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Green Audit

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Workshop on CARR & CAR 2011 being held at Bangalore on 23.06.12. Seen (from L to R) Shri K. R. Murali Krishna, Chairman, BCCA, Shri Rakesh Singh, Vice President of the Institute, Shri B.B. Goyal, Advisor (Cost), MCA and Shri J.K. Puri, past President.

Shri.B.B. Goyal, Advisor-Cost, MCA, inaugurating the Workshop at Bangalore on CARR & CAR 2011 by lighting the lamp. Also seen are Shri Sanjay Gupta, Council Member, Shri Rakesh Singh, Vice President and Shri Kunal Banerjee and Shri G N Venkataraman, past Presidents.

Shri K R Murali Krishna, Chairman, BCCA, Dr. S Ramesh, Sr. Exe. Vice President, Canbank Factors Ltd. and Shri A. Om Prakash, Council Member, at the 'Risk Based Internal Audit' programme held at Bangalore during 15-16 June.

RBIA Batch No.2 Group photo.

Shri M. Gopalakrishnan, President of the Institute, garlanding Mr. David Holly, Australian Consul – General while Shri B.R. Prabhakar, Chairman SIRC looks on at the inauguration of SIRC Oral Coaching at Chennai on 24.06.12

Lighting the candle by Mr. David Holly, Australian Consul – General at the inauguration of SIRC Oral Coaching at Chennai on 24.06.12. Seen are Shri M. Gopalakrishnan, President of the Institute, Shri B.R. Prabhakar, Chairman SIRC and other officials.

Shri M. Gopalakrishnan, President of the Institute addressing the students at the inauguration of SIRC Oral Coaching at Chennai.

Emerging Issues in 'Direct and Indirect Taxation' and `Risk Based Internal Audit and Corporate Governance' held at Ooty during 19-22 June, 2012. Seen (L-R) Shri R.G. Rajan, Management Consultant, Shri. N.R. Govindarajan, Management Consultant, Prof. Sampath, Corporate Tax and Management Consultant, Shri B.B. Goyal, Advisor (Cost), MCA, Shri P. Ravindran, Consultant and Advocate, Indirect Taxation and Shri D. Chandru, Director (CEP) of the Institute.

Inside *This Issue*

The Management Accountant

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

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C O N T E N T S

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.

MISSION STATEMENT

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

VISION STATEMENT

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

DISCLAIMER

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

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In the context of a developing country like India, it is important that national efforts are directed towards preservation of those vital resources. So far the Indian economy has been supported by the abundance of its natural resources. But the demands placed on the environment by the huge population of the country may far outweigh the capacity of the environment to sustain the additional burden put on it

As I gear up to pen the 'Green Editorial' the general mood of the economy seems to be quite upbeat with the Finance Minister announcing a slew of 'tough' measures to prop up the embattled rupee that was languishing since past few months, though experts believe that there is a possibility that the already battered rupee may still see some hammering. On the international scene, there's some positive news when at the EU Summit, officials agreed to directly recapitalize the troubled European banks, which increases their debt-to-GDP ratios and in U.S. the Senate passed a bill that caps student loan rates while oil rose nearly 7%, its largest daily gain in more than a year.

Coming to the job at hand, this issue of the Management Accountant has coincided with the recently held UNEP-sponsored Conference on Environment, popularly known as Rio + 20. This is a sequel to the previous Earth Summit on the environment held in this Brazilian city exactly twenty years ago to commemorate the twentieth anniversary of the first summit on the Environment in Stockholm in 1972. If Stockholm is considered the starting point of the global environmental movement, we are in it for over forty years. It's time we address ourselves what we have achieved in all those years, more so in view of the fact that this year we would be celebrating the silver jubilee of Sustainable Development—a concept espoused by the World Commission on Environment and Development in 1987. While there is no abatement to the over enthusiasm over our environmental concern, the fact remains that in all these years we have made very little progress. On the contrary, the indicators that measure the health of our planet continue to deteriorate. It is now widely recognized that humankind is on the verge of an environmental catastrophe and perhaps very few options are left to avert the crises which have been looming large in the last four decades. In the face of such crisis, which is caused by our insatiable greed, it is necessary to re-examine by every nation whether the current pattern of consumption can be continued without any further considerations about the burden on the supporting environment. This is paramount because, on one hand, the material progress of the industrial society has taken a very serious toll on the capacity of our planet to bear the burden, while, on the other hand, the depletion of natural resources are eating into the vitals of many developing nations. Clearly, this requires Green Audit—a kind of check and balance or a dashboard which would tell us what is sustainable and what is not.

In the context of a developing country like India, it is important that national efforts are directed towards preservation of those vital resources. So far the Indian economy has been supported by the abundance of its natural resources. But the demands placed on the environment by the huge population of the country may far outweigh the capacity of the environment to sustain the additional burden put on it. Therefore, if India is to sustain its continued pursuit of economic growth, its natural environment must be preserved and enhanced.

In view of its importance, it is time that Green audit becomes a reality by now. Green audit is expected to give numbers to the environmental impact of development. India is in need of alternative indicators to measure true welfare improvement. Presently, the country does not have a system in place to factor in the environmental cost of industrial activity. There is a growing need to address this issue in the best interest of all of us to safeguard our mother earth.

In this issue we have a distinguished panel of contributors who would lay before our readers latest developments in the field of Green Audit. Our esteemed readers, am sure, will find all the articles on the subject extremely useful and enriching.

Happy reading!

> "The power of God is with you at all times; through the activities of mind, senses, breathing, and emotions; and is constantly doing all the work using you as a mere instrument."
>
> **Bhagavad Gita**

M. Gopalakrishnan, President

Dear Professional Colleagues,

The wheel of progress in a professional body is set in motion by the Council and the President is the facilitator who implements the policies and action plans dictated by the strategies formulated by the collective wisdom of the Council. The action plans sometimes result in immediate result but many times lays down the foundation on which the professional structure is built. I thank the Council for having unanimous in imposing their faith on me in a crucial period of the first year of the Council term, which lays the road map to be followed during the remaining period of the term. The time has come for me to say good bye and pardon me, if I have to ruminate with some nostalgic memories of the past year. In addition, this is the last opportunity for me to share my thoughts with you.

Friends, the year started with a tumultuous welcome to the new Council, which had to face the enormous challenge on the crucial issue of name change and also on the new direction that was contemplated by the Government on the core area of Cost Audit practice. Many of the crucial areas, on which tremendous efforts were put in by the previous Council, were reaching the stage of logical conclusion. As in a steeple chase, the current Council had to exert itself with a burst of speed to reach the winning post, and I am happy that the refreshing approach given by the Council which has many first timers as well as experienced members, enabled us to retune the existing policy and reframe them in light of the current business and economic environment. Each Council works on putting the profession into a higher orbit and reaching new horizons and this Council has been no exception.

Leaders with a far reaching vision make a major difference for any profession, and we are fortunate to have one such visionary as our guiding star in Dr.M.Veerappa Moily, Honourable Union Minister of Corporate Affairs. On many an occasion during the year, I was guided by his visionary zeal, which is aimed at inclusive growth of the country and the corporate sector in which all the three professions can play a major role. While he piloted the Bill for the name change in both the houses of Parliament with considerable aplomb and skill, he ensured that one of the major concerns by our members for the use of global designated letters ACMA and FCMA is clearly embedded in the Act. Our profession will remain eternally grateful to him for this key enabler, which I am sure will pave way for the final step of name change of our Institute in future.

We are also fortunate to have the counsel and wisdom of Shri Naved Masood, IAS, Secretary, Ministry of Corporate Affairs and Shri Sudhir Mittal, IAS, Additional Secretary, who have always guided us in the right direction and provided major support to us to implement many of the initiatives launched by the Ministry. This year also saw the completion of the process of various amendment to our Regulations, which could have not been possible but for the help rendered by Shri Manoj Kumar, IAS, Joint Secretary. I am also thankful to Shri Avinash Srivastava, IAS, Joint Secretary, who as a MCA representative in the Council for the guidance he has given us on many occasions.

I would like to recall the key events that have happened during the year. Many of them were launch pads, which as unique first time initiatives, were welcomed by the members and students.

General

- The Parliament passed the Amendment to The Cost and Works Accountants Act changing the name of the Institute to The Institute of Cost Accountants of India at the same time allowing the use of the designation ACMA and FCMA to denote the membership.
- Council passed resolution to rename all buildings of the Institute as "CMA Bhawan"
- Council passed resolution to allow use of CMA prefix by members
- Constituting Task Force for Election Reforms
- Commencement of Foundation Day celebrations on 19th May from this year onwards.
- Action taken for revamping the Institute infrastructure at Kolkata and Delhi

CMA Professional Development

- The Ministry of Corporate Affairs-Cost Audit Branch issued series of notifications realigning Cost Accounting Records Rules and Cost Audit Report Rules in light of the recommendation of the Expert Group Report on CARR and CAR.
- The Cost Accounting Standard Board issued further CAS and Generally Accepted Cost Accounting Principles and also Guidance Notes on CAS.
- The Cost Audit and Assurance Standards Board issued CAAS1 and CAAS 2.
- The Professional Development Committee issued FAQs. on the new notifications on CARR and CAR.
- Chain seminars on Indirect Taxation throughout the Country, involving Indirect Taxation Authorities.
- Recommendation by Standing Committee of Parliament for including cost accountants in "Accountant" definition under Income tax Act.
- Release of Institute Publications on various professional development topics.
- Establishment of CEP-2 Directorate to facilitate Continuing Education Programmes in independently or in association with Regional Councils, Chapters and Industry Associations.
- Updated Practitioner's Kit available on the website

International Initiatives

- The Institute's nominee to SAFA CMA. A. N. Raman, completed his term as President SAFA on 31st Dec 2011.
- The Institute was admitted as a member of the Accounting Bodies Network of Prince of Wales A4S Foundation, the only Accounting Body from India.
- Discussion on Integrated Reporting jointly with CIMA-UK
- Hosting of PAIB Meeting of IFAC for the first time in India in Feb 2012 at New Delhi
- Joint hosting of IFAC-Donor Community Meet at Jaipur.
- Establishment of contact with International Controller Verenin EV of Germany
- Hosting SAFA-EFAA (European Federation) conference at Delhi, followed by two quarterly webinars. The Institute also participated in the SAFA-EFAA meetings held at Italy, Rome during the year
- The Institute and ICMAP held a Seminar through Video Conferencing which is repeated every quarter. Such seminars are also planned to be held regularly.
- Recognition for Bahrain centre of the Institute from Bahrain Accountants Association
- International Conference on Micro Finance jointly with Burgundy School of Business

CMA Capacity Building and CMA Centres of Excellence

- The Board of Advanced Studies was formed and announced Courses on Business Valuation Management, Foreign Exchange Treasury and Risk Management, Enterprise Performance Appraisal and Business Strategy
- Formation of an Independent Board of Advanced Studies headed by an eminent academician and representation from eminent external experts.
- The state of art 28000 sq feet Hyderabad Centre of Excellence was inaugurated.
- The proposed state of art 35000 Sq. ft, Navi Mumbai project put back on track with an action plan to complete the project by Dec 2013, after obtaining the approval from CIDCO, Navi Mumbai.
- Launch of Joint programme with CII on "Certified Sustainability Assurance Practitioner Course"
- Tie up with Institute of Internal Auditors
- Chain seminars on XBRL throughout the country

CMA Connect

- The Management Accountant Journal was made into full colour publication for the first time in the Institute history.
- CMA—Outreach Programme approved by Council for opening CMA Support centres throughout the country.

