.08. Similarly, the Tucker Lewis Index (TLI)/CMIN - DF result of 1.899 is considerably above the 0.95 threshold denoting satisfactory model fit.

In the above Model – 1, DS factors (Digital system and factors), DS – Digitalization, Tools and Techniques, universities stakeholders causes the scores observed on the measures variables regarding digitalization and cyber security vigilance while the stakeholders of the universities uses the digital tools and techniques to perform their activities effectively to improve the quality of the higher education system in India. The impact of the digital factors on the universities stakeholders are represented by single-headed arrows in the path diagram. Since the chi –square test of absolute model

fit is reported, along with its degrees of freedom and probability value.

### Conclusion

To summarize, the digitization in the higher education system strongly impact on the stakeholders in various aspects. The various tools and techniques which there were uses in the universities for various activities to improve the standard of the education system through digitalization plays a significant role on the development of both the stakeholders and Universities development. Currently, it could be suggested that to improve the strategic foresight and strategic vision is hampering the growth and development of digital system in the Indian universities to identify stakeholder's value, growth, responsiveness or defection more vigorously see the remarkable change in the development and proficiency the activities with the help of digitization in the higher education system. 

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# Diving deep Creative accounting: an exploratory study using a framework

## Creative Accounting

Financial statements are the very first impression and communication about a firm's true value and position to the shareholders and other relevant parties. It must show the true and fair view of the firm as it is very crucial for the stakeholders in order to make an appropriate decision. As it is evident from the past, numerous reputed companies have gone bankrupt and this has left a devastating impact on their economies. All these companies employed the creative accounting techniques. Though the inception of creative accounting is unknown, it is strengthening its roots slowly yet steadily in the field of accounting. History shows Venetian trade men used to record the transactions amongst themselves by double-

entry bookkeeping with ink and quill-pen in main and subsidiary books. In case of any disparity, the inkwell was occasionally knocked over on the books in order to make entries illegible. This quoted example refers to the manipulative behaviour of businessmen that goes back to centuries and thus is not a new phenomenon. Creative accounting seems to be widespread globally. The difference lies possibly in the degree and the techniques.

## Framework for identifying Creative Accounting

Investors and stakeholders are often cheated as they cannot make a distinction between real and creative accounts, due to lack of transparency in the practices employed. Moreover, stakeholders

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# into the ocean of

Accounting scandals in the last decade have devastated the economy and triggered huge losses globally by employing different creative accounting techniques. The objective of this paper is to verify and fine tune the adopted framework from Bhargava et al. (2016) to help the stakeholders and investors in detecting creative accounting practices and assist them in taking the right investment decision. For this purpose, an exploratory research was carried out. A survey was conducted using the questionnaire methodology to answer the questions related to the techniques of creative accounting practiced by firms. To evaluate the questionnaire results, SPSS, statistical software for data analysis version 20 was used. Cronbach's Alpha test and Chi-square test was used to analyse the data collected from the questionnaire. The paper concludes with some suggestions to curb the practices of creative accounting, in favour of the investors and society at large.

are not skilled enough that they can easily detect the accounting manipulation by the firms. Accounting scandals unveiled in the last decade have also put the accounting profession into a gloomy side of the industry. To bring back the accounting as a reputed profession, there is an urgent need to reveal the motives and techniques employed by the firms. Also, there exists no thumb rule, which can help investors and stakeholders to take a wise decision.

We adopted the framework of creative accounting from Bhargava, Vidhi et al. (2016) to help the stakeholders

and investors in detecting creative accounting practices before taking investment decisions. The framework clearly depicts four subheads categorizing how accounts are manoeuvred i.e. by playing with regulations, transactions, assets and liabilities and accounting standards. These are the warning signs which any stakeholders or investors should check in the accounts of any firm before investing in it. With this framework, investors, lenders and analysts can investigate the financial records, searching for clues and finding out how the company actually performed in the past and how it is likely to perform in future.

**Table 1: Framework for identifying Creative Accounting**

Playing with Regulations	Playing with Transactions	Playing with Assets and Liabilities	Playing with Accounting Standards
Capitalisation of research and development costs.	Misrepresenting certain expenses in the asset production or purchase cost.	Manipulating depreciation costs and calculations.	Adjusting with branch accounts and miscalculating consolidated accounts.
Switching over from one depreciation technique to other across years and assets.	Faulty representation of future transactions.	Tampering with methods of depreciation, their durations and residual values.	Creating extraordinary results (sale of fixed assets, costs or revenues from previous years).

Circumstantial placement of bonds warrants and convertible shares and debentures as per the whims and fancies of management.	Fictitious Sales.	No definite criteria for selection of assets and their timings for revaluation.	Considering extraordinary results as ordinary and vice-versa.
Variations in inventory valuation methods.	Price falsification for inter and intra company transactions.	Variations in inventory valuation methods.	Adjusting revenue recognition and expense estimations with a negative intention.
	Fluctuating prices of your holdings to impact the internal capital and profits.	Knocking off assets with liabilities or expenses with revenues.	Misappropriation of the commercial funds against reserves or capitalization and depreciation.
		Changes of the holdings classification policy.	Certain accounting expenses not included in the profit and loss account instead shown in retained earnings.
		Value of Intangible Assets.	

Source: Bhargava, V. and Gupta, L. (2016). *Blaming horse's parents: The problem is often in the breeding (a critical note on creative accounting)*. *International Research Journal of Management and Commerce*, 3(4), 40-57.

## Research Methodology

The objective of this paper is to verify and fine-tune the above framework. For this purpose, exploratory research was carried out. A survey was conducted using questionnaire methodology to answer the questions related to the techniques of creative accounting practiced by the firms. By using structured questionnaires from the literature related to creative accounting, the questionnaire was framed. The respondents comprised of Professional chartered accountants, Finance managers, Audit managers, Financial analysts, Managers, Company secretary, Assistant professors, Associate professors, and Professors of commerce department in universities across India. This sample was randomly selected.

A 5-point Likert scale used to answer the questions where 1 represents Strongly Agree, 2 Agree, 3 Undecided, 4 Disagree and 5 Strongly Disagree. Owing to the sensitivity of the topic, 16 close-ended research questions were posed to the participants in the survey. The survey was designed and e-mailed through 'google forms' to around 500 people, giving them ample time to answer the questions. We received 176 honest and completed questionnaires from the respondents in 6 months.

## Data Collection and Analysis

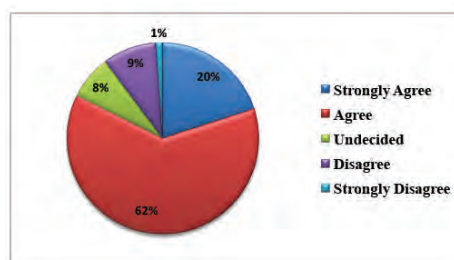
### Questionnaire Findings

Out of the 176 respondents of the survey, 61% were

male and 39% were female. In terms of occupation and designation of the respondents, academicians in the field of commerce constituted around 60% and remaining 40% were of other occupations like Professional chartered accountants, Company secretary, Financial analysts, Finance managers, and Auditors etc. The authors were interested in taking their opinions on the topic of creative accounting as these people are pretty familiar with the accounts and would give their honest reviews on the topic. Moreover, this population is also best suited to identify the accounting manipulation in financial statements.

**Chart 1: Firms reallocation of income across various accounting periods**

The participants were asked in the first question

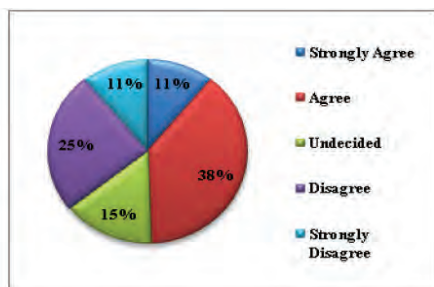


'whether firms reallocate their income across various accounting periods'? Results from the compilation show that 82% believed that firms practice income reallocation to show better cash position of the firm over



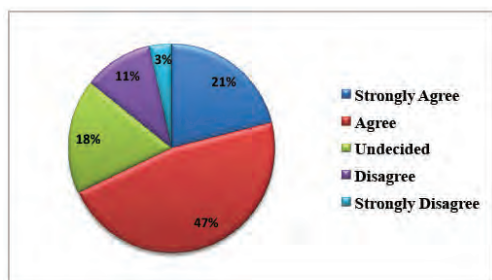
different periods. Only a few respondents did not agree with the statement.

**Chart 2: Treatment of capital expenditure as revenue expenditure**



Next, we were keen to know the participant's views on the accounting treatment of capital expenditure as revenue expenditure by firms. Almost 50% of respondents agreed that firms capitalise its expenses by showing fictitious assets on the balance sheet to boost profit figures. Moreover, regulatory bodies must watch such capitalisation policies of firms to detect the manipulation in accounts.

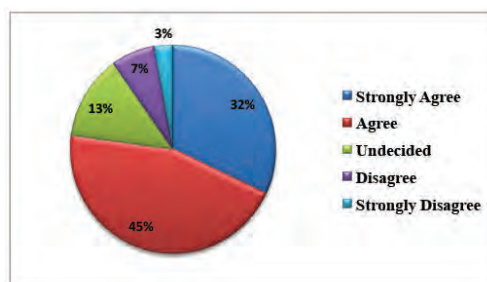
**Chart 3: Inflation of expected value of assets**



We also sought the opinions of academicians and others including CAs, financial analysts' etc. on the inflation of the expected value of assets by firms. Chart 3 clearly indicates that majority of people (68%) think that firms inflate their expected value of assets. Only 24% respondents disagreed with this practice adopted by firms. This proves that firms artificially manipulate the asset values to improve the profitability and financial position to attract investors in firm.

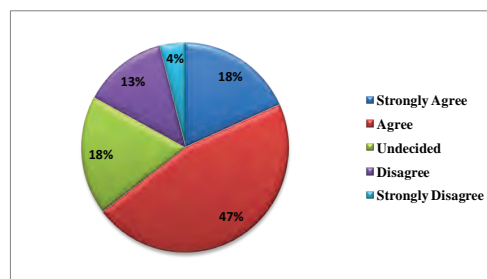
**Chart 4: Revaluation of fixed assets by firms to suit their needs for presenting better picture**

Another question asked about the revaluation of fixed assets by firms to suit their needs for presenting better



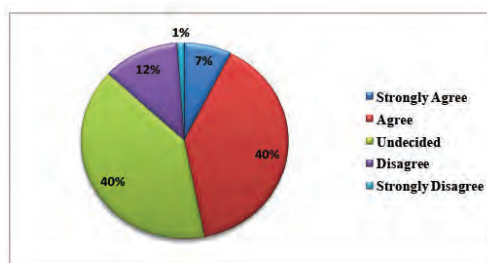
picture. We got very clear responses to this question. 135 respondents out of 175 replied to the favour that firms revalue its fixed assets to reduce tax and to show better financial ratios.

**Chart 5: Use of inventory gimmicks for changing surplus from Profit and Loss**



It was also explored if firms used inventory gimmicks for changing surplus from the Profit & Loss. Inventory records are distorted by firms by employing different means e.g. change of the quantity of inventory to inflate inventory levels, showing fake purchases, creating provisions for obsolete inventory, changing methods of valuing inventory etc. We found that 18% of respondents strongly agreed, 47% agreed, 13% disagreed and 18% remained undecided about it.

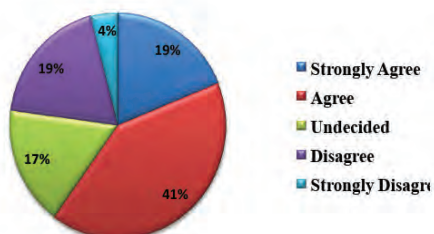
**Chart 6: Playing by the firms with third-party lease**



Next question posed to investigate playing by the firms with third-party lease. 47% respondents replied that firms play with third party lease. On the other hand,

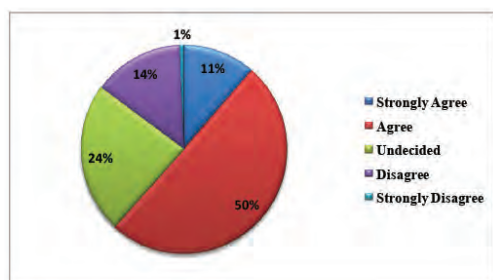
13% respondents disagreed and surprisingly about 40% of respondents were undecided about it.

**Chart 7: Manipulation of depreciation on intangible assets**



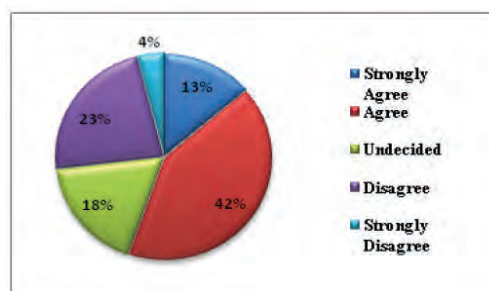
Depreciation estimates are made by the firm only so there are more chances of intentionally making mistakes to manipulate depreciation figures. Answers were provided by the respondents on the question 'whether firms manipulate while charging depreciation on intangible assets' revealed that around 105 respondents (60%) agreed, 17% undecided, 23% disagreed to the question.