- Launch of Survey for members in Industry on improving services to them
- CEO-CFO Connect programmes at New Delhi, Mumbai, Kolkata, Chennai, Hyderabad, Bangalore and Coimbatore.
- Launch of Industry Institute connect with a pilot CMA Learning Centre at WIPRO- Chennai

CMA Government Connect

- The Institute was admitted as a full fledged member of the Government Accounting Standards Board.
- The Institute became a member of the ''Committee to formulate a Policy Document on Corporate Governance'' formed by the Ministry of Corporate Affairs.
- Training programme for Regional Training Centre of CAG at Kolkata.
- Meeting with Shri.Naveen Patnaik- Chief Minister Orissa for professional development in the State

CMA Membership

- Launch of online application for admission for Associate and Fellow Membership
- Publishing of members admitted in the website immediately after their admission
- Approval of guidelines for formation of LLP
- MOU with Chartered Institute of Securities and Investment—UK for memberships

CMA Learning and Examination

- Nationwide launch and enablement of Integrated Education Processing System
- First Convocation for students completing Institute examinations.
- Highly successful countrywide Campus Placements by Training & Placement Directorate.
- MOU with Food Corporation of India for engaging cost trainees followed by other similar organizations.
- Direct dispatch of study materials to students from Head Quarters
- Launch of photo admit card for students
- Suggested Answers made available to registered students free through website
- Launch of Multiple Choice OMR examination system for CAT courses
- Launch of TV phone in programme on Career Launch through Gyan Darshan of IGNOU.

CMA Research

- Formation of a separate Research Committee by the Council
- Establishment of a full fledged Directorate of Research headed by a Senior Director at Kolkata
- Launch of Research projects on
  - Pilot Study on Standard Treatment Guidelines and their cost for selected Health Care procedures
  - Study of Agricultural product cost
  - Study on Cost Competitiveness of Textile Industry—China Vs India
  - Study on Costs of Ship Building (Defence) industry

CMA-MCA Connect

- Record number of Investor Awareness programmes
- Series of seminars on XBRL throughout the country
- Joint workshops with Indian Institute of Corporate Affairs and CII on Integrated Reporting and Corporate Social Responsibility
- India Corporate Week initiatives

Regional Councils and Chapters

- Appointment of Regional Co-ordinators in all the four Regions to head Technical Directorate—Extension Centres
- Strengthening the infrastructure in the Regions and Chapters—Opening of Centre of Excellence at Ahmedabad, new building at Thrissur, land at Bhopal etc.,
- Opening of new Chapter at Vapi-Daman-Silvassa.
- Modernised Class Rooms launch at Southern India Regional Council at Chennai and Ahmedabad.
- Preparation of consolidated accounts for the Institute as a whole including Regional Councils and Chapters
- Establishment of Toronto Overseas Centre at Canada.

Institute Administration

- Implementation of Human Resources Policy for the Institute and its offices, as suggested by the HR Task Force constituted by the Council
- Four metros connected through Video Conferencing to enable regular interaction between the Institute offices. Future plans to expand the network to major cities.
- Formation of a Directorate of Internal Control and Systems headed by a Director.
- Draft guidelines prepared for Administration, Financial, Academic, Students and IT activities, by Task Force formed by the Council. The same Task Force has also given draft Code of Conduct for Council Members, Regional Council, Chapter Managing Committee and Executives of the Institute.

Public Relations

- Major advertisement campaigns through printed media

- Advertisements in Metro Rail at Delhi and Kolkata.
- Special advertisements in India Today, Outlook, The Week, Tehelka, Careers Today, Go-Getter, MY FM Radio and DAVP advertisements in 206 news papers throughout the country

All these are the result of the efforts of the Council members, who put in stupendous efforts and worked shoulder to shoulder with the executives of the Institute to make all these happen. Due to these initiatives, I have been receiving accolades on the apparent visibility of the Institute from the cross section of the society which I dedicate to my Council team, who have been the real enablers.

I wish to place on record my special thanks to the executives and staff at Kolkata, New Delhi, Hyderabad and Chennai who have coped up with the large volume of activity by the maximum number of Committee meetings held not only at these places but other centres also. In addition, I also thank the external experts associated with the Institute, who worked tirelessly in bringing out various publications and technical material.

National Events

I participated in the programme organized by Bengal Chamber of Commerce and EIRC on the Recent Changes in the Indirect Taxes, which was held on 15th June 2012 at Kolkata. I had an excellent interaction on the occasion to interact with senior officials of CBEC and other experts.

As a pilot project, myself and senior officials from Studies, Training & Placement and Technical Directorate, participated in a one hour Call in programme organized by IGNOU at Gyan Darshan on 27th June 2012, at New Delhi. I find that it can be a good channel through which our Directorate of Studies can start learning sessions which can be seen by any student all over the country and also clear doubts through Toll Free numbers. I have asked the Directorate to explore the possibility for future.

International Events

Members may be aware that our Institute after a long time was allotted the position of Technical Advisor to the member from India in the CAPA Board, in the Brisbane meeting held last year. CMA. Rakesh Singh, Vice President represented the Institute for the coveted post and participated in the meetings of Confederation of Asian and Pacific Accountants (CAPA) held at Beijing, China from May 30 - June 3, 2012 including Meeting of Board.

The SAFA CMA Management Accounting Summit, which is the equivalent of Global Summit on Management Accounting started by our Institute, was organized by CMA Institute Sri Lanka from 22nd June to 24th June 2012, at Colombo. The summit was organized coinciding with the SAFA Board and Committee meetings which were held on 20th and 21st June 2012, at Colombo. Our Institute being an active participant in SAFA, sent a delegation with me in the lead and three Council Members CMA. TCA Srinivasa Prasad, CMA. S C Mohanty and CMA. Pramod V. Bhattad and Senior Executives CMA. R.N.Pal and CMA.S.C.Gupta to participate in Board and Committee Meetings of SAFA and CMA Conference and other events hosted by Institute of Cost and Management Accountants, Sri Lanka from June 20-24, 2012 at Colombo. Professor Asish K. Bhattacharyya, Advisor (Advanced Studies) addressed the participants on the topic ''Sustainable Performance Management in Government''. I was given the opportunity to chair a Technical Session on Global Economic Stability and Fiscal Sustainability, which was addressed by Experts from Asian Development Bank, Commonwealth Secretariat and ICMAP Pakistan.

Prior to this, during 2-4 May, 2012, a delegation from the Institute attended the meetings of SAFA Board, Committees and International Seminar at Dhaka, Bangladesh under the leadership of Vice President, CMA Rakesh Singh consisting of CMA T.C.A. Srinivasa Prasad, Council Member and Chairman of PAIB Committee of SAFA and CMA A. Om Prakash, Council Member.

Professional Development Directorate

The Cost Audit Branch is continuing to issue circulars clarifying some of the issues relating to the notifications issued earlier by them. Some of the recent ones are :

Applicability of Cost Accounting Records Rules to the Construction Industry

The Ministry of Corporate Affairs vide letter F. No. 52/1/CAB-2012 dated 25th May, 2012 reiterated its previous clarification on the applicability of Companies (Cost Accounting Records) Rules, 2011 (CARR-2011) to Construction Industry and mentioned that CARR-2011 are applicable to all companies engaged in the construction and/or development (real estate) businesses who meet with the threshold limits laid down in Rule 3 of CARR-2011. It has been clarified by the aforesaid letter that as on date, no cost audit is applicable on the companies engaged in the construction and / or development (real estate) businesses. However the companies engaged in these sectors are required to file compliance report with the Central Government in accordance with the provisions of these Rules. The compliance report can be signed by the cost accountant in employment in that company or the cost accountant in practice.

Clarification about coverage of SEZs, EPZs, FTZs and 100% EOU under Cost Audit and Cost Accounting Records

The Ministry of Corporate Affairs vide General Circular No. 11/2012 dated 25th May, 2012 partially modified para (b) of the General Circular No. 67/2011 dated 30th November, 2011 and extended exemption from mandatory cost audit to all units located in the specified zones such as Special Economic Zones (SEZs), Export Processing Zones (EPAs) and Free Trade Zones (FTZs) apart from 100% Export Oriented Units (100% EOU), subject to meeting the threshold criteria specified in the aforesaid General Circular. It has been clarified by this General Circular that there special Zones are not exempted from maintenance of cost accounting records and are required to file compliance report with the Ministry of Corporate Affairs in accordance with the applicable Cost Accounting Records Rules.

Extension of clarification of earlier General/ Master Circulars to Regulated Industries

The Ministry of Corporate Affairs vide General Circular No. 12/2012 dated 4th June, 2012 clarified that the Master/General circulars issued in 2011 and 2012 namely Master Circular dated 11th April 2011, General Circulars dated 11th November 2011, 30th November 2011, 10th May 2012, 25th May 2012 and the aforesaid circular dated 4th June 2012 are applicable to the Companies (Cost Accounting Records) Rules dated 3rd June 2011 and Cost Accounting Records Rules 2011 issued on 7th December 2011 in respect of regulated six industries namely Telecommunication, Petroleum, Electricity, Sugar, Fertilizer and Pharmaceutical, to the extent these are relevant and applicable to them.

The aforesaid General Circular dated 4th June 2012 also clarified the applicability cost audit order dated 2nd May 2011 to companies on whom erstwhile Industry Specific Cost Accounting Records Rules as mentioned in this cost audit order dated 2nd May 2011 and after supersession of these erstwhile rules, on regulated industries covered under the new Industry Specific Cost Accounting Records Rules 2011 notified on 7th December 2011.

I hope the above sets at rest, many issues which were raised by the industry concerned.