**Chart 8: Playing with AS-9 on revenue recognition**



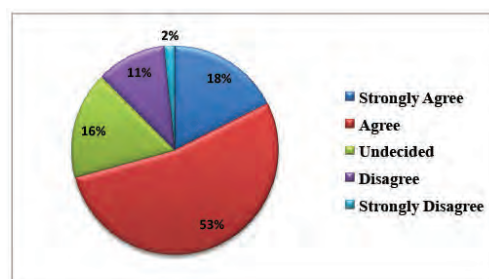
Next question asked to the participants was 'whether the firms play with AS-9 on revenue recognition'? A study conducted in UAE by Mohammed, R. et al. disclosed that the most widely used category of financial shenanigans is improper recognition of revenue. This manipulation was witnessed in case of Hongguang, California Micro Devices Corp., Fermenta, Satyam, Dynamic life, Sawako etc. Responses presented in the chart also clearly highlights that majority of respondents i.e. around 61% believe that firms play with AS-9 on revenue recognition. While 24% were undecided and 15% disagreed with the question.

**Chart 9: Inclusion of extraordinary items in normal operations**



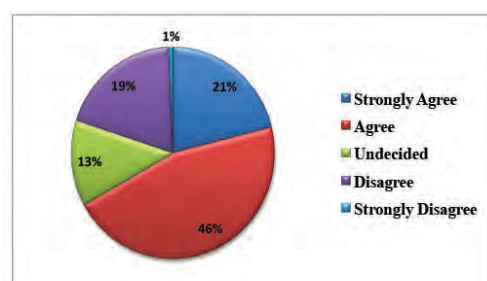
As a part of this questionnaire, we posed one question about accounting treatment by firms by including extraordinary items in normal operations. Results showed that 11% strongly agreed, 50% agreed, 24% were undecided, 14% disagreed and only 1% strongly agreed that firms improve its performance by manipulation of extraordinary items in the balance sheet.

**Chart 10: Manipulation of transfer prices from subsidiaries**



Sometimes firms and management also manipulate transfer prices from subsidiaries to minimise the impact of taxes. Responses analysed from this question suggest that a large number of people (71%) agreed, 16% were undecided and only 13% disagreed to this manipulation by firms.

**Chart 11: Understated liabilities and debts**



Most of the firms employed creative accounting by understating their liabilities and debts. One such example is Parmalat, an Italian food corporation that didn't disclose its debts in the balance sheet. The questionnaire result revealed that 21% strongly agreed, 46% agreed, 13% were undecided and 20% disagreed to the understatement of liabilities and debts by the firms.

**Chart 12: Concealment of uncollectible receivables**

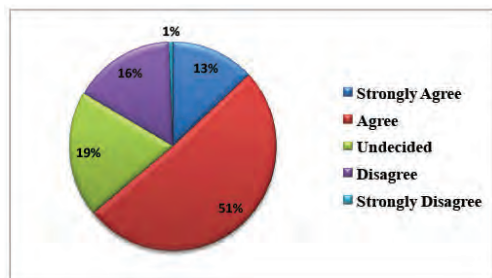
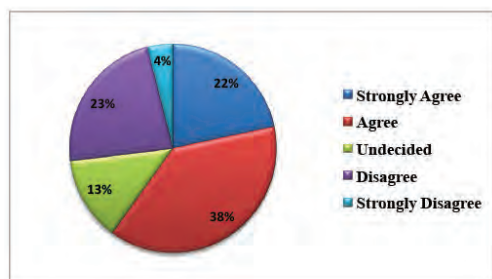


Chart 12 evident results on opinions of participants on concealing uncollectible receivables by firms. It disclosed that 113 out of 176 respondents agreed that the firms conceal uncollectible receivables. While 33 respondents were undecided and 30 respondents disagreed with the statement.

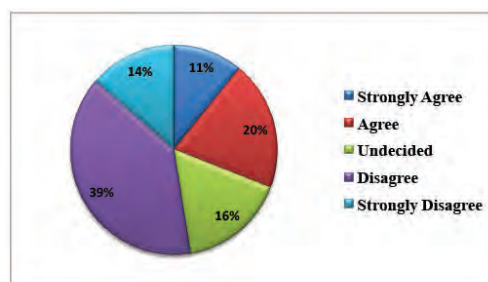
**Chart 13: Overstatement of cash and bank balances to show better cash position**



It was also inquired, 'if firms overstate cash and bank balances to show better cash position?' Responses showed that around 60% of participants believe that firms fake their liquidity position by manipulation of cash and bank balances. While 13% were undecided, 27% disagreed with the above statement.

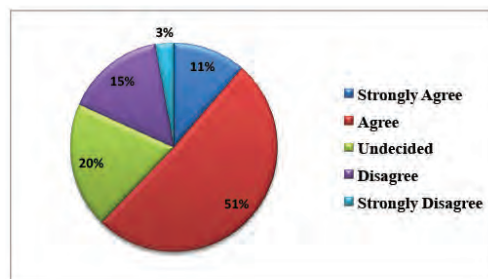
**Chart 14: Extending of accounting year**

It was also questioned in the survey whether firms extend their accounting year. Some firms, in spite of restrictions on extending of accounting year practice



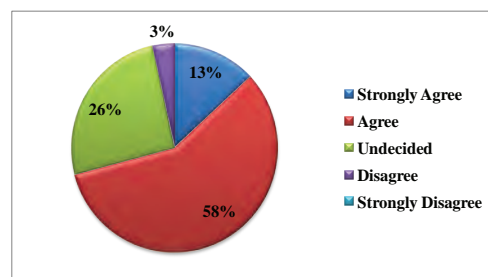
it to avoid taxes and to achieve their desired goals. We got a very mixed response to this question. 11% respondents strongly agreed, 20% agreed, 16% were undecided, 39% disagreed and 14% strongly disagreed with the statement.

**Chart 15: No adequate provisions for decline in value of investment**



Firms deliberately do not make adequate provisions for the decline in the value of the investment to improve its earnings and reflect the better financial position of the firm before investors. This statement was verified with respondents and about 62% of respondents agreed, 20% were undecided and 18% disagreed with the same.

**Chart 16: Approval of the framework for helping the investors and stakeholders in detecting creative accounting practices**



Finally, to verify the judgemental framework, respondents were asked to approve the framework for helping the investors and stakeholders in detecting



creative accounting practices. An overwhelming response was received from 70% respondents who approved the framework for detecting creative accounting practices. While 26% respondents were still undecided but no one strongly disagreed with the framework.

Mohammed, R. et al. also conducted a questionnaire research to find out the most commonly employed creative accounting technique in UAE and according to the respondent's responses, premature revenue recognition practice is the most widely used type of creative accounting. Almost half of respondents in this study agreed that firms employed this practice to manipulate their financial records.

Naser, K. et al. questioned senior corporate auditors about their experience of creative accounting. They also identified reasons behind employing creative accounting and 20 out of 22 respondents believed that major reason behind practising such practice is to meet the limits of borrowing levels and gearing ratios. They concluded that a significant proportion of companies irrespective of the company's category employ creative accounting techniques to some extent.

The extensive exploratory study using our questionnaire strongly favoured the hypothesis which we have put that firms employ creative accounting practices like manipulating transfer price from subsidiaries, using of inventory gimmicks for changing surplus from Profit & Loss, understatement of liabilities and debts and so on. As out of 176 respondents more than 60% of respondents in each question agreed with us.

## Data Analysis

After collecting relevant data from the survey, responses were thoroughly checked and processed manually in MS Excel. Cronbach's alpha test using SPSS version 20, statistical software for data analysis

was used to check the internal consistency of a questionnaire. This statistical test specifically analyses how closely related a set of items in the scale are as a group. This further assures us of the survey's reliability. The formula for the standardized Cronbach's alpha is as below:

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N-1) \cdot \bar{c}}$$

Here N is the number of items, c-bar is the average inter-item covariance among the items and v-bar equals the average variance.

The higher the score of Cronbach Alpha, the more reliable the generated scale is.

## Reliability Statistics

**Table 2: Reliability Check of the Questionnaire in SPSS**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.844	.829	19

By using SPSS, the reliability check calculated by Cronbach's Alpha was found to be more than .829 and is fairly acceptable. This proved that the questionnaire was good enough to conduct a fruitful study.

## Statistical Tools

We applied statistics using Chi-Square Test to analyse the results of data collected from the questionnaire. The Chi-square test is a statistical tool that determines whether two variables are independent or not. This non-parametric test is an overall measure of how close the observed frequencies are to the expected frequencies.

For each question in the questionnaire of our survey, Chi square values calculated from SPSS reveals the following:

**1. Firms allocate their income across various accounting periods:** Many businesses use income smoothing to reduce the fluctuations in earnings by the allocation of income across periods.

Hypothesis:	H0: Firms don't allocate their income across various accounting periods. H1: Firm allocates their income across various accounting periods.
Degree of freedom:	4 (n-1= 5-1= 4).
Computed value of Chi Square X <sup>2</sup> :	208.66.

Table value of $X^2$ :	9.48.
Interpretation:	To test the above hypothesis, Chi-square test is performed at 95% level of significance. The computed value of Chi-Square is 208.659 at a degree of freedom 4 is greater than the table value of $X^2$ is 9.48. Therefore, we reject the null hypothesis and accept the alternate hypothesis. This shows that firms reallocate the income across various accounting periods so as to lure investors as they generally invest in firms with stable earnings.

**2. Firms treat capital expenditure as revenue expenditure:** Firms capitalise its expenses by treating it as an asset on company's balance sheet rather than the income statement. For example, purchase of machinery treated as a purchase of goods. These expenses are also written-off over several years by firms like evident in case of Worldcom, Fokker, Zhengzhou Baiwen etc. Literature revealed that 27% of UK companies adopted the practice of capitalisation of expenses.<sup>4</sup>

Hypothesis:	H0: Firms don't treat its capital expenditure as revenue expenditure. H1: Firms treat its capital expenditure as revenue expenditure.
Degree of freedom:	4 ( $n-1= 5-1= 4$ ).
Computed value of Chi Square $X^2$ :	49.1.
Table value of $X^2$ :	9.48.
Interpretation:	Above hypothesis is tested and it is revealed that the firms are treating capital expenditure as revenue expenditure. In other words, respondents agreed that most firms capitalise its expenses in its financial records.

**3. Firms inflate their expected value of assets:** It has been evident that firms maneuver the accounting numbers by overstating the asset values in numerous accounting scandals like Zhengzhou Baiwen, Fermenta, Shenzhen Yuanze, Parmalat.

Hypothesis:	H0: Firms don't inflate their expected value of assets. H1: Firms inflate their expected value of assets.
Degree of freedom:	4 ( $n-1= 5-1= 4$ ).
Computed value of Chi-Square $X^2$ :	95.36
Table value of $X^2$ :	9.48.
Interpretation:	The test suggests the majority of participants believed that assets values are being overstated by firms and motivation behind this manipulation is to project better image before investors and to inflate their earnings.

**4. Firms revalue fixed assets to suit their needs for presenting better picture:** Revaluation of fixed assets by firms is often done to present better financial position, attract investors, save taxes and improving financial ratios etc.

Hypothesis:	H0: Firms don't revalue the fixed assets to suit their needs for presenting better picture. H1: Firms revalue the fixed assets to suit their needs for presenting better picture.
Degree of freedom:	4 ( $n-1= 5-1= 4$ ).
Computed value of Chi-Square $X^2$ :	114.4
Table value of $X^2$ :	9.48
Interpretation:	On the basis of the computed value which is greater than the table value, the null hypothesis is rejected and alternate hypothesis is accepted. This shows that the firms revalue the fixed assets to achieve their goals for presenting better picture.

**5. Firms alter stock valuation method for changing surplus from Profit and Loss:** Accounting standard of inventory allowed enough flexibility for inventory valuation which induces the users of financial statements to choose the desired method and thereby modify the results.

Hypothesis:	H0: Firms don't alter stock valuation method for changing surplus from Profit and Loss. H1: Firms alter stock valuation method for changing surplus from Profit and Loss.
Degree of freedom:	4 ( $n-1 = 5-1 = 4$ ).
Computed value of Chi-Square $X^2$ :	95.47
Table value of $X^2$ :	9.48
Interpretation:	It is proved from the hypothesis that firms change the methods of valuing the stock for changing surplus from Profit and Loss. As the treatment of this item involves subjectivity and can be altered easily.

**6. Firms play with third-party lease:** Many cases of accounting fraud played with third-party lease. One such example is of Worldcom accounting scandal that reported the use of third-party lease to artificially magnify its income.<sup>10</sup>

Hypothesis:	H0: Firms don't play with third-party lease. H1: Firms play with third-party lease.
Degree of freedom:	4 ( $n-1 = 5-1 = 4$ ).
Computed value of Chi-Square $X^2$ :	114
Table value of $X^2$ :	9.48
Interpretation:	This shows that firms play with third-party lease to achieve their desired goals.

**7. Firms manipulate while charging depreciation on intangible assets:** Depreciation in accounts are distorted by switching depreciation methods i.e. from the straight-line method to diminishing method or vice-versa, changing salvage value used for depreciation and frequent used one is altering the useful life of an asset.

Hypothesis:	H0: Firms don't manipulate while charging depreciation on intangible assets. H1: Firms manipulate while charging depreciation on intangible assets.
Degree of freedom:	4 ( $n-1 = 5-1 = 4$ ).
Computed value of Chi-Square $X^2$ :	69.62
Table value of $X^2$ :	9.48
Interpretation:	It is disclosed that companies generally use that method of depreciation which is best suited to them. The hypothesis is tested and it showed that firms manipulate while charging depreciation on intangible assets.

**8. Firms play with AS- 9 on revenue recognition:** Accounting scandals like American Insurance Group, Hongguang, Sawako, Satyam etc. improperly recognised revenue in its books of accounts. They manipulated their revenue by adopting different techniques such as premature revenue recognition, consider the loan as sales, bill and hold transactions, recording of bogus sales etc.

Hypothesis:	H0: Firms don't play with AS-9 on revenue recognition. H1: Firms play with AS-9 on revenue recognition.
Degree of freedom:	4 ( $n-1 = 5-1 = 4$ ).
Computed value of Chi-Square $X^2$ :	126.7



Table value of $X^2$ :	9.48
Interpretation:	It is suggested that being its direct impact on profits, sales are inflated to show the better position of the company before stakeholders by firms.

**9. Firms include extraordinary items in normal operations:** Firms easily manipulate extraordinary items in normal operations to improve its performance.

Hypothesis:	H0: Firms don't include extraordinary items in normal operations. H1: Firms include extraordinary items in normal operations.
Degree of freedom:	4 ( $n-1= 5-1= 4$ ).
Computed value of Chi-Square $X^2$ :	69.17
Table value of $X^2$ :	9.48
Interpretation:	The computed value of chi-square $X^2$ is 69.17 is greater than the table value of $X^2$ is 9.48. Therefore, we reject the null hypothesis and accept the alternate hypothesis. This shows that firms include extraordinary items in normal operations.

**10. Firms manipulate transfer price from subsidiaries:**

Hypothesis:	H0: Firms don't manipulate transfer price from subsidiaries. H1: Firms manipulate transfer price from subsidiaries.
Degree of freedom:	4 ( $n-1= 5-1= 4$ ).
Computed value of Chi-Square $X^2$ :	141.95
Table value of $X^2$ :	9.48
Interpretation:	The above hypothesis is tested and the computed value of chi-square is found to be greater than its table value. Therefore, we reject the null hypothesis and accept the alternate hypothesis. This shows that firms manipulate transfer price from subsidiaries.

**11. Firms understate their liabilities and debts:** Businesses manipulate the liabilities by the omission of loans, understatement of debts in the balance sheet.

Hypothesis:	H0: Firms don't understate their liabilities and debts. H1: Firms understate their liabilities and debts.
Degree of freedom:	4 ( $n-1= 5-1= 4$ ).
Computed value of Chi-Square $X^2$ :	96.4
Table value of $X^2$ :	9.48
Interpretation:	It has been found from the responses that the firms understate their liabilities and debts to accelerate its revenue.

**12. Firms conceal uncollectable receivables:** Most of the accounting scams in the past showed that firms conceal bad debts so as to inflate its asset values and improve the profitability.

Hypothesis:	H0: Firms don't conceal uncollectable receivables. H1: Firms conceal uncollectable receivables.
Degree of freedom:	4 ( $n-1= 5-1= 4$ ).
Computed value of Chi-Square $X^2$ :	120.82
Table value of $X^2$ :	9.48

Interpretation:	Chi-square test is performed and computed value of chi square $X^2$ is 120.82 is found to be greater than the table value of $X^2$ i.e. 9.48. This shows that the firms conceal uncollectable receivables.
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### 13. Firms overstate cash and bank balances to show better cash position:

Hypothesis:	H0: Firms don't overstate cash and bank balances to show better cash position. H1: Firms overstate cash and bank balances to show better cash position.
Degree of freedom:	4 ( $n-1=5-1=4$ ).
Computed value of Chi-Square $X^2$ :	61.8
Table value of $X^2$ :	9.48
Interpretation:	This shows that firms manipulate its cash and bank balances to portray better liquidity position of the firm.

### 14. Firms extend their accounting year:

Hypothesis:	H0: Firms don't extend their accounting year. H1: Firms extend their accounting year.
Degree of freedom:	4 ( $n-1=5-1=4$ ).
Computed value of Chi-Square $X^2$ :	47.58
Table value of $X^2$ :	9.48
Interpretation:	Null hypothesis is rejected on the basis of computed value. This concludes that the firms extend their accounting year to avoid taxes.

### 15. Firms are not making adequate provisions for the decline in value of investment:

Hypothesis:	H0: Firms are making adequate provisions for the decline in value of an investment. H1: Firms are not making adequate provisions for the decline in value of an investment.
Degree of freedom:	4 ( $n-1=5-1=4$ ).
Computed value of Chi-Square $X^2$ :	121.5
Table value of $X^2$ :	9.48
Interpretation:	This proves that the firms are not making adequate provisions for the decline in value of an investment to accelerate its profit figures.

**16. Would you like to approve the framework for helping the investors and stakeholders in detecting creative accounting practices:** Participants of our survey are also asked to review the framework and suggest whether it will help further to stakeholders in identifying creative accounting practices or not.

Hypothesis:	H0: Respondents don't approve the framework for helping the investors and stakeholders in detecting creative accounting practices. H1: Respondents approve the framework for helping the investors and stakeholders in detecting creative accounting practices.
Degree of freedom:	4 ( $n-1=5-1=4$ ).
Computed value of Chi-Square $X^2$ :	130.12
Table value of $X^2$ :	9.48
Interpretation:	Responses show that around 71% participants approve the framework that can help the investors and stakeholders in detecting creative accounting practices.

### Standard Deviation:

We also applied descriptive statistics; 'Standard Deviation' in our study as it provides an indication of how far the individual responses to a question deviate from the mean. It is the most commonly used measure of variation. It is widely used by researchers as it gives an indication of the average distance from the mean. A low standard deviation would mean that most observations cluster around the mean. A high standard deviation would mean that there was a lot of variation in the answers.

**Table 3: Descriptive statistics performed on SPSS**

Descriptive Statistics						
	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Firms allocate their income across various accounting periods	176	1.00	5.00	2.1080	.06668	.88463
Firms treat capital expenditure as revenue expenditure	176	1.00	5.00	2.8580	.09178	1.21761
Firms inflate their expected value of assets	176	1.00	5.00	2.2727	.07706	1.02235
Firms revalue fixed assets to suit their needs for presenting better picture	176	1.00	5.00	2.0398	.07575	1.00491
Firms alter stock valuation method for changing surplus from Profit and Loss	176	1.00	5.00	2.3409	.07677	1.01853
Firms play with third-party lease	176	1.00	5.00	2.6023	.06400	.84906
Firms manipulate while charging depreciation on intangible assets	176	1.00	5.00	2.4375	.08204	1.08841
Firms play with AS- 9 on revenue recognition	176	1.00	5.00	2.4545	.06733	.89326
Firms include extraordinary items in normal operations	176	1.00	5.00	2.6364	.08350	1.10771
Firms manipulate transfer price from subsidiaries	176	1.00	5.00	2.2386	.06837	.90704
Firms understate their liabilities and debts	176	1.00	5.00	2.3523	.07774	1.03139
Firms conceal uncollectable receivables	176	1.00	5.00	2.4091	.07038	.93364
Firms overstate cash and bank balances to show better cash position	176	1.00	5.00	2.4716	.08751	1.16093
Firms extend their accounting year	176	1.00	5.00	3.2386	.09258	1.22819
Firms are not making adequate provisions for decline in value of investment	176	1.00	5.00	2.4943	.07297	.96804
Would you like to approve the framework for helping the investors and stakeholders in detecting creative accounting practices	176	1.00	4.00	2.1818	.05102	.67689
Valid N (listwise)	176					



## Interpretation:

It is revealed from the above table that mean is approximately 2 and the standard deviation is less than 2 for each question in the questionnaire. So, this shows that most observations cluster around the mean and there is the least variation in the answers.

## Conclusion:

The majority of the respondents agreed to the questions asked in the survey which proved that firms do employ creative accounting techniques. Numerous accounting scandals and earlier studies have all revealed that firms employ creative accounting to glamorise their numbers which results in defrauding investors and stakeholders and also tarnishes the country's image. So, to curb such practices, some probable solutions would be:

### ● Strengthening of accounting standards:

COSO's study on fraudulent financial reporting 9 revealed that most of the fraud witnessed was due to manipulation of revenue, inventory, depreciation, related party transactions etc. Therefore, accounting standards need major revision by the accounting regulating bodies by blocking the existing loopholes. Prevailing accounting standards are loose and have a scope of subjectivity in it. Accounting regulating authorities like ICAI, IASB, and FASB etc. must review the accounting standards time to time and revise it when required. Moreover, to prevent accounting scams in near future, the government should impose stiffer punishments and penalties to the perpetrators of the fraud.

### ● Reduce flexibility in choosing methods for valuation:

It is well known that accounting system permits alternative methods for valuation. Firms can choose the method that gives them their desired goals. As same accounting method would not be suitable for all types of organisations due to variation in size and nature. For example, a firm can choose any method of valuing depreciation from the straight-line method to diminishing method etc. or any method for valuing inventory like FIFO, average price etc. Also, they can select one method for valuing one asset and another method for another asset. There is a need to rationalise the multiple choices while valuation of items. Sufficient stumbling blocks for the accountants and evaluators should have to be cleared before a clean chit is generated for final evaluation. Moreover, consistency must be

followed by firms while choosing an accounting method.

### ● Minimise the use of estimations and judgements:

Some accounting transactions require estimations and subjectivity and firms take the advantage by making biased and unrealistic estimations. It is witnessed in many cases, that firms increase salvage values and lengthen the useful life of their assets to inflate the figures. Accounting scams like Tiphook, Waste Management Inc. and Worldcom etc. distorted their asset values by lengthening the useful life of the asset and using high salvage values. So, some full proof strategy should be ready with controlling bodies, apart from accounting standards to identify and mitigate the issue of over/underestimations.

### ● Need to redefine the role of auditors:

It is the responsibility of the auditor to have an eagle's eye on aggressive accounting practices of firms. But in almost all accounting failures like Enron, Satyam, Royal Bank, Lehman Brothers, Parmalat and AIG etc. the auditor's role proved to be suspectful. The scandals would not have happened, had the auditor acted responsibly and timely. This also indicates the importance of the independence of auditors from the pressure of the paymasters. This also calls for regular session on ethical practices for auditors to re-emphasise the ethical learning. There should be regular workshops and refresher programs for the same. Auditors should be given complete freedom for the verification of accounts, as only independent auditors can provide not only transparent records but also ensure that the accounts show "true and fair view" to the users of financial information. 5

### ● Remuneration of auditors:

Currently, there is a need to strengthen and streamline the audit process within an organisation under the umbrella of the regulating bodies. The regulating bodies or government should remunerate the auditor and payment to auditors should be delinked from the management of the concerned firm. 5 Delinking will help the auditors to work more freely without the pressure of their paying master. This will definitely help in curbing unwanted audit practices and hence correctness of accounting numbers will be strengthened.

### ● Ethics and Corporate Governance:

To prevent accounting scams and to regain confidence and credibility in the accounting profession, ethical

behaviour is necessary in the accounting profession. Unethical behaviour leads to only temporary benefits, but in long run, there will be no success. There is a need to strengthen the existing corporate governance norms to prevent recurrence of frauds in future. Effective corporate governance can be achieved by adopting a set of principles and best practices. In particular, there are perhaps four main areas which a company ought to pay attention to in order to mitigate the risk of fraud: effective internal controls, the division of responsibility between the chief executive and chairman, an audit committee and representation on the board of directors.<sup>4</sup>

#### ● Enhance education and training among the accounting practitioners:

Besides specific business skills, accountants and auditors aren't much familiar with fraud schemes and major intricacies on how it is carried out. So, there is a dire need to groom, train and update them continuously. Auditors need to equip themselves with the appropriate principles, techniques and tools to detect such practices. Audit firms and institutions should start thinking of enhancing their audit methodologies, industry-specific trainers, audit work guidebooks and training materials. Also to keep updating accountants, auditors, students, and stakeholders, they must be constantly educated.