Guidance Note on Maintenance of Cost Accounting Records

In the previous communique, I informed the members about the release and hosting on the Institute website the Guidance Note on Maintenance of Cost Accounting Records. Now the printed version of this Guidance Note, is available for sale at Institute headquarters, Delhi Office and all regional councils. Those interested may also download the softcopy of this Guidance Note from the Institute's website.

Tamil Nadu VAT (Third Amendment) Act, 2012

As a result of our continuing efforts, I am glad to inform the members that Tamil Nadu Government vide its Third Amendment Act, 2012 in respect of VAT, recognizes Cost Accountants for VAT Audit. The Institute is also representing to other state governments where cost accountants are not recognized in their respective VAT Acts.

CEP Directorate–I

Two programmes were organized at Srinagar during 12-15 June, 2012 on `Updates on IFRS and Converged Indian Accounting Standards' and 'Finance for Jr. Finance AOs and Non Executives'. I released the latest book by Dr.T.P.Ghosh on ''Revised Schedule VI'' during the occasion. Two programmes were also organized at Ooty during 19-22 June, 2012 on 'Risk Based Internal Auditing and Corporate Governance' and 'Emerging Issues in Direct and Indirect Taxation'. All the above programmes had good response from the Corporates.

CEP Committee have finalized rationalized guidelines, which were approved by the Council, which will help the members to get their CEP Hours in line with similar guidelines adopted by sister professional bodies.

CEP Directorate–2

The Continuing Education Programme Committee in association with Indirect Taxation Committee has organized a series of One day Workshop on Indirect Taxation for CMAs during May and June 2012 at Delhi, Chandigarh, Mumbai, Kolkata, Hyderabad, Bangalore and Chennai. The Workshop was graced by the authorities from the CBEC at all cities, Shri.V K Garg, Joint Secretary (TRU), CBEC, Ministry of Finance—at Delhi, Shri. Prosenjit Deb, Deputy Director (Cost), CBEC—at Chandigarh, Shri. S K Das, Commisioner, Central Excise and Shri T A Khan, Addl. Commissioner, Central Excise—at Kolkata, Shri V S Raju, President, FAPCII - at Hyderabad, Shri Kaushal Srivastava, Chief Commisioner of Central Excise and Service Tax—at Chennai. I compliment the Chairman Indirect Taxation Committee for launching these programmes, just at the right time, when Service Tax is gaining major importance in the economy.

The Department successfully concluded the second

Batch for Two days Seminar on 'Risk Based Internal Audit of Banks' (RBIA) at Bengaluru. The Seminar was inaugurated by Shri S Ramesh, Sr. Exe. Vice President, Canbankfactors Ltd. (Subsidiary of Canara bank) with active participation of leading banks and CMAs. Role of CMAs in Banks as a Concurrent Auditor was discussed among the participants, where positive response was received. Looking at the interest of CMAs and appreciation from Banks, department is shortly going to announce third & fourth batch at Chennai and Kolkata respectively.

The CEP 2 in association with Bangalore Chapter has organized a Workshop on CARR & CAR at Bangalore, Shri B B Goyal, Advisor Cost, inaugurated the Workshop and was an exemplary programme for CMAs.

CAT Directorate

I am happy to inform that the CAT Committee has changed the method of examination to OMR method with multiple choices and the first of the examination has been recently completed. This format is ideally suited for the first level examination and the Committee will also consider increasing the frequency of holding examination in future. This can be forerunner for an Online examination system, when it is warranted with sufficient numbers.

9th CMA Excellence Awards

I am happy to inform you that the 9th Cost Management Excellence Awards will be held on 17th July 2012, at Vigyan Bhavan, New Delhi. The Honourable Union Minister of Corporate Affairs Dr. M. Veerappa Moily has agreed to be the Chief Guest and present the awards. The Screening Committee has held meetings and have made an initial assessment for presentation to the Eminent Panel of Jury headed by Honourable Justice Shri. V. N. Khare. The Jury had their first meeting and will be finalizing the Awardees.

The time to say Good Bye has come, and I am overwhelmed with the affection that was showered on me by the members, Chapters and Regional Councils who stood by me in trying times and were a source of inspiration for me which enabled the completion of the year with a reasonable sense of satisfaction. I thank my Vice President CMA Rakesh Singh, who was always with me in all the ups and downs during the year, sharing his thoughts on various matters and standing in for me when I could not be present for various meetings. I am very sure that he will steer the profession to much greater heights in the coming year, with the right balance of technical and administrative skills. I also thank my Council Colleagues, who inspite of shouldering all the hard work, gave credit to the post of President, when projecting to the world outside. I could not have completed my tenure as a President successfully, without the unstinted support from wife Smt. Bhuvaneswari, who tolerated impossible hours of arrival and departure and kept me insulated from any personal worries. I am also thankful to my other family members, partners and office staff in profession who stood in for me on various occasions adequately covering my absence.

I step down from a prestigious position which has enabled me learn valuable lessons in life and have helped me to tune myself into a better person than before. As someone said, God gives one chance to do good to the society and the community you co-exist with and I feel honoured that I have been given a chance to repay in my own humble manner, to my mother profession, who has given me my professional life.

Jai Hind

With warm regards,

CMA M. Gopalakrishnan
President
Institute of Cost Accountants of India
1st July, 2012

CMA Amit Apte
Chairman Communique
Committee for Accounting Technicians

Dear Professional Colleagues,

At the outset, I thank you all for reposing confidence in me and providing me with an opportunity to serve our profession as a Central Council Member. As the youngest member of the present Council, I thank the President and my colleagues in the Council for giving me an opportunity to Chair the Committee for Accounting Technicians.

Certificate in Accounting Technicians Course (CAT) was introduced by the Institute in the year 2009 in consultation with the Ministry of Corporate Affairs, Government of India. The major objective of the CAT has been to provide an opportunity to the students' community from rural and semi-urban areas who could not get the benefit of professional courses so far. Another objective of the CAT has been to provide trained entry level accounting professionals to the Industry.

In order to reach the unreached, the Institute has so far established 281 Oral Coaching Centres across the country. Majority of these centres are in the locations where our Chapters do not exist and nearly 70% of these centres are in semi-urban areas. CAT has established centres in Srinagar and Nagarcoil (Kanyakumari), symbolizing our presence across the country. Starting with a batch of 16 students for the June 2009 Examination, presently CAT student strength currently stands at around 3900.

The entire CAT has been structured keeping the expectation of the Industry from the entry level functionaries. The Course has two stages- Foundation (Entry level 1) and Competency Level. The CAT Students have to undergo 60 hours Computer Training in Tally ERP, 15 days Orientation Course and 3 months Internship with industry. The Institute has entered into an MOU with Tally and has developed a 60 hour Computer Training course for the students. The intention is to make this course more of an employment oriented than merely an academic in nature.

During the year we have been taking several initiatives on continuous basis to enhance Students Services. With a futuristic view in mind we have decided to change the examination pattern for CAT Level I to Multiple Choice Questions to be answered in OMR sheets. The Examination will be held on a single day. I am happy to say that the first examination under the revised pattern was successfully conducted in 21 Centres on 24th June 2012. Examination centres have also been established in remote locations like, Palampur in HP, Shajahanpur in UP, Raigarh in Chatisgarh and Srinagar in J&K, for the benefit of the students. CAT Competency Level examination will also go on-line from December 2012 onward. We also propose to soon move over to quarterly examinations instead of half yearly examination pattern so far.

Having established a net work of 281 centres, we have been working on a model to make use of this wide net work for taking the benefits of our core course of Cost & Management Accountancy to the wider sections of the society. I assure you that this will also help in the Brand Building exercise of our Institute where the recognition to our courses is received from across the society.

I wish to state here that all this would have been impossible but for the sincere efforts put in by the CAT directorate who have strived to bring the CAT course to the new trajectory. The support I have received from my council colleagues and the President is also of paramount importance.

Finally I express my heartfelt appreciation to CMA Prasad Joshi & CMA Avinash Foujdar who were a part of the successful expedition to Mt. Everest. Mountaineering is a team effort and it requires equally strong climbing & support teams for its success. What is most encouraging is that when one of our members (CMA Prasad Joshi) was braving the adversities of nature to make it to the summit of Mt. Everest, the other (CMA Avinash Foujdar) was coordinating the effort from the Base Camp and ensuring all the support.

And what a day they chose to conquer Mt. Everest; 19th May 2012, the foundation day of our Institute!!!

With warm Regards,

CMA Amit Apte
1st July 2012

Green Audit—More Talked About Than Acted Upon

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Context

Green, as a colour, has innumerable shades. Green audit therefore has to contend with all of them, since it is extremely important to lend ear to the calls of both the wood and the trees. Individual items are classifiable under different broad heads while both the broad heads and the items figuring under them have to be given discrete treatment in view of their distinctiveness and the impacts they create. On the other side, the word 'audit' seems to have already lost its sharp edge in view of the fetters under which it operates and over-use of the term in the corporate parlance. Surveillance has become routine, if not deliberately skirted. Rules are for breaking, goes the adage. Laying down rules and then glossing over them in practice have remained the order of the day. Otherwise, Subhash Datta, the notable environmental activist, would not have to run to Calcutta High Court every now and then to stall large scale and frequent incidence of law-breaking tendencies not only shown by the Aam Admi, but also by the officialdom. In the circumstances, Judicial Activism shown both by the High Courts in this country and by the Supreme Court of the country (albeit less frequently) has acquired a particular significance despite the wrath shown by several academic experts. This being the context, though rather limited, this discussion, concentrates on unshackling the common connotation of audit on the one hand and the applicational typicality of audit in the larger context. Beginning at the beginning, for the purpose of the present discussion audit is underlined as 'regular and systematic review and appraisal of the factors and forces that contribute to realization of the objectives'. It is important to note in this context that definition of the objectives and sticking to the methods and practices for their realization may figure as the sine qua non to success. Success itself has a typical connotation in so far as it is to be assessed in the larger context of what society needs today and tomorrow and the methods and practices to be put in place. Considering the nature's gifts that the present generation has inherited, the prevalent social mores, the size, growth and age of population, the levels of living, the literacy standards, the religious practices, as also the overt and covert belligerency, or otherwise, of the externalities, covering land, water and air, it is but natural that all these issues should call for realistic reckoning so that their effects could be measured and effective antidotes could be adopted for dealing with the situation. The gravity of the situation has already become a threat.