#### ● Information Technology implementation to combat accounting fraud:

The biggest advantage of information technology to the companies is the use of computerized systems to record financial transactions which can later be tracked anytime anywhere. Accounting firms can now avail benefits like easy and efficient data collection, improved data quality, speedy data validation and much more. It can also be a stepping stone for curbing creative accounting. Computerized accounting department of companies can reduce the risk of long-term fraud and embezzlement from within the company. Computerized systems often include built-in fraud detection features such as information duplication and automated audit or transaction trails that, in combination with reporting procedures, can alert the company of suspicious employee activity. MA

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# Achieving Corporate Competitiveness through CSR Activities

– A Study on Select Companies in India



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*“If you have that much more money than other people, do you think that much smarter than other people?” “Why don’t you think about it? And why don’t you consider leaving some of your money for other people?”*

*-Swami Vivekananda*

**T**his pointer led to the first major donation by John D Rockefeller who was at one time the richest man on the earth and his wealth measured as % of GDP was even bigger than Bill Gates’. John D. Rockefeller set up his Rockefeller Foundation (1913) which is one of the largest charitable foundations ever in the globe.

In the globalised economy, corporate social responsibility is a core component of the corporate strategy to run in the globalized competitive turf. CSR as a common business practice has only recently established a foothold in developing countries. Transparency and communication about social and environmental performance are crucial aspects of CSR. The practice of publishing sustainability or CSR reports has become increasingly common, especially amongst large enterprises. This study gives emphasis on impact of CSR on cost structure of an enterprise, financial performance and share holder’s returns. Measures of competitiveness at the firm level, therefore, comprise indicators of financial performance, such as the development of sales, profits, and costs, as well as stock performance. In this study, we have considered competitiveness and performance of selected companies of India. The study results indicate that CSR spending give a positive impact on organization’s image in society that help them to make more ground in competitions.

CSR is really about ensuring that the company can grow on a sustainable basis, while ensuring fairness to all stakeholders (N. R. Murthy). A frequently cited definition of competitiveness at the firm level is provided by the *US President’s Commission on Industrial Competitiveness*: “A firm is competitive if it can produce products or services of superior quality or lower costs than its domestic and international competitors. Competitiveness is then synonymous with a firm’s long-run profit performance and its ability to compensate its employees and provide superior returns to its owners” (Francis, 1989).

World Business Council for sustainable development defines corporate social responsibility (CSR) as “The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.” The practice of publishing sustainability or CSR reports has become increasingly common, especially amongst large enterprises. For the firm-level analysis, the economic effects of CSR on six determinants and indicators of competitiveness may be considered i.e. cost structure, human resources, customer perspective, innovation, risk and reputation management, and financial performance. These are the determinants and indicators of competitiveness where CSR is most likely to have a positive influence. Today’s companies ought to invest in CSR as a part of their business strategy to become more competitive<sup>1</sup>. According to a survey by *Price Waterhouse Coopers (2002)* “70 percent of global chief executives believe that CSR is vital to their companies’ profitability”. This study highlights to justify impact of CSR on cost structure of an enterprise, financial performance and share holder’s returns.

### Statement of Problem:

Today, CSR is a core component of corporate strategy to run in the globalized competitive turf. CSR as a common business practice and increasing number of companies worldwide established and integrated the CSR policy. Ballinger’s report hit Nike at a crucial moment; from 1988 to 1993 Nike’s profits had tripled, but following the various sweatshop-like scandals, Nike’s share prices fell drastically and sales lagged (Shaw, 1999). Nike made several crucial reforms in an attempt to redeem itself. Nike drafted a “Code of Conduct” to be strictly adhered to in all of its factory locations, expanded its CSR division and published a 108 page report detailing the status of its factory operations in its South Asian factories in 2005 (Beder, 2002).

The practice of publishing sustainability or CSR reports has become increasingly common, especially amongst large enterprises. This shift in philosophy is further substantiated by the chairman, Reliance Industries limited stating that ‘It is important to get the business of businesses right. The primary responsibility of business is social improvement’ (Ambani, 2011).

India is the first country in the world to make CSR spending mandatory. So, measures of competitiveness at

the firm level and understanging indicators of financial performance, such as the sales, profits, and costs, as well as stock performance and its linkage with CSR activities is need of the hour. Now, we have to judge the CSR value and its impact on organization's competativeness in the long run. We have to also justify the CSR spending which is not only a cost burden for an organization, but also an important tool for achieving competitiveness.

### Objectives:

In this study we try to draw the corporate competitiveness status of CSR spending companies in the light of the inter-relationship between CSR spending and other competitive variables.

### Literature Reviews:

The concept of CSR in an organized manner was originated in 1950's in the USA, but it became prevalent in early 1970s. CSR is not a new concept in Indian context. Ever since their inception, corporate giants like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation etc., to name a few have been involved in serving the community remarkably through their CSR activities. The major ojective of CSR activities now-a-days is to publicize company's overall image on the society and its stakeholders.

### CSR & Cost Structure:

Porter and van der Linde (1995) reported that properly designed environmental standards may induce innovations that lower the total cost of the product or improve its value. From this perspective, cost reduction can be seen as improving opportunities through lower level of energy consumption, lower insurance or expenditures for possible conflicts. Examples can be found on CSR measures that help to improve the cost structure of an enterprise (Woodward et al. 2001), and evidence can also be found on CSR measures for which the cost-benefit relationship appears to be negative. According to Miles and Covin (2000), CSR-related environmental expenditures constitute investments that pay-off due to cost savings from for example, continuous improvements, low potential litigation expenditures, lower insurance and lower energy costs. Porter and Kramer (2006) state that "if corporations were to analyse their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint or a charitable deed – it can be a source of opportunity, innovation and

competitive advantage".

**Table A: Costs of CSR**

#### Sunk costs

Costs for investment in equipment, buildings, systems, infrastructure, consultancy, costs for CSR policy development etc.

#### Recurrent costs

Ongoing costs for wages, overtime payments, management time, social insurance, trainings, benefits for workers, equipment update and maintenance, monitoring and reporting

#### Opportunity costs

Any projects that could not have been undertaken because labour and capital was invested in CSR activities or interest rate on bound investment

*Source: Sino-German Corporate Social Responsibility Project, Feb 2012*

As CSR contributes to quality improvements and to reducing error rates, the after sales costs can be reduced (Sprinkle & Maines, 2010). The cost savings through environment-friendly business operations is likely to increase along with rising energy costs (European Commission, 2008). As CSR contributes to quality improvements and to reducing error rates, the after sales costs can be reduced (Sprinkle & Maines, 2010). The improved operational effectiveness and experience with social and environmental measures reduce the compliance costs in case legally binding regulations are being introduced (Carroll & Shabana, 2010).

### CSR and Financial Performance:

An ideal CSR has both ethical and philosophical dimensions, particularly in India where there exists a wide gap between sections of people in terms of income and standards as well as socio-economic status (Bajpai, 2001). CSR implies some sort of commitment, through corporate policies and action. Stakeholders will prefer a firm over its competitors because of a firm's engagement in CSR initiatives that meet their demands (Smith T. 2005).

A study of 40 global companies over three years found improvements of more than 5% in operating margin and more than 3% in net profit margin between the companies with high employee engagement (which can be regarded as a benefit of CSR) vs. those with low engagement (Exter, Cunha, & Turner, 2011). Orlitzky et al. (2003) find a strong correlation between a firm's

reputation and financial performance. According to a survey by Price Waterhouse Coopers (2002) “70 percent of global chief executives believe that CSR is vital to their companies’ profitability” (Carroll & Shabana, 2010). Brammer et al. (2006) investigated the negative relationship between corporate social performance and financial performance using stock returns.

#### CSR and Share Prices:

Perhaps one of the most prominent examples is British Petroleum’s (BP) oil spill incident in April 2010. This oil spill contaminated a large area of marine environment along the Gulf of Mexico, and is currently the biggest off-shore oil spill in U.S. history. On the day of the incident, BP’s stock price was \$59.5. By the end of June 2010, the stock price had dropped to \$28.9 about half of its pre-incident value. As this example illustrates, environmental issues can have dramatic implications for stock prices. Lo and Sheu (2007) examined large non-financial firms from 1999 to 2002 for companies in the Dow Jones sustainability index and found a strong correlation between corporate sustainability and firm value. Their results showed that firms are rewarded in the market for taking environmental and social concerns into their developmental strategies<sup>2</sup>.

#### Research Methodology:

In 2012, the Securities and Exchange Board of India (SEBI) mandated the filing of an annual Business Responsibility Report (BRR), which focuses on ESG performance, for the 100 largest publicly traded firms. Under the Companies Act 2013, every company having a net worth of ₹500 cr. or more or revenue above ₹1,000 cr. or a net profit above ₹5 cr. needs to spend at least 2% of the average net profits for the past three years on CSR activities.

In this study, we have considered ten (10) large companies based on highest net worth and relevant data which are publicly available. The study period covers 7 years from 2010-11 to 2016-17. The relevant secondary data are collected from Annual Reports of the respective companies and from the Capitaline corporate database. To analyse the relationship we have considered some relevant variables like Gross Sales, Total Expenditure (TE), Profit before tax (PBT), Share Price (SP) growth (NSE) and CSR spending during seven years from March 2011 to March 2017.

In order to analyze the significant impact of Total

expenditure, PBT and Share Price (SP) growth on CSR spending, following multiple regression model has been used:

$$CSR_{it} = \alpha + \beta_1 TE_{it} + \beta_2 PBT_{it} + \beta_3 SP_{it} + \epsilon_{it}$$

Where  $\alpha$  is the constant term and  $\epsilon_{it}$  is the error term.

Results & discussions: To get an overall scenario of CSR spending impact, we have examined the correlation between different variables with CSR spending during seven years ranging between 2011 March to 2017 March.

**Table B: Pearson Correlations with CSR Spending (FY 2011-FY 2017)**

	Total. Exp	PBT	SP Gr. (NSE)
BHEL	-1.48	-.228	.632
COAL INDIA	-.109	.177	.474
ICICI BANK	.782	.241	.128
IOCL	-.804	.961	.860
ITC	.873	.915	-.450
RIL	-.257	.533	.283
SAIL	-.608	-.162	-.459
SBI	-.041	-.218	-.074
TATA STEEL	.585	-.388	.709
Ultra Tech Cem.	.277	.534	-.552

Sources: Self calculation

Notes: \* Correlation is significant at the 0.05 level (2-tailed). \*\*Correlation is significant at the 0.01 level (2-tailed).

Table B shows that there exists mostly negative correlations with CSR spending with Total expenditure, like BHEL (-1.48), IOCL (-.804), SAIL (-.608), etc. On the other hand, ITC, ICICI Bank, TATA Steel and Ultra Tech Cem. are positively correlated with CSR spending. In case of PBT, IOCL is highly correlated with CSR (0.961) followed by ITC (0.915), Ultra Tech Cem. (.534), RIL (.533), ICICI Bank (.241), Coal India (.177). Similarly, out of selected ten companies, six companies are positively correlated with Share Price Growth (NSE).



**Table C: Regression Analysis (Dependent Variable: CSR Spending; FY 2011-FY 2017)**

	Adjusted R <sup>2</sup>	F	Beta*		
			Total. Exp	PBT	SP. Gr. (NSE)
BHEL	.879	13.114	3.397(.04)	-3.345(.04)	1.097(.03)
Coal India	-.722	.301	-.191(.82)	.359(.67)	.478(.51)
ICICI Bank	.849	10.389	1.017(.03)	.756(.09)	-.297(.32)
IOCL	.974	64.39	-.369(.08)	.415(.16)	.342(.15)
ITC	.600	3.498	-.240(.864)	1.153(.47)	.011(.98)
RIL	.019	1.032	.823(.45)	1.324(.28)	.401(.49)
SAIL	.190	1.390	-.970(.27)	-.649(.30)	.042(.95)
SBI	-.095	.856	-3.027(.27)	-2.452(.25)	1.304(.35)
TATA Steel	-.183	.743	.298(.80)	.116(.91)	.561(.5)
Ultra Tech. Cem.	.406	2.137	.169(.71)	.698(.19)	-.620(.25)

Source: Self calculation

\*Standardized Coefficients, Method= Enter.

The standardized coefficients Beta are shown to identify the comparative influence of the significant variables on CSR spending. In order to test the goodness of fit of the regression model, Adj. R<sup>2</sup> and F-statistic are shown in the above Table C. The observed Adj. R<sup>2</sup> is positive for seven companies, and negative for three companies among the selected sample companies. F-statistic is significant at 1 percent level for each run of the regression model. The observed values of Adj. R<sup>2</sup> and F-statistic are, thus, sufficient to speak in favour of the goodness of fit of the regression model.

In table C, we have seen that only three companies are well fitted with the regression models, i.e. BHEL (Adj.R<sup>2</sup> =.879), ICICI Bank (Adj.R<sup>2</sup> =.849) and IOCL (Adj.R<sup>2</sup> =.974). In case of BHEL, the of all the selected variables are significantly and positively impacting on CSR spending. Further, for ICICI Bank, only total expenditure ( $\beta=1.017$ ) is positively and significantly (0.03) influenced, but in case of IOCL total expenditure ( $\beta=.369$ ) is negatively and significantly (0.08) influenced by CSR spending.

### Conclusion:

This study investigates the influence of CSR spending on a particular time frame. India is the first country in the world to inflict a minimum spending of 2 % of average net profits of past three years for certain CSR activities. Corporate spending in social causes and

indicated activities thereof have been made mandatory.

The overall results of this study indicate that CSR spending gives a positive impact on the image of the organizations in society that helps them and boost up to make more ground in competitions. Our study results are also in the same line with prior studies that show, CSR spending results in strategic benefits (Malik 2014). Thus, the strategic benefits enjoyed through CSR activities should act as boundless motivation to stimulate corporate CSR spending and on the other hand, it is also of paramount national importance for the overall development of the nation. **MA**

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14. Annexure 1:
15. CSR Spending Status of selected Companies (during 2011 to 2017)

#### Footnote

<sup>1</sup> Michael Porter; [www.ebfonline.com/debate/debate.asp](http://www.ebfonline.com/debate/debate.asp).

<sup>2</sup> Lo and Sheu used a panel dataset of 349 firms, which are at the same time in the S&P 500 and part of the Dow Jones Sustainability Group Indexes. The result that corporate sustainability is strongly associated with market value is robust with regard to the use of numerous control variables (size, ability to access financial markets, leverage, profitability, sales growth, investment growth, industrial diversification, credit quality, industry effects and time effects).

#### Annexure 1: CSR Spending Status of selected Companies (during 2011 to 2017)

Rs. in Cr.

Co_Name	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11
ITC	275.96	247.50	214.06	106.63	82.34	88	68
Reliance Inds.	674.00	659.00	760.58	711.72	357.05	251.27	201.34
Tata Steel	194.00	204.00	171.46	212.72	170.59	146.64	126
State Bank of India	109.82	143.92	115.8	148.93	123.27	71.18	24.44
S A I L	29.05	76.16	35.04	62.06	32.55	61.25	25.73
ICICI Bank	200	172	156	163.21	116.55	103.47	85.34
I O C L	213.99	156.68	113.79	81.91	78.97	75.24	89.82
Coal India	128.05	19.69	298.1	409.37	140.13	113.03	94.7
UltraTech Cem.	54.15	50.89	44.46	48.56	58.39	39.41	46.83
B H E L	37.50	66.20	102.06	108.6	63	30.05	21.55

Sources: Annual Reports of different companies

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## Interim Reporting Practice of Indian Companies & Related Issues

**I**nterim financial reporting facilitates economic decision making by users by reducing the time gap between consecutive reporting. The form of interim reporting varies from country to country. Regarding content of interim report, there are two extremes viz., full-fledged interim financial statements (consisting of balance sheet, profit and loss account and cash flow statement) and interim results (consisting of summarised income statement with selected revenue and expenses items). Generally, interim reporting is mandated by stock exchanges or securities regulators. In general, interim financial report is prepared following the GAAP and reporting principles used in the last annual financial statement of the company concerned. International Accounting Standard 34 (IASB, 1998) governs the preparation of interim financial statement across the world. The Indian Accounting Standard dealing with interim reports is AS 25 (ICAI, 2002).

The primary objective of this paper is to analyse compliance to requirements of Clause 41 of the listing agreement. The exchange chosen for this purpose is Bombay Stock Exchange or BSE. A survey in the UK by Waldron (1961), show that a majority of British companies prepare half

yearly results only. This type of work was also done in the USA (Taylor, 1965). In case of India this type of study was performed by Bhadra (2004) and Dhar and Banerjee (2012).

Our paper differs from earlier studies in this area. The study of Bhadra (2004) deals mainly with conceptual aspect of interim reporting and briefly touches upon the Indian practice. Dhar and Banerjee (2012) deals with interim reporting practice in detail but that study is based on interim reports for the quarter ended September 2009. Whereas, the present study is based on interim reports for the period ended September 2012. Sample companies are also different (there are 465 companies in this study and in the earlier study it was 495 sample companies). Furthermore, in this study the relationship between audit firm size and timeliness is studied. The study is both descriptive and analytical. In the section 2 of the paper we give regulatory framework of interim financial reporting in India. Section 3 deals with review of earlier studies on this issue in other countries. Section 4 discusses sample selection process and methodology adopted.

The findings of the study are described in detail in section 5 and section 6 concludes the



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### Regulatory Framework of Interim Reporting in India

Publication of quarterly interim financial results containing disclosure of material income statement items is mandatory for listed companies in India. The requirement of publishing unaudited financial results (half-yearly) was first introduced in June 1988 through clause 41 of the Listing Agreement. The Agreement entered into between the Stock exchange and the company issuing securities is called Listing Agreement (LA) and it enforces some conditions on the issuing entities to continue listing with stock exchange. The requirements of clause 41 have undergone a series of change over time. Major requirements of Clause 41 requirements may be classified under the three heads:

1. Submission & Limited Review of Interim Financial Results.
2. Publication of Interim Financial Results in Newspaper.
3. Accounting Requirements for Preparation Interim Financial Results.

Interim financial results (IFR) related regulatory requirements under the above three heads are presented in a summarized manner in Exhibit 1.

#### Exhibit 1

#### Clause 41 Requirements on Interim Financial Reporting

##### ◆ *Submission & Limited Review of Interim Financial Results*

- ◆ Each listed company is required to submit quarterly and annual financial results to the stock exchange.
- ◆ Time limit for submission of audited/unaudited results is 45 days (30 days up to the quarter ended December 2009) from the end of each quarter other than the last quarter.
- ◆ For the last quarter of the financial year, the company has an option to submit audited financial results for the entire financial year within 60 days of the end of the financial year.

◆ If a company is having a subsidiary or subsidiaries, it should submit both standalone and consolidated financial results. However, the company has an option to publish standalone or consolidated results, subject to the condition that a choice once exercised cannot be changed during the year. Furthermore, the company is required to disclose Turnover, Profit before and after Tax on a standalone basis, when it opts to publish consolidated results.

◆ Any unaudited financial results shall be subjected to limited review by the statutory auditors of the company (or in case of public sector undertakings, by any practicing chartered accountants) and a copy of limited review report shall be furnished to the stock exchange within the limit of 45 days.

◆ A company is required to submit by way of note, a statement of asset and liabilities as at the end of the half year. It means, out of four quarters, only two quarterly results would contain details of assets and liabilities.

◆ Where there is a variation between unaudited quarterly or year to date financial results and results amended pursuant to limited review and such variation in net profit (or exceptional or extraordinary items) is in excess of 10 percent or Rs.10 Lacs, whichever is higher, the company is required to submit an explanation of the reason for variations along with the limited review report and such explanation shall be approved by the Board of Directors.

◆ In respect of unaudited results for the last quarter, variation shall be computed between the year to date figure of the unaudited last quarterly results and that of audited annual results as published in the annual report.

##### ◆ *Publication of Interim Financial Result in Newspapers*

◆ A company is required to publish a copy of financial results as submitted to the stock exchange in at least one English daily newspaper having all India circulation and in one regional language daily newspaper.

◆ Such publication of interim results in newspaper



*Interim Financial Reporting reduces the time gap of financial information provided to users which is useful in decision making purposes. Clause 41 of the Listing Agreement provides for preparation of interim results for listed companies. Interim Financial Statements and Limited Review Audit Reports of 465 companies have been analysed for the purpose of this study. The study explores issues on timeliness in submission of interim results and audit reports and extends up to relationship of auditors with company size etc. The results indicate a small gap in compliance by companies even though the overall compliance level is satisfactory.*



shall be within 48 hours of conclusion of the Board or Committee meeting at which financial results are approved.

- ◆ A company having subsidiary/subsidiaries shall publish consolidated financial results along with the disclosure of Turnover, Profit Before Tax, and Profit After Tax on a standalone basis by way of a foot note.
- ◆ Exercise of option regarding publication of consolidated financial results shall be intimated to the stock exchange in the first quarter of the financial year and such option shall not be changed subsequently during the financial year.
- ◆ **Preparation of Interim Financial Results: Accounting Requirements**
- ◆ The quarterly and year to date results shall be prepared in accordance with the recognition and measurement principles laid down in AS 25/Ind AS 34, Interim Financial Reporting.
- ◆ All items of income and expenditure arising out of transactions of exceptional nature shall be disclosed.
- ◆ Extraordinary items and changes in accounting policies shall be disclosed in accordance with AS 5.
- ◆ Companies engaged in activities having material seasonal variations shall disclose the seasonal nature of their activities.
- ◆ The company shall disclose any event or transaction that is material to an understanding of the results for the quarter (e.g. completion of diversification/expansion programs, strike and lockouts, change in management etc.). Similar material events happening after the quarter end date but before the reporting date shall also be disclosed.
- ◆ When auditor issues qualified report in respect of the annual financial statements of any previous financial year and such qualifications in the audit report have an impact on the profit or loss of the reportable period, the company shall give detailed notes in the interim financial results regarding the manner of resolving the qualifications or if the

qualifications are not resolved the reason for non-disposal and steps the company intends to take in the matter.

It is important to note that the Securities and Exchange Board of India (SEBI) has made a change in listing related regulations through Securities and Exchange Board of India (Listing Obligations And Disclosure Requirements) Regulations, 2015 (hereinafter referred to as 'Listing Regulations') in September 2015. The provisions of the Listing Regulations are effective from 1st December, 2015. Through Listing Regulations, SEBI has consolidated its circulars, listing agreement provisions in one place and provided compliance requirements by every listed entity into one single document across various types of securities listed on stock exchanges. Provisions of Listing Regulations on interim reporting are similar to those of Clause 41 of erstwhile Listing Agreement and are contained in Clause 33 (Financial Results), Clause 47 (Advertisement in Newspaper) and Schedule IV (Part A) (Disclosure in Financial Results). Now all companies (listed or intending to list) are required to make a two page brief Listing Agreement with concerned stock exchange. Listing Regulations now provide that the quarterly financial results shall be approved by board of directors of the company concerned [Clause 33(2)(a)], whereas clause 41 gives power of approval of interim results to board committees apart from the board itself. Furthermore, the requirements of clause 41 regarding submission of explanation for variation between figures in unaudited results of last quarter and audited results has been done away as companies are now required to submit audited results of the last quarter (there is no scope of submission of unaudited results in the last quarter). Another change relates to provision of details regarding investors' complaints and their disposal. Listing Regulations has omitted this requirement. Thus, investors will be deprived of their rights to know about the companies those are not forthcoming to redress the investors' grievances.

Another change in Listing Regulation is discontinuance of option to publish consolidated financial results as per IFRS. Now, consolidated results will be required to be submitted as per existing Indian standards or Ind AS as applicable.

SEBI has issued a circular on 30.01.2015 providing 11 formats to be used for submission of financial results,

publication of results and audit reports (Circular no.CIR/CFD/CMD/15/2015) (SEBI, 2015). Erstwhile clause 41 provides for publication of quarterly results containing full details. Thus, quarterly results as submitted to the stock exchange and as published in newspaper was same as per erstwhile clause 41. Now, companies have to publish limited pieces of information viz., total income, PAT, equity share capital, reserves and EPS. For detailed results, one has to refer the website of the stock exchange. Whether such publication of key parameters of results will serve the purpose of common investors is an open issue and would be addressed over a period of time.

### Interim Reporting – A Review of Earlier Studies

Compliance is adherence to norms laid down by regulatory bodies. A study in the USA shows that most companies adhere to requirements of the Securities & Exchange Commission (SEC) but are against more strict guidelines to ensure compliance to SEC regulations (Beresford and Rutzler, 1976). Another study in the USA points to role of auditors as an important factor in regulating information provided by interim results (Edmonds, 1983). A notable study is Lambert et al. (1991) in respect of Canada. McEwen and Schwartz (1992) study show that some companies have not complied with the requirements of APB Opinion 28. The findings of a study related to regulatory compliance by interim results of companies in the USA and the UK shows that the US companies are more compliant to SEC regulations than the UK companies (Frost and Pownall, 1994). A study of several US firms point to external financing (which induces companies to manipulate financial numbers for access to low cost finance) as the reason behind non-compliance to SEC regulations (Dechow et al., 1996).