Sustainability

Several committees and commissions, national and international, have sought to define and delineate the term 'sustainability' in the context of environmental protection — today, tomorrow and day after. Under the umbrella of tall talks regarding sustainability, environmental degradation has continued unabated. Sustainability has underscored the act of balancing the social, economic and environmental needs of today's world while planning for future generations. The specifics of how this balancing would find shape in the contexture of the developed and developed worlds have remained undefined in a large measure. The term has been apocryphal, to say the least, for the simple reason that there has been a cognizable divide between the north and the south, and within each noticeable variations in approaches and actions. In the circumstances, the huge and still growing volumes of written documents have largely remained out of context. The term itself has been seen from the points of view of different intellectual disciplines, each seeking to have its say on what is to be done or not done. In all this, there has apparently been vested interests manifest in different forms, involving different countries.The release of pollutants and denouement of forests and many other natural resources have endangered the lives of both flora and fauna while the utmost concern, expressed and unexpressed, has been with economic development and growth and provision of worldly pleasures and comfort — at what cost has remained largely uncalculated! Minor issues have over time stolen the limelight while the major ones have been left to fend for themselves. Not only that, even the more serious issues related to climate change have been largely assigned to the natural factors though the connection of the human hand in all this has been visible to the bare eye. The Economist, London, has underlined that the Earth's climate is changing and the cause is human activity, in the form of excessive emissions of greenhouse gases such as carbon dioxide. Juxtaposed is also the contrarian view that the Earth's average temperature has been rising as a matter of natural variations in solar radiation. Interestingly, that the temperature rise is more man-made than the natural rise in solar radiation is contended by many but not all. There is little doubt about the alarming rise in carbon emissions calling for immediate concerted action. While the heat of the debate continues, there is no doubt that the issue has already gone out of hand and would be far worse in days to come, as a unified, rational and actionable approach to tackle the issue has largely been conspicuous by its absence, especially considering that the social texture in different countries is not the same and today's actions, or inactions, would have a large impact on the stark shape of things to come. The newspaper has also appropriately stressed the need for continuous research on the issue of alarming acceleration of global warming threatening the obtaining mosaic of societies in terms of floods and droughts, storms of high intensities, earthquake, wild fire and many other forms of natural disaster threatening numerous life forms — plants and animals. Carbon emissions have already reached alarming proportions; unless drastic changes are effected, the Earth faces the immediate danger of extinction of all life. The cynics have all this while scoffed at the suggestions emanating from different quarters and the continuing devastations wrecking havoc in different ways. The executive action for implementing all these suggestions and recommendations has as usual been minimal especially in the developing countries. In our country in particular, fundamental fault lines have unfortunately remained unaddressed, requiring activists like Subhas Datta to step in, as stated earlier. Most unfortunately, such people are so few in number and the impending doom is so close that unless immediate action programmes are organized to counter the cumulative effects of numerous impercipient official and unofficial policies and activities, hopes of survival appear to be on a vanishing trail. A multi-disciplinary team of experts belonging to different countries should deliberate on the specifics of the impacts of the slipshod actions and inactions and the ways to deal with them. The deliberations should be on a continuing basis and should concentrate on all the major issues that have posed a threat to the natural phenomena. The implementation of the recommendations should be mandatory for all nations of the north and the south in view of the supranational impacts of most of the indiscriminate devastations of the flora and fauna have brought forth. In the aforesaid context, an illustration with respect to the large scale deforestation that is taking place all around may be considered relevant.

Deforestation

Scientific enquiries have revealed that the ever-increasing deposits of carbon dioxide in the atmosphere is not a little due to the wanton destruction of forests bearing the imprint of biodiversity and leaving an indelible signature of balance in the ecology and eco-chain in the larger sense. Large scale exhalation of carbon dioxide, poisoning the atmosphere, caused by humans and animals, can be largely countered by trees which absorb carbon and release oxygen in the atmosphere. Indeed, there is an urgent need for ascertaining the minimum effects of deforestation on the atmospheric and soil processes for reporting at the international, national, corporate and even individual levels so that suitable policies could be enounced for mandatory implementation, in view of their supranational aftermath. Reference in this context may be particularly invited to the following findings of research :

I. Evapo-transpiration : It has been shown for the Amazon basin of South America that a dense, multistoried forest recycles 50 to 75% of the rains due to evapo-transpiration. The recycling of moisture is not possible over deforested barren areas where, because of much less evapo-transpiration, the absorbed energy heats up the air causing dry thermals;

II. Albedo : Albedo is the proportion of the solar radiation reflected back to the atmosphere to the total amount striking a surface. Albedo is low , 15 - 25% in a forest. As a result, the solar radiation is absorbed and vigorous thermal upcurrents are set in motion taking moisture into the atmosphere. Albedo is higher, 30-50% over barren soil and thus solar radiation increases. The temperature of the upper layers of air increases; consequently the subsidence i.e. sinking motion of air intensifies, reducing convection. The net result is a decline in rainfall;

***III. Mechanical friction effect* :** Forests increase the effective height of the land providing obstruction of air masses. They also decrease the wind speeds forcing air masses to rise. Thus the mechanical friction effect induced by forest-canopy is important in lifting moist air causing enhanced rainfall;

***IV. Cloud-and-fog stripping (Horizontal precipitation)* :** Forests of tropical mountains and of coastal zones trap moisture from the clouds but no rain water can be harnessed if the land is stripped of forest cover;

***V.Condensation nuclei* :** Plant debris and pollen grains serve as effective condensation nuclei. The number in atmosphere declines drastically after clear-felling inorganic particles such as dust, which become prevalent in the atmosphere after deforestation and soil erosion, require a much lower temperature for ice formation and are thus less efficient than condensation nuclei; and

***VI.Carbon dioxide and global warming* :** As mentioned earlier, forest trees use carbon dioxide in the atmosphere and produce bio-mass. At least one-fourth increase in carbon dioxide may be attributed to deforestation and consequent warming of the atmosphere.

The technology of destruction that has willy-nilly been adopted on a large scale by the corporates and the people at large in different countries essentially for private profit—albeit at public cost—has not received the kind of attention needed for negating the pervasive ill-effects. All this leads us to underline the issues concerning the regularity and continuity of actionable programmes to contain and counter the unsavoury impacts of a bellicose environment created by unthoughtful actions on a large scale.

Green Audit : Multiple Discriminant Assessment

Like all audit programmes, Green Audit has to have a comprehensive format on the basis of which deep-probing exercises on various issues and the findings have to be put on a canvas for deriving knowledge of the status of each of them and the actions warranted to tie up the loose ends. Under MDA it would be relevant to list all the relevant items and assess their impact with particular reference to whether any of the listed items has exceeded the prescribed limits. The technicalities of each item listed in the programme could be graded with respect to their impact in segments or as a whole, and would require threadbare examination jointly and severally and discussion as respects their impacts net of both possible positive or negative effects over a specific time period. MDA would also highlight individual items, their current status and future effects.

A random selection of the items that could figure in the list for viewing the effects may be :

a. **Greenhouse Effects :** Aggregate of items classified under this broad head;
b. **Climate Change :** Good or bad for particular areas, regions or countries;
c. **Carbon Releases :** Sources, quantities and warranted actions;
d. **Felling Trees :** Felling long standing old trees for veneers for commercial use;
e. **Vanishing Flora and Fauna :** Plants and animals facing extinction to be listed for replanting them and/or protecting the species under guarded conditions;
f. **Unclean Air :** The elements noticed in the air regarding their possible benignant or malignant effects on the atmosphere, on the plants and animals;
g. **Sub-soil Water : Depletion of Stock :** The rapid diminution of subsoil water for both domestic and farming purposes—assessment of current status and warnings that may be appropriate;
h. Destruction of Aromatic and Medicinal Plants: Large scale destruction of many varieties more due to negligence regarding repair or renewal and, in possible cases, replacement of current modes with new ones ; and
i. **Assessment of Points Raised Earlier :** It may sound peculiar, though it is true, that a large number of studies and reports with valuable recommendations on various issues bearing on the environment have been put on hold with hardly any perceptible action taken on them. A more recent paper has thrown up empirical evidence to underline the relevance of aromatic and medicinal plants has made the countries and regions much poorer as respects their commercial and aesthetic uses;
j. **Rising River Beds :** Gross reduction of water retention capacity of the rivers and canals threatening the catchment areas with flood and drought;
k. **Release of Pollutants :** Numerous pollutants are released by many industries and households in all forms of nature—solid, liquid and gas—while the authorities have figured more as spectators, official actions being too little,

coming too late, the quantum of pollutants being of inland wetland ecosystem accounting as an indicator for green economy. MDA may take benefit of the wisdom derivable from them for implementation, after due scrutiny of the details.

Green Audit Programme

Like all audit programmes, Green Audit Programme is also required to be in detail. As it is a multidisciplinary approach, this programme has to be in segments relevant for all the disciplines represented in the TEAM. For the present purpose, TEAM is used as an acronym—T standing for togetherness, E for energizing, A for actuation, and M for measurement and control. In all, efforts are deliberately directed towards making them centripetal to the objectives. For each member of the team, discrete programmes may be drawn but, after completion of the inquiry, study and analysis of the situation, there may be detailed discussions leading to a consensus. Major issues thrown up by the study should naturally be analyzed so that the emerging consensus is realistic and practicable. The programme does not sacrifice technical sophistication but all terms used by the members belonging to different intellectual disciplines should be explained and adequately supported by the emerging data and information. The recommendations made by the TEAM must be duly supported by an Action Taken Report, details of which would call for a proper assessment of the quality of the implementation. Mention may be made here of the relevant provisions of the Environment Protection Act, 1986, compliance with which should also be subject to assessment and reporting along with other matters of relevance. One particular point requires mention in this context. Cost and management accountants (CMA) should invariably be made a member of the TEAM for enhanced effectiveness. CMAs are trained to go for the specific of individual items rather than the general. The cost to the society due to particular action or inaction can be better judged by a CMA who may consider it a learning process, while being firm on the issue of cost to the society at large, incurred in various pretexts. In our country, as indeed in many others, CMAs are multi-disciplinary specialists. Their composite of expertise may come in handy for unravelling the mysteries of the environment to make it more livable and lovable. It is agreed on all sides that many factors work at the same time to make the environment what it is and the cost elements are also several. To understand the relevance of each factor, CMAs can apply the technique of partial differentiation, along with others, to disaggregate the influence and contribution of each individual factor to the totality so that adequate corrective action can be initiated with respect to each factor as also the total. Application of both deductive and inductive reasoning can bring to the fore numerous issues that have not come to light so far while such reasoning can stall many an unwanted propensity.

Developing a Check List

A comprehensive Green Audit Programme would call for preparing a check list for each member of the TEAM highlighting the areas of focus so that the findings may lead to goal-convergence. The check list is desired to assist individuals in the TEAM in avoiding duplication, delve deeper into the issues involved and come up with ideas and suggestions on the issues concerned. Such check lists for individual members may be the results of detailed discussions among them for avoiding tautology and clichés. At the corporate level, the typicality of operations would naturally get adequate focus, while at the national level the discriminants may relate to particular areas or activities and all other details considered relevant and pertinent. The check list may in fact offer suggestions regarding better, alternative uses of the focus areas and ways to cause improvements. The ways to put the existing resources to better use, to introduce substitutes with similar or even better effects and to find ways of better value management may find some hints in the list. At the national level, such check lists may in fact incorporate issues concerning not only avoidance of degradation of the environment but also improvement in the environment through better planning of the greenery after identifying the environmentally sensitive areas, initiate tree census, animal census and industry census for making the government more fact-conscious as also environment conscious. Use of substitutes for costly items now wasted in baser uses and preservation of the eco-chain should receive higher priority. How all this could be translated into action programmes of corporates and government would call for inclusion in the list. Since each member would share the responsibility in this behalf, the details to be covered should not appear too heavy or cumbersome. The TEAM members may have check points for each member highlighting the salient features in a nutshell so that directions are not lost in the way and each can act as a complement to all others. ❐

Green Audit vis-à-vis Cost Audit and Financial Audit— A CMA's Perspective

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Biodiversity is a 'variation, variety and number' of living organisms on this ecosystem or on the Earth. It is about the Earth's eco-system such as mountains, hills, deserts, oceans, forests and other environments where species evolve and live including humanbeings, animals, birds etc.

As per Section 2 (b) of the Biological Diversity Act, 2002, ''Biological Diversity'' means the variability among living organisms from all sources and ecological complexes of which they are part and includes diversity within species or between species and eco-systems.

'Eco-system' means a dynamic complex of plant, animal and microorganism communities and their non-living environment interacting as a functional unit (Article 2 of Convention on Biodiversity, United Nations, 1992)

As the world population surpassed 7 billion last year, changes in economic activities all over the world in the past few decades, enormous advancement in science and technology and globalization are leading to changes in the eco-system. Apart from these controllable factors, uncontrollable factors viz., earthquakes, floods, tsunami, volcanic eruptions, wild-fire, hurricanes etc are creating severe impact on the Earth's eco-system.

Both these controllable and uncontrollable factors cause an undesirable change in the physical, chemical and biological characteristics of the eco-system especially air, water, land etc. These, in turn adversely affect the human population, wildlife, historical and cultural assets.

India being a party to the United Nations Convention on Biological Diversity (CBD) held in Rio De Janerio on 5th June 1992, enacted 'The Biological Diversity Act', 2002, to meet the following main objectives set by the Convention.

- Conservation of Biological Diversity
- Fair and equitable sharing of benefits arising out of the utilization of genetic resources
- Sustainable use of the components of the biodiversity

'Sustainable Use' as per Section 2(o) of the Biological Diversity Act, 2002, means 'the use of components of biological diversity in such manner and at such rate that does not lead to the decline of the biological diversity, thereby maintaining its potential to meet the needs and aspirations of present and future generations.'

From the above definition, the thrust is on 'sustainable use' of the components of ecological diversity. Sustainable use can be ensured by auditing the use of ecological components. Measuring and accounting these 'components' is a prerequisite to any audit.

Another meaning of Green is eco-friendly or not damaging to the environment. This can acronymically be called as (GREEN) Global Readiness in Ensuring Ecological Neutrality.

Green Accounting can be defined as 'systematic identification, quantification, recording, reporting and analysis of components of ecological diversity and expressing the same in financial or social terms.'

The table below shows the differences among Financial Accounting, Cost Accounting and Green Accounting :

Particulars	Financial Accounting	Cost Accounting	Green Accounting
Accounting Objective	Reporting the financial position and financial performance of a business entity through financial statements and facilitate audit of the same	To ascertain and report the cost of each product, process, job, operation or service rendered with a view to determine the selling price and to facilitate audit of the same	Identification, prioritization, quantification, qualification, equitable distribution and accounting the environmental or ecological costs and benefits in a scientific manner

(contd.)

(contd.)

Particulars	Financial Accounting	Cost Accounting	Green Accounting
Accounting Records	Journal, ledger, trial balance, Income Statement and Balance Sheet	Cost center accounting, allocation, apportionment and absorption. Maintenance of cost records, preparation of cost statements	Quantity in terms of volume and value of natural resources (both organic and inorganic) and renewable resources. Quantity of various emissions generated viz., contamination of ground water, surface water, air pollution, noise pollution, land pollution etc
Product Classification	Products or services are classified as 'profitable' or 'non-profitable' based on their Average Revenue per Unit (ARPU) by using 'absorption (full) costing' methodology	Products or services are classified as 'contributory' or 'non-contributory' based on their contribution per unit by using 'marginal costing' methodology	Products or services are classified as 'green' or 'red' based on their impact on 'ecological system' by using 'cause and effect relationship' methodology. (Products or services causing Net Positive Impact (NPI) are often referred to as 'green' and products or services causing Negative Impact (NI) are often referred to as 'red')

Though Green Accounting and Cost Accounting are part of Management Accounting, both have different objectives. The former primarily focuses on 'sustainable use of ecological components' and the latter focuses on 'optimum use of economic resources'. However, Green Accounting largely depends on Cost Accounting in terms of cost data.

Cost Element	Financial Accounting	Cost Accounting	Green Accounting
Raw Material	Purchase of raw material is shown as expenditure in Statement of Profit and Loss subject to adjusting the same for increase or increase in raw material inventory	Direct material consumed is allocated to cost centers or cost units. Indirect material consumed is apportioned to each cost center or unit that produces a product, generates an activity or renders a service and absorbed as a factory or administration overhead as the case may be	Direct material consumed is allocated on to cost centers or cost units. Indirect material consumed is apportioned to each cost center or unit based on their 'cause and effect relationship' and absorbed by Green and Red products or activities. Direct and indirect material consumed by a non-product activity is treated as Negative Impact Cost
Personnel Expenses	Salaries, wages and other employee benefits are shown in Statement of Profit and Loss as personnel expenses	Direct labor costs are allocated to cost centers or cost units. Indirect wages and salaries are apportioned to each cost center or unit that produces a product or generates an activity or renders service and absorbed as a factory or administration overhead as the case may be	Direct labor costs are allocated to cost centers or units. Indirect salaries & wages of employees are apportioned to each cost center or unit based on their 'cause and effect relationship' and absorbed by Green and Red Products or activities. Direct and indirect labor employed by a non-product activity is treated as Negative Impact Cost
Power & Fuel	Power and fuel are shown in Statement of Profit and Loss as cost of Power & Fuel	Depreciation directly identifiable to assets engaged in production or rendering service are allocated to respective cost centers or units and depreciation on common assets are apportioned to each cost center or unit as that produces product	Power and fuel directly identifiable with respective cost centers or units are allocated to respective cost centers or units. Indirect power and fuel are apportioned to each cost center or unit based on their 'cause and effect relationship' and absorbed by Green and Red Products or activities

(contd.)

(contd.)

Cost Element	Financial Accounting	Cost Accounting	Green Accounting
Depreciation	Depreciation being diminution in value of assets due to wear and tear is shown under the head Depreciation and Amortization in the Statement of Profit and Loss	or generates activity or renders service and absorbed as factory or administration overhead as the case may be	Assets directly engaged in Green and Red Products or activities are identified. Depreciation on such assets is charged directly allocated to Green or Red products or activities as the case may be. Depreciation of common assets is apportioned on the basis of gross book value of the assets identified above
General Administration	Indirect expenses viz., office rent, audit fee, general charges etc are changed to Statement of Profit and Loss as General and Administration Expenses	Indirect expenses viz., office rent, audit fee, general charges etc are treated as part of cost of production before adjustment for opening and closing stock of finished goods to arrive at Cost of Goods Sold (COGS) in cost sheet	Indirect expenses viz., office rent, audit fee, general charges etc are treated as part of cost of production before adjustment for opening and closing stock of finished goods to arrive Cost of Goods Sold (COGS) of Red and Green Products based on 'cause and effect relationship'
Expenses	Selling and distribution expenses viz., salesmen's salary, commission, travel, advertisement etc are charged to Income Statement as selling expenses	Selling and distribution expenses viz., salesmen's salary, commission, travel, advertisement etc are treated as part of Cost of Sales in cost sheet	Selling and distribution expenses are treated as part of Cost of Sales of Red and Green products. Further, the impact of emission expected from advertisement material and other reasons are treated as Negative Impact Cost
Selling & Distribution Expenses	There are no separate accounting of these costs as these are part of respective general ledger accounts : Salaries, repairs & maintenance, electricity etc.,	Environment Management Department expenses are treated as indirect expenses and absorbed as factory or administrative overhead as the case may be	Environment Management cost are absorbed to Red Products as these are incurred to avoid imbalances in ecosystem created by red products. These are considered as Positive Impact
Environment Management Costs	Product warranty, disputed tax case pending before any court are treated as contingent liabilities	Though product warranty costs may categorically be made part of Cost of Sales, others like disputed tax cases etc or not considered in Cost Accounting	Removal of overburden or back-filling of mines in future. Waste collection and disposal in future. Prevention of radioactive emissions. Emissions due to sudden breakdown of pollution treatment equipment etc are treated as contingent liabilities

Green audit can be defined as an audit of 'ecological system' of a particular habitat (country, state, local authority, office, home, school, public place etc) within a given period with an objective of assessing the biodiversity.

Particulars	Financial Accounting	Cost Audit	Green Audit
Objective	To ensure that financial statements reflect true and fair view of the affairs of the company and are prepared in accordance with Generally Accepted Accounting Policies (GAAP)	To ensure that cost statements are complied with the respective Cost Accounting Record Rules (CARR) and are prepared in accordance with Generally Accepted Cost Accounting Policies (GACAP), Cost Accounting Standards (CAS)	To ensure ecological efficiency of products, processes or services of a business are in accordance with environmental laws and regulations of a particular habitat
Indicators	Income Statement ratios and Balance Sheet ratios	Cost per unit, Contribution per unit, Margin of Safety and Conservation of resources	Environmental Performance Indicators showing impact on ecological system such as air pollution levels, water

(contd.)

(contd.)