A study in South Africa covering the period 1996 to 1998 finds that compliance level is satisfactory for interim results prepared according to Accounting Standard 127 governing preparation of interim financial results (Nieuwoudt and Koen, 1999). A study in South Africa finds no change in compliance level after transition from South African Accounting Standards to IFRS (Oberholster and Nieuwoudt, 2001). A study on compliance in Bangladesh indicates that only 44% of sample companies comply with norms relating to interim results (Akhtaruddin, 2002). A study in Bahrain reveals that compliance to norms relating to interim results was about 65.50% (Joshi and Bremser,



2003). A study in the UK finds compliance level to ASB regulations is 74.50% (Mangena and Tauringana, 2007). The findings of the study of Bhadra (2009) indicate a high level of compliance with SEBI regulations. Another study in India indicates that compliance rate is high with regard to timeliness of submission of results etc. (Dhar and Banerjee, 2012).

## Sample Selection

We have chosen interim results of the quarter ended September, 2012 for our study. The choice of quarter ended September is made as most Indian Companies adopt financial year (April to March) as their accounting year and have to submit half yearly assets and liabilities statements as per requirements of Clause 41. The data have been obtained from CMIE Prowess and BSE stock exchange website (Bseindia, 2012 and CMIE, 2012). BSE is the oldest stock exchange in India. We have chosen 500 companies as our sample comprising BSE 500 Index. Our choice covers most of the large and medium sized companies listed in BSE. The market capitalization of BSE 500 companies is over 90% of total market capitalization of listed companies in BSE. Our sample ultimately consists of 465 companies. Table 1 provides details on sample selection and exclusion. In case of non-availability of data from BSE or CMIE databases, individual company websites had also been visited. However, when all such efforts did not yield results the companies were excluded from the sample. The complete data could be obtained for 465 companies or 93.00% of BSE 500 companies.

**Table I**  
**Detail of Sample Selection and Exclusion**

Particulars		No. of Companies	Percentage (%)
Total No. of Companies as per BSE 500 (A)		500	100.00
Details of Exclusions	Incomplete Fax Sheet (Results)	12	2.40
	Fax Sheet could not be downloaded (Results)	7	1.40
	Limited Review/ Auditor Report could not be downloaded or fax sheet downloaded is not readable	16	3.20
Total No. of Companies Excluded (B)		35	7.00
Total No. of Companies Included in the Sample (A - B)		465	93.00

*Source: BSE and CMIE Prowess Database. Results Computed.*

## Analysis of Interim Reporting Practice

A detailed analysis of interim reporting practice on parameters like choice of financial year, timeliness of reporting, segment reporting etc. was made. The main focus of this analysis was to assess the level of compliance to the requirements of Clause 41 of the Listing Agreement.

### Financial Year End Month

The new Companies Act, 2013 provides a definition for a financial year. This section deals with interim results published during the period when the Companies Act, 1956 prevailed. Clause 41 mentions that companies are free to choose their financial year for reporting purposes. A financial year consists of 4 quarters with each quarter spanning 3 months [(Clause 41) (VII) (a) to (h)]. A detailed analysis on choice of financial year of sample companies is provided in Table 2.

**Table 2**  
**Financial Year End Month of Companies**

Year End Month	No. of Companies	Percentage (%)
March	417	89.68
December	29	6.24
June	12	2.58
September	7	1.50
Total	465	100.00

*Source: Interim Results of Sample Companies. Results Computed.*

Results indicate that out of 465 companies, 417 companies have chosen 'March' as year-end month followed by 'December' with 29 companies. Then come June with a count of 12 companies and September with a count of 7 companies. The next section provides an analysis on timeliness of submission of results by sample companies.

#### Timeliness of Submission of Results

Timeliness is judged by analyzing time lag in reporting from end of respective reporting period to date of publication of result. The quarterly results other than that of last quarter must be submitted to the stock exchange within 45 days from the end of quarter [(Clause 41) (I) (c) (i) and (ii)]. As per clause 41, a company is required to submit results with the stock exchange within 15 minutes of conclusion of the board meeting held for approval of result. Hence, date of board meeting is considered as date of submission. Results given in Table 3 indicate that 448 (96.34%) companies have submitted their result before 45 days. There are 14 (3.01%) companies that have submitted results after 45 days but before 60 days from the end of quarter whereas 3 companies in this sample have submitted results after 61 days.

Clause 41 has provided time limit of 60 days for companies submitting their audited 4th quarter results [(Clause 41) (I) (d)]. The companies having 'September' as year-end month have a time limit of 60 days. It has been already shown that the no. of companies having year end month as September are 7 (Table 2). Analysis indicates that 17 companies have taken more than 45 days to submit results. These consist of 4 companies which have submitted audited year end results within 60 days.

Thus, 10 companies with unaudited results and 3 companies with audited results are not compliant with time limit requirements. Majority of companies have submitted their results on time but most have done so towards the end of allowable time period. The mode, arithmetic average and median are 41 days, 33 days and 34 days respectively. On overall basis, the compliance level is very high and any effort to reduce the submission time may not be warranted considering the issue of quality interim reporting.

**Table 3**  
**Timeliness of September Quarter Result Submission (Days)**

Panel 1 (Timeliness of submission of results)						
Days	Total No. of Companies	Percentage (%)	No. of Companies with Unaudited Results	Percentage (%)	No. of Companies with Audited Results	Percentage (%)
1 – 15	11	2.37	11	2.53	0	0.00
15 – 30	146	31.40	137	31.49	9	30.00
30 – 45	291	62.57	277	63.68	14	46.67
45 – 60	14	3.01	10	2.30	4	13.33

## INTERIM REPORTING

60 – 120	3	0.65	0	0.00	3	10.00
Total	465	100.00	435	100.00	30	100.00
<b>Panel 2 (Companies submitting after prescribed Time Limit)</b>						
Quarterly Results (45 days time limit)	10	76.92	10	100.00	0	0.00
September year end results (60 days time limit)	3	23.08	0	0.00	3	100.00
	13	100.00	10	100.00	3	100.00
<b>Panel 3 (Descriptive Statistics) Time Lag, N = 465</b>						
Mean		Median		Mode		S. Dev
33		34		41		10

Source: Interim Results of Sample Companies. Results Computed

### Limited Review/Audit of Results

Clause 41 states that a company should subject its quarterly results to limited review/ audit and must submit auditor's report to stock exchange within 45 days from the end of quarter for quarterly results other than that for year-end quarter [(Clause 41) (I) (c) (i) and (ii)]. The date on limited review report/ audit report has been taken as the date of completion of limited review/ audit. Result of the analysis is provided in Table 4.

**Table 4**  
**Timeliness of Limited Review/Audit**

<b>Panel 1 – Timeliness of Limited Review/ Audit</b>				
Nature of Assurance	Submission of Reports	No. of Companies	No. of Companies	Percentage (%)
Limited Review Before Time Limit of 45 Days	Submitted with Results	361	425	
	Submitted Separately	64		94.03
Audited Before Time Limit of 60 Days	Submitted with Results	27	27	5.97
Total			452	100.00
<b>Panel 2 – Delay in Timeliness of Limited Review/ Audit</b>				
March year end (limited review after 45 days)	Submitted with Results		10	76.92
September year end (audited after 60 days)*			3	23.08
Total			13	100.00

\*Being September is year-end month for these companies.

Source: Interim Audit/ Limited Review Reports of Sample Companies. Results Computed.

There was delay in compliance of limited review of quarterly results for 10 companies. Furthermore, 3 companies (September as financial year end month) have submitted audit reports after stipulated time limit of 60 days. It is observed that most of the sample companies (361 out of 465) conducting limited review has submitted the review report along with the results. 20 companies have submitted audited the results voluntarily and 7 companies have submitted audited results as September is year- end month for them.

### Segment Reporting

Segment Reporting is an important requirement for companies publishing interim results (Dhar and

Banerjee, 2012). Clause 41 requires publication of segment information with interim results for companies having identifiable segments as per AS 17 (ICAI, 2000). The disclosure has to be provided by using the format provided in Annexure IV of the Listing Agreement. A company dealing in only one segment has to provide a note stating that business falls under one segment [(Clause 41) (V) (e)]. Results of our analysis (Table 6) indicate that 240 companies publishing quarterly unaudited results have provided segment information. 186 companies have 'one' identifiable segment and accordingly have not provided any segment information. 9 companies publishing unaudited quarterly results have not provided any segment related details.

**Table 6**  
**Segment Reporting**

Segment Related Information	No. of Companies with Unaudited Results	Percentage (%)	No. of Companies with Audited Results	Percentage (%)	Total No. of Companies
Results with Segment Information	240	55.17	16	53.34	256
Results with only one identifiable Segment	186	42.76	10	33.33	196
No details about Segment Information	9	2.07	4	13.33	13
Total	435	100.00	30	100.00	465

*Source: Interim Results of Sample Companies. Results Computed.*

The findings also indicate that 26 companies publishing audited results have submitted segment reports but 4 companies have not provided any segment related information.

An ANOVA test has been used to compare whether the pattern of providing segment results is same for both audited (AU) and unaudited (UN) results (Lind et al., 2008).

**Table 7**  
**F Table**

Source	Sum of Squares	DF	Mean Square	F Value
UN	56611.50	1	56611.50	7.74
AU	29274.00	4	7318.50	

Result of the test indicates that calculated value of 'F' is '7.74' whereas critical value of 'F' is '7.71' (at '0.05' level of significance). Test results imply that the practice of providing segment reports is not same for companies



providing unaudited and audited results. Companies having September as year-end month are more diversified and are forthcoming in providing segment information.

## Narrative Disclosures of Companies

Narrative disclosures are required to be provided with quarterly results. A few such mandatory disclosures include disclosure on any event material enough to affect the results [(Clause 41) (IV) (m)] ; effect of change in accounting policies on net profit/loss of current period [(Clause 41) (IV) (h)] and answers to qualifications made by auditor in previous audit report [(Clause 41) (IV) (c) (i) and (ii)]. Some voluntarily notes may be provided to supply other important pieces of information to shareholders. The narrative disclosures are referred to in India as 'Notes to Accounts' or 'Notes on Accounts'. A single narrative disclosure is a 'Note'. The findings of our analysis in Table 8 show that about 10% of companies have provided less than 4 notes whereas 287 (61.72%) companies have provided more than 3 but up to 7 notes. 14 (3.02%) companies have provided more than 11 notes with rest of the companies providing more than 7 but up to 11 notes. Average and median value of notes is 6 with standard deviation 2.

**Table 8**  
**Narrative Disclosures in Interim Results**

Panel 1: Narrative Disclosure of Companies						
No. of Notes	No. of Companies with Unaudited Results	Percentage (%)	No. of Companies with Audited Results	Percentage (%)	Total No. of Companies	Percentage (%)
Up to 3 Notes	43	9.88	1	3.33	44	9.46
Up to 7 Notes	273	62.76	14	46.67	287	61.72
Up to 11 Notes	106	24.36	14	46.67	120	25.80
Up to 15 Notes	11	2.53	1	3.33	12	2.58
Up to 19 Notes	1	0.25	0	0.00	1	0.22
Up to 23 Notes	1	0.25	0	0.00	1	0.22
Total	435	100.00	30	100.00	465	100.00
Panel 2: Descriptive Statistics						
Mean		Me- dian		Mode		S Dev
6		6		7		2

*Source: Interim Results of Sample Companies. Results Computed.*

## Notes on Investors' Complaints

Clause 41 requires disclosure of investors' complaints received and disposed off during the quarter which may relate to problems on dividend, transfers of shares or non-receipt of annual reports etc. The findings indicate that all companies are compliant to this provision [(Clause 41) (IV) (n)]. Clause 41 has provided a prescribed format 'Part B' with Annexure I, II and III of Listing Agreement for disclosure of investors' complaints. Our analysis indicates that few companies have provided investors' complaints related details in 'Notes'. Table 9 provides details about the disclosure of investors' complaints. 63 companies with unaudited results and 6 companies with audited results have not used 'Part B' for disclosure of investors' complaints. It may be noted that this requirement is withdrawn under the Listing Regulations, 2015.

**Table 9**  
**Disclosure of Investors' Complaint as per Clause 41**

<b>Panel 1: Investors' Complaints – Non – Compliance</b>		
<b>Particulars</b>	<b>No. of Companies</b>	<b>Percentage (%)</b>
Investors' Complaints As Per Part B Format	396	85.16
Investors' Complaints Not As Per Part B Format	69	14.84
Total	465	100.00
<b>Panel 2: Non – Compliance Details</b>		
Unaudited Results	63	91.30
Audited Results	6	8.70
Total	69	100.00

*Source: Interim Results of Sample Companies. Results Computed.*

#### Assets and Liabilities Statement

Clause 41 requires submission of assets and liabilities statement by way of notes; one with year-end results and other along with half yearly results [Clause 41) (I) (ea)]. The format provided for submission of such statement requires disclosure of asset and liabilities of the corresponding half year ended in the previous financial year (Annexure IX). All companies in the sample have not provided assets and liabilities statement of the corresponding half year i.e., as on September 30th, 2011 as required through prescribed format. Table 10 reveals that 19 companies have not provided assets and liabilities statement for corresponding 6 months ended 30th September 2011, but have provided current half year end assets and liabilities statement. It is observed that 41 companies are not required to provide assets and liabilities statement with September, 2012 quarterly results as they have year-end month other than March and September.

**Table 10**  
**Disclosures of Assets and Liabilities Statement As per the Format (Annexure IX)**

<b>Particulars</b>	<b>No. of Companies</b>	<b>Percentage (%)</b>
Previous Half Year End Assets and Liabilities Statement Presented as per the Format	405	87.10
Companies not required to provide Assets and Liabilities Statement (June and December as year- end month)	41	8.51
Previous Year Half End Assets and Liabilities Statement Not Presented as per the Format	19	4.09
Total	465	100.00

Source: Interim Results of Sample Companies. Results Computed.

#### Conclusion

This study deals with quarterly reporting practices of Indian companies. The analysis of year end month shows 'March' is the most popular year end month. The analysis on timeliness shows that some companies have failed to submit quarterly results within time limit. The timeliness study on limited review/audit shows that in a few

cases limited review/ audit of results are not completed within the specified time limit.

The analysis of segment reporting practice shows that a handful of companies have failed to provide information on segments. The narrative disclosures are provided by all companies. The study also shows that some companies have not published investor complaints as per directives of Clause 41. Our analysis of reporting practice indicates that most companies are compliant to Clause 41 requirements but in a few areas there are gaps. Those areas are provision of previous year assets and liabilities information, adherence to the prescribed format for investors' complaints reporting etc. Review of the results by Stock Exchange Authorities may improve the position to a considerable extent. It may be hoped that Indian corporate sector will avoid such minor deviation over a period due to increased awareness among the preparers of the results and the auditors. **MA**

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## Eastern India Regional Council

The Region organized an orientation training program for fresh budding CMAs who passed in June 2017 examination from 7th September till 18th September, 2017. The inaugural session was graced by CMA Pranab Chakraborty, chairman, EIRC, CMA Amitava Mukherjee, GM (FIN), RVNL, CMA Harijiban Banerjee, Past President of the Institute. During the program of 12 days, renowned personalities from different field acted as resource persons viz. CMA Pratap Chakraborty, Ex. CFO, Tata Projects, CS Ravi Verma, CMA Debjit Sen, (DF), Marathan Electrical Motors (I) Ltd., CMA Subham Sharma, CMA Jitendra Das, CMA Vivek Mishra, CMA Tushar Kanti Das, ITC, CMA Ranajit Ghosh, Practicing Cost Accountant, CA Arijit Chakraborty, Shri D.K. Chaudhury, renowned faculty, CMA Avijit Goswami, Council Member, CA Monoj Tiwari, Tax Consultant, Shri P.M. Chandraiah MD (Actg.) & Director (F), Bengal Chemicals & Pharmaceuticals Ltd., CMA C.R. Chatterjee, Past Chairman EIRC, H. Zaria-HR, CA Subham Khaitan, Shri Rana Das, P & G (HR), Shri Sandip Das, S. Mukherjee, Ambuja Neotia, HR, etc. were in the list of resource persons. CMA Pranab Chakraborty, chairman, EIRC, CMA S.S Dogra, Director (Finance) Garden Reach Shipbuilders & Engineers Ltd., Mr. Amlan Datta Majumdar Ex. CFO Britannia Industries LTD were the eminent dignitaries attending the valedictory session. A full day workshop was organised on 'GST-Implementation Process-Critical Issues' on 6th September, 2017 at EIRC. CMA T.B. Chatterjee, Chairman, Indirect Taxation, Bengal Chamber of Commerce & Industry & CA Abhishek Tibrewal were the resource persons of the workshop. The Region organized a seminar on 'Corporate Social Responsibility' on 22nd September, 2017, at its premises. CS Rupanjana De Treasurer, EIRC of ICSI was the speaker of the seminar. The Region has taken an initiative for career awareness programme and started visiting different schools and colleges in and around Kolkata.

## The Institute of Cost Accountants of India-Rajpur Chapter



On October 8, 2017, the Chapter observed its 24th Raising Day at its office. CMA Manas Kumar Thakur, past president of the Institute was the chief guest. CMA Manas Kumar Thakur laid down some guidelines before the members on how to improve the activities of the chapter and discussed with the members how they could serve the chapter with more dedication.



## Northern India Regional Council



The Region on September 2, 2017 organized an open house discussion with students for the first time on personality development, GST, Insolvency Profession, Advance Excel and other technical topics etc. On the same day the Region organized another open house discussion with members on various issues relating to CMA profession.

## The Institute of Cost Accountants of India-Jodhpur Chapter

A Round table discussion on Draft Insolvency and Bankruptcy Law for individual and firm was arranged by IBBI in association with IPA-ICAI and the chapter at Jodhpur Industry associates. Whole time director Dr Navrang Saini, IBBI, CMA PV Bhattad, council member and past president, CMA Rajendra Singh Bhati, treasurer NIRC, CMA K K Vyas, chairman of the chapter and CMA Deepak, secretary of the chapter and many others participated and discussed the new draft law before finalisation.



## The Institute of Cost Accountants of India-Jaipur Chapter

A two days mega job fair was organised at the chapter premises on 27th and 28th October, 2017 for semi qualified and qualified CMAs as well as for CAT students. M/s Navkar Corporation Ltd from Mumbai and M/s Sadashiv & Associates (Sanatan Group) from Gurgaon participated in the fair. The chapter celebrated Rashtriya Ekta Diwas (National Unity Day) on 31st October, 2017.



## Southern India Regional Council

### The Institute of Cost Accountants of India-Coimbatore Chapter

The Chapter observed Teachers' Day on 5th September, 2017 with focus on cleanliness drive.



The chapter entered into MoU with Avinashilingam Institute for Home Science and Higher Education for Women (University Established under section 3 of UGC Act, 1956) situated at Coimbatore, for Foundation Course. The MoU was signed by chairperson CMA

Meena Ramji on 6th September, 2017 in the presence of vice chairman, secretary and treasurer of the chapter. The chapter arranged a communication & soft skill program for intermediate oral students from 15th September, 2017. The industry oriented program for final students was held at the chapter from September 17, 2017. A one day work shop on GST was arranged jointly with ICSI Coimbatore Chapter on 23rd September, 2017. The chapter organized a full day oral coaching for the benefit of the students. Career Counselling programmes had been conducted at different colleges of Coimbatore in July 2017. On July 13, 2017 and August 3, 2017, professional development programmes were organized and CS R. Sridharan, Past President ICSI and CMA TCA Srinivasa Prasad, Management Consultant and EX CCM were the speakers of the program. The chapter entered into MoU with Karunya School of Management, Karunya University, Coimbatore for operation of Satellite Centre for Foundation Course signed by chairperson CMA Meena Ramji on 8th August, 2017 in the presence of vice chairman, secretary and treasurer of the





chapter. The annual CMA students festival 'COSMA FEST – 2017' was celebrated on 19th August, 2017. Chief Guest for the valedictory session Smt. Vanitha Mohan, President, The Indian Chamber of Commerce & Industry, Coimbatore, Vice Chairman – PRICOL Ltd., Coimbatore and Managing Trustee of SIRUTHULI gave away the prizes to the winners and addressed the students.

## The Institute of Cost Accountants of India - Cochin Chapter



The Chapter organized an Investor Awareness Programme on September 17 and 26, 2017, where CMA Sanjay Gupta, President of the Institute and CMA H Padmanabhan, Vice President of the Institute were the chief guests of the programme. On October 14, 2017 seminars on 'Discussion on CARR 2014 & IBC 2016' and Capital Market "Derivatives - A Hedging Strategy" were organized and CMA Kunal Banerjee, Past President of the Institute and Adv. CMA Benny Jose were the moderators of the seminar.

A career awareness programme was organized by the chapter on October 6, 2017. An industrial oriented training was organized from October 6, 2017 till October 12, 2017 at Silver Jubilee Hall, CMA Bhavan.

## The Institute of Cost Accountants of India-Thrissur Chapter

The Chapter on October 2, 2017 conducted a seminar on 'Health and Cleanliness' in accordance with Swachta hi Sewa Campaign and health inspector Mr. Manoj led the seminar. On October 3, 2017 as part of Swachta hi Sewa campaign, the chapter organized a programme at nearby 'Anganwadi' and the chairman of the chapter CMA Sugunan T G led the team. The inaugural ceremony of the renovated old





chapter building and the new batch of intermediate was held on October 15, 2017. Opening remarks were given by Chairman, CMA T.G Sugunan and the inauguration of the function was done by the chief guest, CMA Sanker P. Panicker, Treasurer, SIRC. Students and parents of the new batch attended the function. The program concluded with the vote of thanks by Mr. Sinoj Jose.

### The Institute of Cost Accountants of India-Visakhapatnam Chapter



The Chapter observed the Swachh Bharat Mission on 2nd Oct 2017 at its premises. students , members of the Managing Committee, CMA members and staff of the chapter actively participated in the programme.

### The Institute of Cost Accountants of India-Bangalore Chapter

On September 1, 2017, a PD Meet on 'Discussion on GST' was held by the chapter at premises. Mr. Ramesh. N. Doddamani, Asst. Commissioner of Commercial Taxes was the speaker of the Meet. On September 8, 2017 another PD Meet on 'Impact of GST on Exports' was held at its premises. CMA K S Kamalakara, Practicing Cost Accountant was the speaker of the Meet. On September 15, 2017 again a PD Meet on 'Weekly Discussion on GST-





E-Way Bill' was held at its premises and CMA Venkanna (Practicing cost Accountant) was the speaker of the Meet. On September 22, 2017 another PD meet on 'Interactive discussion on Place of Supply (POS) under GST' at its premises and Mr. K Chandra Sekhar, G.M & Company Secretary of Ace Designers was the speaker. On September 22, 2017 IOT training classes were inaugurated for final students leading to December 2017 examinations at its premises.

## Western India Regional Council

### The Institute of Cost Accountants of India-Surat South Gujarat Chapter



The Chapter organized an educational tour to KRIBHCO Ltd. on August 4, 2017, especially for inter & final year students. CMA G. P. Rao, GM (F & A) KRIBHCO took the initiative and made all the arrangements for the visit. The chapter celebrated 71st Independence Day at its campus and CMA Jitendra Parmar, secretary of the



chapter along with CMA Manubhai Desai, chairman and CMA Bharat Savani, Managing Committee member of the chapter hoisted the Flag and addressed the students and members. The chapter arranged a Press Meet with local Media on August 24, 2017 at its office. The Chapter arranged a placement at its office on September 3, 2017.

## The Institute of Cost Accountants of India- Pimpri Chinchwad Akurdi Chapter



The Chapter organized a seminar on 'GST1/2/3: Return Filing, Format, Eligibility & Rules' on September 2, 2017 at CMA Bhawan, Pune. CMA L D Pawar focused on the theme and he explained in brief about GST R 1. The chapter conducted communication & soft skills training for CMA Intermediate students from 22nd to 24th September 2017 at CMA Bhawan. Mr. R Raghavan conducted session on interview skill in which he focused on how to improve the interview skill while going to corporate companies or government offices for interview. Mr. Gurmeetsingh Mehtab conducted a session on self mastery and presentation skills. The chapter conducted an Industry Oriented Training from 18th September to 24th September 2017 at CMA Bhawan, Pimpri, Pune. The chapter jointly with Indira

Global Business School organized students conference on 'Contemporary Issues & Future Challenges in Management' on 23rd September 2017 at Indira Global Business School Campus, Parandwadi, Maval. CMA Ashish Deshmukh, chairman of the chapter, the chief guest explained contemporary issues like Economic Pressure, Globalization, Innovation, Change, Employee Satisfaction, Organization Ethics & Social Responsibility



with practical examples. The chapter had organized a seminar on 'Discussions on GST and Insolvency and Bankruptcy Code 2016' on September 28, 2017 at CMA Bhawan, Pune. CMA L D Pawar focused on various queries that arise in common people about GST





and also suggested the procedures to fulfil the steps in a simpler manner and to avoid problems which may occur in future.

## The Institute of Cost Accountants of India-Ahmedabad Chapter



The Chapter organized a CEP Program on August 22, 2017 at its Office. Faculty CMA A G Dalwadi discussed about the Draft reports. A CEP Programme on 'Accounting for GST in Tally-ERP9' was organized by the chapter on August 27, 2017 at its office. The chapter on September 1, 2017 organized a felicitation function at its office for the students who qualified for the June 2017 examination. CMA P H Desai, chief guest congratulated all the students and explained about the opportunities for the job in Industry and in govt. sector. The chapter organized a 12 days orientation program for June 2017 qualified CMAs under the guideline of Director-Training and Placement at its office from September 8, 2017.