Particulars	Financial Accounting	Cost Audit	Green Audit
Assessment	Assesses the financial health of the business and wealth generated	Assesses the cost-effectiveness of the products and services of the business	pollution levels, land pollution and sound pollution. Impact Assessment Results (Negative/Positive)
Mandatory Provision	Mandatory under Section 224 of the Companies Act, 1956	Mandatory under Section 233B of the Companies Act, 1956, to certain classes of industry	Assesses the business risk and opportunities associated and sustainable use of the components of biodiversity. Social Cost Benefit Analysis (SCBA)
			Though there is no mandatory provision under Companies Act, 1956, there are several Environmental Laws and regulations viz., Environmental Protection Act, 1986, Water (Prevention and Control of Pollution) Act, 1974, Air (Prevention and Control of Pollution) Act, 1981, Orders issued by Pollution Control Boards (PCBs) from time to time etc.

Green Audit—Challenges

- There is no standard accounting policy or methodology unlike Financial and Cost Audit
- Collection of data may be cumbersome and expensive
- Awareness by the business groups and public is limited
- It is a long term exercise—hence auditing in short term may not yield desired results
- It is difficult to quantify the entire data in financial terms as most of them are intangible.

Green Audit—Contemporary phenomenon

Public awareness of biodiversity loss is increasing, leading to consumer preferences and purchasing decisions. Some examples may be replacing halogen lamps and fluorescent lamps with Light Emitting Diode (LED), plastic carry bags with jute or paper bags, paper tickets with SMS tickets, electronic filing of document with government authorities, electronic funds transfer etc.

Financial institutions are also insisting for Environmental Impact Assessment Reports from the corporate houses before sanctioning loans.

All businesses are directly or indirectly dependent on biodiversity and ecosystem services and they create some impact on the nature—positive or negative.

Commitment to manage biodiversity starts from the corporate culture, vision, mission and values of the business entity.

Epilogue

Ecological imbalance and economic growth are two different aspects. Ensuring reduction in ecological imbalance, without denting economic growth, thereby balancing between ecological imbalance and economic growth is an authentic challenge. The key objective of Green Audit is to ensure equilibrium between economic growth and sustainable use of components of biodiversity. ❐

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CERCLA in the Context of Green Audit

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Introduction

On January 23 1998 the EPA or Environment Protection Agency—an US statutory body for protection of environment—made a headline in news when it finally won the court verdict in its favor for its claim to the tune of $50 million under CERCLA – on the corporate giant ASARCO. ASARCO, the 100 year old US smelting and refining company, was found responsible for polluting over 20 of its manufacturing sites by releasing hazardous waste like lead and arsenic in the surrounding. The company has to pay the amount as cleanup costs and eventually turned towards bankruptcy.

Yet in another incidence CHEMTURA, the global manufacturer of specialty chemicals, polymer products, crop protection chemicals and others operating in over 40 countries had to make a payment of $26 million for discharging its liability under CERCLA for contaminating 17 of its production sites in addition to the cleanup work undertaken by it at other places. There are many other similar cases where the offending corporate entities had to pay the penalties under CERCLA for their corporate irrespon-sibility. CERCLA or Comprehensive Environmental Response, Compensation and Liability Act, 1980, is one among many other environmental laws that are in force in US but probably the most formidable among them. So stringent its provision and such wider is its net that it has become a nightmare for the corporate sector. Many companies often run for bankruptcy seeking to free themselves of CERCLA liabilities.

How does CERCLA work

Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), more commonly known as Superfund, was designed primarily with the intention to protect and restore the natural sites that has been contaminated by industrial activities. The law, for the first time, gave the U.S. EPA the authority to respond to human health and environmental hazards posed by discharge, emission, spillage, leakage or dumping of hazardous industrial waste at sites. Initially enacted in 1980 it was later amended in 1986 as Superfund Amendments and Reauthorization Act (''SARA'').

In general, CERCLA is designed to :

- Develop a comprehensive program to prioritize hazardous waste sites nationwide
- Identify and compel potentially responsible parties (PRPs) to conduct and/or pay for those cleanups whenever possible
- Advance scientific and technological capabi-lities in all aspects of hazardous waste management, treatment, and disposal.

CERCLA maintains an extensive list of hazardous substances. For each substance there is also a reportable quantity which is the maximum tolerable amount of that substance in the atmosphere. If the release or emission by a factory exceeds that quantity the industries are required to report it to the National Response Center. EPA learns about an endangered site either through such reports or reports from citizens, local bodies. It maintains a data base of endangered site into CERCLA Information System (CERCLIS). EPA conducts site investigations at all sites in CERCLIS, gather data about the site and rate the threat the site poses to human health and environment by using a mathematical model known as the Hazard Ranking System (HRS). Sites that receive an HRS score of 28.5 or greater are proposed for the National Priorities List (NPL)—the list of sites that require federal action and also called as Superfund sites. Placing a property in NPL does not necessarily initiate any punitive action. It is more like a warning signal. The procedures for evaluating, listing, and selecting the appropriate cleanup action for Superfund sites are embodied in a set of regulations known as the National Contingency Plan (NCP). It determines when and what cleanup procedure will be appropriate and govern how the cleanup should be conducted.

CERCLA assumes that the polluter will have to ultimately bear the cleanup costs. As a result, EPA could either choose "enforcement first" requiring that liable parties to conduct the cleanup; or EPA itself could take the cleanup operation and subsequently seek reimbursement. CERCLA keeps a Trust Fund, known as the Superfund—supported by tax collected from petroleum and chemical industries, and money recovered from responsible parties. Generally trust fund is used when the responsible parties are unavailable, bankrupt, or negotiations are not successful.

CERCLA is different from other environmental laws in the way that while other environmental laws employ a regulatory, preventative approach, CERCLA takes a response approach, which authorizes reporting and cleanup. When there has been an imminent danger it reaches in time to address sites that were contaminated. Overall, CECLA has a far broader reach than any other environmental law.

Green Audit and CERCLA

Protection of environment is the prime concern of the world today. The corporate world is generally blamed, and quite justifiably so, for the present level of atmospheric pollution. One late ninety estimate showed that some 5.2 million people (including 4 million children) die each year from waste-related diseases. Globally, the amount of municipal waste generated would be double by 2000 and quadruple by year 2025. United Nations Conference on Environment and Development (UNCED) in Rio de Janerio in June 1992 set specific goals and targets with regard to waste management so that by 2025 all countries including developing countries must establish their waste treatment and disposal criteria, develop the ability to monitor the environmental impact of waste and ensure disposal of waste according to international quality guidelines. Yet the corporate world has paid little attention to this caveat. Rather, more shamefully, the corporate houses of developed countries—to avoid the strict laws of their homeland—are shifting to developing countries. But these cannot continue for long.

With growing concerns over environmental issues the demand for environment audit is continuously rising. Every cross-border project is now subject to environment audit before granting of approval. Many specified industries are conducting environment audit mandatorily or voluntarily. As globalization progresses, rules and regulations, management, accounting related to environment in developing countries are also taking shape of international standard. India is already taking steps in that direction.

The Constitution of India clearly states that it is the duty of the state to protect and improve the environment. The constitutional provisions are backed by a number of laws — acts, rules and notifications. The Environment Protection Act of 1986 (EPA) came into force soon after the Bhopal Gas Tragedy and is considered an umbrella legislation as it fills many gaps in the existing laws. Thereafter a large number of laws came into existence as the problems began arising e.g. Handling and Management of Hazardous Waste Rules in 1989. A gazette notification was issued by the Ministry of Environment on March 13th, 1992, and later amended on April 22nd 1993 introducing Environmental audit in India to minimize generation of wastes and pollution. The Environment Ministry has made it compulsory for large projects to include environmental compliance in their corporate audits and report deviation to the company board of directors as well as to public. Simultaneously, the Government stipulated for certain industry sectors to submit an Environmental Statement every year. It is envisaged that some of the information required will be generated through environmental auditing.

Green Audit or Environmental Audits are reviews of a company's operations and processes for the purpose of assessing compliance with environmental rules and regulations. Environmental Audits cover a broad spectrum of business activities and areas, including buildings and building sites; activities and procedures; industrial and commercial developments; and engineering hazards etc. Apart from having auditing and consultancy skills, knowledge of extant environmental legislation and understanding of environmental aspects and performance is an essential quality for an environmental auditor. It is necessary that they should know the relative impacts of compliance or non-compliance of all environmental laws in force, the steps parties are to take to limit their environmental liabilities, and advice them likewise. If in the course of audit an auditor encounters some environmental red flags but fails to recognize them then later when the matter will actually come to surface he will also be held liable with his client just like any financial auditor held liable in case of a financial scam. As such, it will not be out of context to know a few things about CERCLA.

Understanding CERLA

CERCLA is an extremely difficult statute to interpret. It is not just like any other financial claim arising out of one-to-one relationship stipulating definite amount, period etc. On the contrary claim under CERCLA is quite unpredictable in regard to

[a] Who would be the debtor i.e., the party liable to pay?

[b] Who would be the creditor i.e., the party demanding payment?

[c] What would be the amount of liability?
[d] When the liability may arise?

CERCLA is famous for its joint and several liabilities. The parties liable to pay are designated as Potentially Responsible Parties or PRP under CERCLA

Four broad categories of PRPs may be liable for hazardous waste site cleanup costs :

- The owner or operator of a facility (the current landowner).
- The owner or operator at a time when hazardous substances were disposed of at the site (a former landowner).
- The parties that arranged for the disposal, treatment or transport of wastes to the facility (including hazardous waste generators).
- Parties that transported hazardous wastes to the facility.

Typically, EPA will issue orders only to those seemingly liable parties that are the largest contributors of waste and are financially viable. If that person cannot be found or became insolvent then it turns to other PRPs for compensation. It practically covers all the parties who somehow has or had some interest in the contaminated property. If A owns a property, rents it out to B who runs a factory there [with polluting effect] and ultimately abandons it and then A sells it to C then A, B and C all could be held liable under CERCLA even if A and C were not aware of B's activity or the resulting contamination,. Innocent and offending parties are treated alike in the eyes of CERCLA.

It is true that there are certain provisions for exempting innocent parties. But merely lack of knowledge or unawareness of the facts that the property is contaminated is not tenable for seeking such exemption. The party rather has to establish his innocence by showing that he has specified knowledge on the subject of environment, has carried out proper investigation into the previous ownership and the nature and usage of the property, and there was no apparent indication or symptom to show that the property is contaminated. In other words CERCLA assumes that protection of environment in respect of any particular property is not the responsibility of that party alone who has derived some benefit from it but of everybody who has some association with it.