## Role of CMAs as Registered Valuers

### ❖ Statute & Provisions for Valuation :

1. Definition of expert of under section 2 (38) of the companies act, 2013, states that “Expert” includes an engineer, a valuer, a chartered Accountant, a company secretary, a cost accountant and any other person who has the power or authority to issue certificate in pursuance of any law time being in force.

2. **Registered Valuers:** Section 247 of the Companies Act, 2013 deals with registered valuers and Section 247 (1) provides that where a valuation is required to be made in respect of **any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liability under the provision of this Act**, it shall be valued by a person having such qualifications and experience as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company.

3. **As an expert under definition of Section 2(33):** a Cost Accountant, by virtue of its qualification and experience, is now included for acting as a **Registered Valuer under Companies (Registered Valuers and Valuation) Rules 2017**.

4. **Registered Valuer :** Under Direct Tax authorities i.e. under Wealth Tax Act 1957 under Section 34(AB) where Cost Accountant is eligible for valuation as Registered Valuer for Financial and other items.

(1) The [Chief Commissioner or Director-General] shall maintain a register to be called the Register of Valuers in which shall be entered the names and addresses of persons registered under sub-section (2) as valuers.

(2) Any person who possesses the qualifications prescribed in this behalf may apply to the [Chief Commissioner or Director-General] in the prescribed form for being registered as a valuer under this section: Provided that different qualifications may be prescribed for valuers of different classes of assets.

(3) Every application under sub-section (2) shall be verified in the prescribed manner, shall be accompanied by such fees as may be prescribed and shall contain a declaration to the effect that the applicant will (i) make an impartial and true valuation of any asset which he may be required to value;

(ii) furnish a report of such valuation in the prescribed form;

(iii) charge fees at a rate not exceeding the rate or rates prescribed in this behalf;

(iv) not undertake valuation of any asset in which he has a direct or indirect interest.

(4) The report of valuation of any asset by a registered valuer shall be in the prescribed form and be verified in the prescribed manner.

### ❖ Registered Valuer under Companies (Registered Valuers and Valuation) Rules 2017: :

The Ministry of Corporate Affairs has issued Notification for commencement of Section 247 of the Companies Act, 2013 [Valuation by Registered Valuers] with effect from 18th October, 2017. It is proposed to specify Insolvency and Bankruptcy Board of India (IBBI) as the authority under the Rules. The Rules, inter alia, provide for mandatory Registration of Valuers for conduct of valuation under the Companies Act, 2013. The Registered Valuers are also required to be members of the Registered Valuers Organizations (RVOs), recognized by the authority under the Rules. The eligibility norms for RVOs to be recognized have also been provided in the Rules which, inter alia, include for an internal governance structure which should provide for enforcement of a code of conduct on the registered valuers, training and conduct of educational courses for the valuation of specific asset classes for which the RVO concerned is recognized. The advent of this rule increased scope for professional like CMAs. As per the rule, practicing members of a professional institute like The Institute of Cost Accountants of India, set up under an Act of Parliament; having at least five years' experience after such membership can be enrolled as Registered Valuers.

### ❖ Valuation is required under IBC 2016 and Regulation by IBBI:

Under Insolvency regime under (1) for resolution, liquidation and voluntary liquidation for corporate, individual and partnership firms as envisaged where it covers interest of all relevant stakeholders with water flow mechanism.

ICAI (ICMA) shall form Registered Valuers Organizations (RVOs) under IBBI and CMA with relevant experience and by passing exams though IBBI shall register our member as Registered Valuer shall perform various services.

In the time to come by this process CMA shall as an expert as valuer in various valuation services to number of statue in Corporate,



Direct, Indirect Taxes and no of laws in State and Central Government and local body laws and regulatory agencies as shall be required.

### **In Chapter XV : Compromise, Arrangement and Amalgamation the companies act 2013.**

Section 230 & 231 Power to compromise or make arrangements with creditors and members

Section 230 (2) The Company or any other person, by whom an application is made under Clause (1) shall disclosed to the tribunal by affidavit : Sub clause (c), para (v) :- a valuation report in respect of the shares and property and all assets tangible and intangible, movable and immovable of the company by a registered valuer.

Section 232: Mergers and Amalgamation of Companies

Based on subsection (1) an order made by Tribunal and sub section (2) required to be circulate under para (d) the report of the expert with regard to valuation, if any.

And para (h) where transferor company is a listed company and transferee company is unlisted company Sub Para (B) “ Provided that the amount of payment or valuation under this clause for any share not to be less than what has been specified by Security and Exchange Board of India under regulation frame by it.

#### **• Purchase Price and Valuation for Minority Shareholders**

Section 236: Purchase of Shares of Minority shareholding Subsection (2) the acquirer, person group of person under sub section (1) shall offer to the minority share holders of the company for buying the equity shareholders at a price determined on the basis of valuation by registered valuer in accordance with such rules as may be prescribed.

#### **• On Amalgamation of companies under public interest by Central Government**

Section 237: Under sub section (3) Computation of Compensation to Stakeholders requires assessment by assess by such authority (an expert and/or valuer) to be published in official gazette and the compensation so assessed shall be paid to the members or creditors concerned by transferee company.

Sub section (4) any person aggrieved by any assessment of compensation may appeal to the Tribunal and there upon basement and the compensation shall be made by the Tribunal.

#### **• Valuation under Other Corporate and Regulation**

Valuation of Share/Stock offered in the market under SEBI and allied law at Premium and/or to sweat equity and/or class of shareholders requires Valuation as market regulator for financial sector.

### **❖ Statutory Activities and Certification areas:**

In this globalised world, organizations require professionals such as Cost and Management Accountants (CMAs) who have specialized knowledge on business strategy and value creation. The CMAs being the foundation on which the enterprises are built, the specialized education and training by the Institute make them a multi-faceted professional. CMAs are driving force in all economic activities, as they are the value creator, value enabler, value preserver and value reporter. There are several areas of practice available for CMAs like:

#### **Statutory Activities:**

- ✱ Members can apply directly as 'Valuer' for empanelment of Calcutta High Court.
- ✱ Authorized to act as “Valuer” in respect of financial valuation under section 2(zzf) of the Securities and Exchange Board of India Infrastructure Investment Trusts Regulations, 2014 as amended on 30.11.2016.
- ✱ Authorized to act as “Valuer” in respect of financial valuation under section 2(zz) of the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 as amended on 30.11.2016.
- ✱ Can act as a valuer of properties and assets of liquidation estate under the Code and Regulations being framed under Insolvency and Bankruptcy Code (IBC)-2016.

#### **Certification Areas:**

- ✱ Issue Valuation Certificate for Cost of goods produced for Captive Consumption, in accordance with Cost Accounting Standard CAS – 4 issued by the Institute, under Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.
- ✱ Can issue Certificate for Average Cost of Transportation, in accordance with Cost Accounting Standard CAS – 5 issued by the Institute, under Rule 5 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.
- ✱ Under Rule 5 of Customs valuation (Determination of Value of Export Goods) Rules, 2007, the proper officer shall give due consideration to the cost-certificate issued by a Cost Accountant.
- ✱ Computation of Valuation Goods and Services under GST Act 2016 for Anti profiteering, related party transactions and allied revenue and allied.
- ✱ Valuation of Shares/Stocks of unlisted companies.
- ✱ Fair Valuation of assets, stocks, investment, liabilities under Ind AS as well under compliance to IFRS requirements for certain class of Companies and Cross border transaction (for FDI and overseas JVs etc)
- ✱ Implication and Fair Valuation Impairments of assets as going concern unit and/or not in operation with and/or with revival resolution mechanism and/or any restructuring implication and allied.



(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

# PROGRAMME FOR SYLLABUS 2012

## EXAMINATION FEES

Application Forms for Intermediate and Final Examination has to be filled up through online only and fees will be accepted through online mode only (including Pay/fee Module of IDBI Bank). No Offline form and DD payment will be accepted for domestic candidate.

**2. STUDENTS OPTING FOR OVERSEAS CENTRES HAVE TO APPLY OFFLINE AND SEND DD ALONGWITH THE FORM.**

(a) Students can login to the website [www.icmai.in](http://www.icmai.in) and apply online through payment gateway by using Credit/Debit card or Net banking.

(b) Students can also pay their requisite fee through pay-fee module of IDBI Bank.

4. Last date for receipt of Examination Application Forms is 10<sup>th</sup> October, 2017.

The provisions of direct tax laws and indirect tax laws, as amended by the Finance Act, 2016, including notifications and circulars issued up to 31<sup>st</sup> May, 2017, are applicable for December, 2017 term of examination for the Subjects Direct Taxation, Indirect Taxation (Intermediate) and Tax Management & Practice(Final) under Syllabus 2012 and Direct Taxation, Indirect Taxation (Intermediate) , Direct Tax laws and International Taxation and Indirect' Tax laws & Practice (Final). The relevant assessment year is 2017-18. GST of 20 marks included in Paper 18- Indirect' Tax laws & Practice (Final), under syllabus 2016 only.

the Companies (Cost Records & Audit) Rules 2014 as amended till 14 July 2016 are applicable for Paper 10 – Cost & Management Accounting (Intermediate) and Paper 19 – Cost & Management Audit (Final) under syllabus 2012 and Paper 12- Company Accounts & Audit(Intermediate), Paper 19 – Cost & Management Audit(Final) under Syllabus 2016 for December 2017 term of examination.

7. The provisions of the Companies Act 2013 are applicable for Paper 6 - Law, Ethics and Governance (Intermediate) and Paper 13 - Corporate Laws and Compliance (Final) under syllabus 2012 and Paper 6- Laws and Ethics (Inter) and Paper 13- Corporate Laws and Compliance (Final) under Syllabus 2016 to the extent notified by the Government up to 31<sup>st</sup> May 2017 for December 2017 term of examination.

8. Pension Fund Regulatory and Development Authority Act, 2013 is being included in Paper 13- Corporate Laws and Compliance (Final) under Syllabus 2016 for December 2017 term of examination.

For details view link -<http://icmai.in/upload/Students/Circulars/Clarification-Dec2017.pdf>

For all oceans view link: <https://www.apjournals.com/submit/article/2526207>

10. A candidate who is fulfilling all conditions specified for appearing in examination will only be allowed to appear for examination.

111. Probable date of publication of result: Inter & Final – 21st February, 2018.

\* For any examination related query, please contact exam.helpdesk@icmai.in

**Kaushik Banerjee**  
(Secretary)

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

**EXAMINATION TIME TABLE & PROGRAMME – DECEMBER – 2017**

**FOUNDATION COURSE EXAMINATION**

Day & Date	Foundation Course Examination Syllabus-2012 Time 2.00 p.m. to 5.00 p.m.	Foundation Course Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
Sunday, 10th December, 2017	Fundamentals of Economics & Management	Fundamentals of Economics & Management
Monday, 11th December, 2017	Fundamentals of Accounting	Fundamentals of Accounting
Tuesday, 12th December, 2017	Fundamentals of Laws & Ethics	Fundamentals of Laws & Ethics
Wednesday, 13th December, 2017	Fundamentals of Business Mathematics & Statistics	Fundamentals of Business Mathematics & Statistics

**Examination Fees**

Foundation Course Examination	Inland Centres	₹ 1200/-
	Overseas Centres	US \$ 60

- The Foundation Examination will be conducted in Offline, descriptive (Pen & Paper) mode only. Each paper will be of 100 marks and for 3 hours duration.**
- Application Forms for Foundation Examination has to be filled up through online only and fees will be accepted through online mode only (including Payfee Module of IDBI Bank). No Offline form and DD payment will be accepted for domestic candidate.
- STUDENTS OPTING FOR OVERSEAS CENTRES HAVE TO APPLY OFFLINE AND SEND DD ALONG WITH THE FORM.
- (a) Students can login to the website [www.icmai.in](http://www.icmai.in) and apply online through payment gateway by using Credit/Debit card or Net banking  
(b) Students can also pay their requisite fee through pay-fee module of IDBI Bank
- Last date for receipt of Examination Application Forms is 10<sup>th</sup> October, 2017.**
- Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Agra, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bewar City(Rajasthan), Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Erode, Faridabad, Ghaziabad, Guntur, Guwahati, Haridwar, Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Palakkad, Panaji (Goa), Patiala, Patna, Pondicherry, Port Blair, Pune, Raipur, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
- A candidate who is completing all conditions for appearing the examination as per Regulation will only be allowed to appear for examination.**
- Probable date of publication of result: 21st February, 2018.**

\* For any examination related query, please contact [exam.helpdesk@icmai.in](mailto:exam.helpdesk@icmai.in)

**Kaushik Banerjee**  
(Secretary)





# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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# THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

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