As an extension of this idea CERCLA law encompasses also those who hold the property as trustee or even a lender—typically a banker—who acquires such a property in discharge of a debt of its client. So vast is the scope of CERCLA that it often happens that in a cleanup operation of a contaminated property 100 or more PRPs are identified who, apart from the principal beneficiary, has acted at some point of time as owner, operator, generator or transporter. In such cases, often one or more PRPs, voluntarily, or as a result of the issuance of a CERCLA enforcement order form a working group and agree among themselves and, usually in a consent decree with EPA, to fund the cleanup and perform the work in accordance with the consent decree.

Next the question is who is entitled to raise a claim under CERCLA. Primarily EPA is authorized to issue enforcement order under Section 107 to place its demand for cleanup. But then Section 113 of the act also authorizes a PRP who has borne the cost of cleaning for getting reimbursement from other PRPs even if those PRPs had not received any enforcement order directly from EPA. Moreover, if the PRP claiming reimbursement undertakes the clean up operation voluntarily then his position becomes at par with EPA and he can raise claim under Section 107 which is more straightforward.

The amount of claim is another area of uncertainty as the clean up operation may often take decades of time and the total cost is entirely unpredictable at the time of initial demand and may reach sky high at the time of finalization. To escape the outcome the liable parties often file for bankruptcy where all his debts including contingent debt could be negotiated, settled and finally discharged and then he could make a fresh start. But that does not work always.

There is also no definite time period for which a party could be held liable under CERCLA. In a real life case, a party had actually to bear the liability even after he had once settled his debt under CERCLA. That party on receipt of a CERCLA order filed for bankruptcy and settled his debt after negotiation. But later the real owner of the disputed property which was still partly contaminated sold it to a third party who undertook the cleaning operation and demanded payment from the first party who, by this time, had emerged out from bankruptcy. The court verdict went in favor of the claimer.

True, it is not all well with CERCLA. After enactment in 1980 its implementation was much delayed due to corporate pressure. There is strong criticism against it in both ways. One group says it is too harsh for the industries to bear while the other says it is too lenient, the money collected as fine is not sufficient to pay for the total cleanup cost and the balance has to be bomb by the taxpayer. Then there are lots of litigation and varieties of judgment. Verdict of one court is set aside by another court, and the process continues. But in spite of all these controversies it has been accepted unanimously that interest of our good old earth is much above the interest of any individual.

(contd. to page 784)

Introduction to Green Audit—A Conceptual Framework

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Introduction

Green audit ia a way to show businesses what type of carbon footprint they are leaving on the planet, while also giving them ways to reduce it. Green audit involves the inspection of a company to assess the total environmental impact of its activities, or of a particular product or a process. For example, a green audit of a manufactured product looks at the impact of production, including energy use, and the extraction of raw materials used in manufacture, use of the raw material which may cause pollution and other hazards, and waste disposal, potential of recycling. Hence the green audits are tools that organizations use to identify their environmental impacts and assess their compliance with applicable laws and regulations, as well as with the expectations of their various stakeholders. It also serves as a means to identify opportunities to save money, enhance work quality, improves employee health, safety and morale, reduce liabilities and achieve other form of business values.

Green audit includes the following 5 components :

The Employee Survey

This is undertaken to gauge the employees' attitudes and awareness towards environmental issues. This includes identifying if the employees know how eco-friendly their organization is. This helps in getting a picture of the employee-based environmental impacts, and helps in computing the organization's carbon footprint.

The Office Survey

This is undertaken to gauge the office based environmental impacts, like square footage, utility bills, and IT equipment. This information is added to the carbon footprint data, which gives an accurate picture of the organization's annual greenhouse gas emissions.

The Carbon Footprint

The information from the employee survey and the office survey are used as inputs to a carbon footprint calculator, which indicates the organization's office-based environmental impact. It indicates the annual tons of carbon emissions that the organization emits, the data can be further segregated by key ''carbon drivers'' : so that we know how much of the footprint is contributed by which type of activity. Some example carbon footprint drivers include air travel, car commuting, paper use, etc.

The Onsite Visit

This involves the visit by certified green auditors to the organization, for conducting Green audit training program. normally attended by the operations management group, facilities management group, purchase group , human resources group, and sales/marketing group. This is followed by the green auditor walking through the operations and speaking with several plant personnel to gather additional data needed to compute the carbon footprint. At the conclusion of the visit, the green auditor gives a presentation on the results of the onsite visit survey. This would include the current environmental strengths and weaknesses, and steps that can be implemented immediately without any investments and long term recommendations.

Final Green Audit Report

The green auditor will give the final report to the organization, that includes all the previously presented information, and list of additional information like the Cost-benefit analysis, implementation investment needed, payback period computation, etc.

Scope of the Green Audit :

- Measuring key environmental parameters
- Analysing raw and test data
- Reviewing purchase orders and invoices
- Interviewing employees, managers and executives
- Communicating with contractors, vendors, customers and regulators
- Examining policies, internal records, reports relating to the environment

- Comparing audit results with previous audits, as well as to industry standards and best practices.

Some focus areas of the Green Audit

Saving power

This includes energy audit where the auditor identifies ways to save electricity, natural gas, and other forms of power that are inefficient or being wasted in the organization. This is done by recommending more efficient electric appliances, high efficient lighting, efficient heating and cooling, etc.

Saving water

This involves educating the organization on ways to save, recycle and reuse precious water resources both inside and outside the office. The personnel ahould be made aware of methods that reduce water consumption.

Greening the workplace

This is achieved by designing a greener office space. This involves use of alternate power sources like solar power, reducing biological contaminants like pesticides, implementing green landscaping options and rain water harvesting.

Driving Green

Vehicle driving is one of the largest contributors to both energy use and environmental pollution. The organization should be trained to make more fuel efficient driving choices, optimise fuel consumption and consider alternate fuel vehicles like solar powered vehicle or electric vehicle. Possibilities to use public transport or group travelling have also to be explored for reduced gas emissions. Periodic emission tests have to be undertaken to check for efficient fuel consumption.

Building a green community : Training the organization towards their Corporate Social Responsibility by involving in local and national environmental causes and promoting a greener and healthier community.

Case Study

Northwest Community College, Canada, Green audit results :

Goals

To provide a template for self-administered ''solid waste'' audits, with additional tools to consider other areas of environmental sustainability.

To carry out a solid waste audit at their 3 campuses emphasising strengths and weaknesses of existing initiatives, and recommending improvements, new initiaves and target goals.

To align the 3 campuses with provincial and community sustainability goals and requirements.

Methodology

Conduct walk-through and qualitative audits for the 3 campuses to assess existing initiatives and take photos to illustrate report findings and recommendations :

- Quantitative analysis and cost analysis
- Test out the audit template at the 3 campuses
- Record audit results and observations.
- Produce a report of findings.
- Present findings to an assembly of NWCC.

Key findings

- Firm commitment to reducing toxic cleaners and pesticides on all campuses.
- Universal recycling collection program for paper and beverage containers.
- Signs and information about what materials are still acceptable to be put into a garbage disposal bin and where the garbage goes when containers are emptied.
- Promotion of environmental and social initiatives such as used magazine collection program.
- Well-designed drinking water fountains where reusable water bottles can be refilled.
- Some computer monitors, hard drives and lights operating in empty rooms.
- Metal recycling bin needed in welding workshop.
- No formal worm composting programs in all the 3 campuses kitchen areas.
- Themed landscaping programs is in place. But it is possible to convert all landscaping to maximise energy and water conservation potential.
- Capturing rain water and grey water for irrigation purposes not in place.
- Green purchasing program is wonderful, leading to the smallest footprint possible.
- More secured and sheltered areas for bicycles are needed.
- Staff are generally unaware of cardboard recycling opportunity.
- No renewable energy projects observed or discussed.

Top 10 Action Plan recommendations

- The actions given below were recommended to be implemented over the next 12 months to provide a platform for long term change. Initiatives were selected to deal with the five major areas of environmental sustainability, namely, transportation, heating and cooling, use of electricity, use of water and production of garbage, all of which will contribute to a more specific and quantifiable greenhouse gas emission reduction strategy.

- Go deeper with empowerment and cooperation principles by involving all staff and students in the go-green initiative. Join a community committee with an environmental sustainability or zero-waste mandate. Partner with the Canadian business for social responsibility.
- Expand recycling program for all campuses to include all items that can be handled locally. Request and share information on where and how products are recycled, and quarterly reports on volumes recovered.
- Conveniently co-locate recycling and trash bins to improve convenience and reduce cross-contamination.
- Right size your garbage service to reduce frequency of collection and costs. Include information on your dumpsters regarding what items can be recycled and where the social and environmental costs of land filling and dates of collection.
- Start a composting pilot project on the three campuses.
- Take the electronics initiative to the next level.
- See that the computing related equipment and services have the least footprint.
- Use solar powered laptops and solar powered battery chargers.
- Use of green powered servers.
- Ensure all computers have activated power management software to minimise energy consumption. Always turn off monitors.
- Develop a campaign to reduce emissions from vehicle operations.
- Declare NWCC campuses a bottled water free zone.
- Make a commitment to reducing paper use and purchasing requirement. This is achieved by printing only when necessary, using document layouts and report guidelines to minimise number of pages, and printing double sided or on one side used paper. Adopt a purchasing policy that specifies that at least 50% of paper purchased must be tree-free and adopt green printing practices.
- Be ready for opportunities to pilot green power projects such as solar and wind towards becoming carbon neutral.

Conclusion

Green audits can be highly valuable tool for organizations in a wide range of sectors to improve their environmental and economic performance while reducing regulatory burden, liabilities and operating costs. Organizations who start early in green audits by undertaking pro-active environmental measures often are those who set the regulatory standards against which their competitors are judged. ❐

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Conclusion

CERCLA was first designed in US and later, seeing its force, many other European countries started to follow the path in their own way. Nevertheless it is just a piece of law among many other environmental laws. It is not the dearth of law that is polluting our land. For that purpose our country has already a plethora of laws. If we need to learn anything from CERCLA it is the rigidity and determination with which it is being implemented. If we are able to inculcate the same culture in our administration of law then only we could achieve the goal of our sustainable development. ❐

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Green Audit : At the Face of Changing Business Perspective towards Nature

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"Among the multitude of animals which scamper, fly, burrow and swim around us, man is the only one who is not locked into his environment. His imagination, his reason, his emotional subtlety and toughness, make it possible for him not to accept the environment but to change it. And that series of Inventions, by which man from age to age has remade his environment, is a different kind of evolution—not biological, but cultural evolution."

J. Bronowski

Introduction

Our mother Earth closes nothing, refuses nothing and shuts none, but we, the human beings through our developmental processes have continuously been snatching away the virginity of Earth since 19th century till date and even today. Mother Nature has provided us with a protective cover as well as a supportive resources base. It is quite a pity that we followed a mode of development that impaired both the gifts of nature. It is a common notion that corporate entities are real culprits for such deleterious effects as they provided the impetus of development. Now people have become concerned about the environment worldwide. It was felt to measure, monitor and control their performances in terms of certain codes and rules etc. The idea of Green Auditing emanated from such feelings and is now being practiced worldwide.

Green Auditing—What Does it Mean?

'Green Auditing', an umbrella term, is known by another name 'Environmental Auditing'. In auditing literature both the terms are being used interchangeably. Green Auditing is "the systematic examination of the interactions between any business operation and its surroundings. This includes all emissions to air, land and water, legal constraints; the effects on the neighbouring community, landscape and ecology, the public's perception of the operating company in the local area … it does not stop all compliance with legislation. Nor is it a 'green-washing' public relations exercise … Rather it is a total strategic approach to the organisation's activities" (The Confederation of British Industry, 1990). It is "a methodical examination of environmental information about an organisation, a facility or a site, to verify whether, or to what extent, they conform to specialised audit criteria. The criteria may be based on local, national or global environmental standards" (The World Bank). It is "a management tool used by industry to evaluate its environmental performance" (United Nations Environmental Programme, 1989). Therefore, in a nutshell, green audit is a systematic and methodical assessment and review of the organisation's activities and its services in relation to environmental green issues.

Why Organisations and Governments should conduct Green Audit

Green A uditing has become important because of the following reasons :

- Global Warming—With the unbridled pace of industrialisation, burning of fossil fuels, massive deforestation—all under the plea of development, there has been an alarming increase in the emission of certain greenhouse gases (GHG). Since the Industrial Revolution begun about 1760, human activities have belched out nearly 300 Giga Tons (G.T.) of CO_2. In the next 25 years we will be emitting another 300 G.T. Well before the end of this century the concentration of GHG in the atmosphere will reach 550 ppm (parts per million), twice the pre-industrial level. That would mean a total emission of 1,200 G.T. of CO_2 since the Industrial Revolution (Rajendra Shinde, The Economic Times, 2008). The more the country is developed, the more is the contribution to the GHG emissions. This is evident from the following:

Country	Rank in 2009	Total Emission (Million Tonne CO_2 equivalent)			Per Capita (Tonne CO_2)	
		2007	2008	2009	2007	2009
United States of America	2	6,087	5,833	5,424	19.10	17.67
China	1	6,103	6,803	7,710	3.05	5.83
Russia	4	2,005	1,698	1,572	11.03	11.23
India	3	1,510	1,473	1,602	1.20	1.38
Japan	5	1,293	1,215	1,097	9.70	8.64
United Kingdom (UK)	10	638	563	519	8.60	8.35
Canada	7	793	598	540	17.40	16.15

Source : www.guardian.co.uk/news/datablog/2011/jan/31/world-carbon-dioxide-emissions-country-data-co2#data

CO_2, the principal source of global warming, is now more than 26% higher than the pre-industrial concentration. Consequently earth's surface reached its record level of warming since 1990s. Each doubling of CO_2 concentration raises the earth's equilibrium temperature by approximately 30° Celsius (C) (The Economic Times, 2008). From 1970s the average surface temperature has warmed up by 10° Fahrenheit (F). The global average temperature, it is predicted, will rise between 34.520° F (1.020° C) and 42.440 F (1.2550 C) by 2100. Average temperatures in the Arctic have increased at almost twice the global rate in the past 100 years. Overall, the Himalayan Region has warmed by about 1.80 F (0.0530 C) since 1970s. It has led to climate change, unprecedented rise in sea level as a result of melting of ice and thermal expansion of the oceans. Scientists A.S. Unnikrishnan & D. Shankar's study based on 40 years' data revealed that sea level rise trends close to the globally observed averages—between 1.06 mm/year to 1.75 mm/year with an average of 1.29 mm/year.

- **Ozone Layer Depletion**—Different gases viz., ChloroFluroCarbons (CFC) emitted by industrial house and automobiles have led to depletion of ozone layer which serves as a shield to protect the lives on the earth from the harmful Ultraviolet Rays of the sun. World Watch Institutes Report (1992) warned that ozone layer in Northern Hemisphere is thinning twice as fast as scientists thought just a few years ago.

- **Toxic Pollution**—This is caused mainly by corporate houses by the damping of hazardous, toxic wastes (solid, semi-solid, liquid) which are more dangerous than municipal garbage. It is responsible for water, soil, air pollution as well as burning sensation in the eyes, various sorts of allergies, itching, skin cancers etc. The problem of 'acid rain' caused by the emission of Sulphur Dioxide (SO_2) and Nitrogen Oxides from power stations, industries is an example of it. Bhopal gas leak disaster (India), Chernobyl nuclear disaster (Russia) and Minamata disaster (Japan) etc. are its classic examples.

- **Genetic Erosion and Biodiversity Loss**—These are caused by the developmental projects, pest and predator control, loss of key stone species, biological factors, deforestation, pollution etc. It is a matter of great regret that forests are vanishing around @ 17 million hectares per year. With only 2.4% of the total land area of the world, India contributes 7.8% to the known global biodiversity. It has as many as 45,500 plant species and 91,000 animal species representing about 7% and 6.5% of world's flora and fauna, respectively. From the biodiversity standpoint, India has 59,353 insects, 2,546 fish, 240 amphibian, 460 reptile, 1,232 bird, 397 mammal species, of which 18.4% are endemic and 10.8% are threatened (CAG, 2010). Besides, there are more than 15,000 flowering plants, of which 33 % are endemic (Ghosh, 2007). According to a study more than one-third of 1,103 species like mammals, birds, reptiles, insects and plants could become extinct in fifty years because of pollution and global warming (Singh, 2007).

- **Other Factors**—Lending institutions often before financing a project may ask Green Audit report. Socially Responsible Investors (SRI) also seek to invest in environment-conscious companies which undertake responsible business. Consumers have become environment conscious. They always want environ-mental friendly products or services that take care of their hygiene and safety.

Driving Forces Behind Green Auditing

In the past, the main driving force behind Green Auditing were fear of prosecution and high penalties imposed by regulatory authorities. Now it is considered as an exercise to identify and reduce liabilities. Experts have identified different drivers of such auditing. Vinten (1996) catagorised forces in three groups : organisation strategy, functional areas, operational functions. Hillary (1999) identified customers, local government, community, regulator, and employees etc. as most important drivers. FORGE Group (2002) identified four components as key drivers—strategy, management, operational performance and reporting. In his study, Sen (2005) identified a set of 44 general drivers, out of which 17 are environmental value drivers which are enumerated as :

Environmental Value Drivers of Green Auditing

Environmental commitment	Product life cycle analysis (assessment)
Commitment to sustainable development	Management understands sustainability
Written environment policy	Fossil fuel reduction, uses renewable energy
Targets for environmental performance	Toxic chemical use reduction
Sustainability report	Reducing unsustainable products
Environmental management system	Recognition to employees environmental initiatives
Environmental purchasing policy	Quantitative environmental measures
Environmental training & education	Qualitative measures for environment.
Employee responsibility for environment	

Types of Green Audit

On the basis of frequency such audit is of two types : (a) **Concurrent/Cyclical** Audit – It is mainly conducted by entity's environmental unit segment/ outside consultants – or combination of both – on a scheduled cycle of occurrences.

(b) **Single Special Purpose Audit** – It is intended for special purpose and normally conducted by outside agencies. Such audit is not carried out on regular basis. It is generally undertaken in response to a special need.

On the basis of scope, objectives, risk assessment such audit may be categorised as :

• *Compliance Audit*	Reviews level of compliance with relevant environmental and safety standards.
• *Performance Audit*	Tests the environmental impact of programmes, EMS, compliance with environmental laws etc.
• *Transactional Audit*	It assesses the environmental risks and liabilities of land/facilities before a real estate acquisition or divesture of business. It is important as both the buyers and sellers want to know the extent of any liabilities due to environmental contamination.
• *Product/Activity Audit*	It is the audit of specific products/ processes and their distribution to determine the requirements to make them environmentally friendly and to confirm that they are meeting products and chemical restrictions. Such audits also assess packaging materials for their recyclability.
• *Issues Audit*	Assesses the corporate performance in a particular area (e.g. Oil & Natural Gas Corporation's impact on habitats or impacts on Sundarban for potential chemical factory in Nayachar of West Bengal)
• *Risks Audit*	Considers occupational health and safety/risks to employees and public.
• *Energy & Waste Audit*	Evaluates usages of energy with alternative sources and tracks the reasons of wastes, risks involved etc.
• *Process & Safety Audit*	Evaluates whether policies, processes, monitoring, appraisal, documentation etc. are in place. It also considers present/ potential hazards and risks arising from processes.
• *Quality Audit*	Tests the total quality management (TQM) from the perspectives of environment.
• *EMS Audit*	Examines whether given facility meets EMS standards (viz., ISO 14001, EMAS).
• *Baseline Audit/ Future Scenario Assessment*	Helps to identify potential environmental problems in addition to current one and intends to assess the probability/ intensity of organisation's ability to respond to new challenges.

Qualification of Green Auditor

Green Audit is not mandatory in India. It is limited to submission of an annual statement (like a voluntary/self declaration statement) to the Central Pollution Control Board (Sen, 2012). As it is a specialised subject, in large project it is carried out by a team of experts drawn from various fields of science led by an auditor. These audits are carried out by trained and registered green auditors in countries like UK, USA and European Union (EU) etc. The Institute of Environment Assessment & Management (IEAM), an international body, provides registration to green auditors. There has been a long debate as to the fact- 'Who can be a green auditor?' Study of Deegan, Shelly and Cooper (2003) revealed the following relative market shares of different categories of assurance providers for Green Audit :

Country	Percentage of Companies			No. of reporting organisation Surveyed
	Accountants	Environ-mental Consultants	Others	
Europe (excluding UK)	59.60	19.20	21.20	52
UK	22.90	54.20	22.90	48
Japan	37.50	6.30	56.30	16
Australia	16.70	40.00	43.30	30
Total	**36.30**	**33.60**	**30.10**	**146**

Study of Dr. Barindra K. Basu (2003) revealed that about 55% of population favoured independent audit firm against 45% for multidisciplinary teams. There is a strong support favouring accounting professionals as green auditors worldwide. Hence it should be conducted by multidisciplinary team comprising experts from accounting, auditing, environment science and technology etc. for greater efficiency and effectiveness. Professionals like CMAs, CAs possess enormous skills and experiences in the field of accounting, cost management and corporate governance. If they get proper knowledge, training and experience, they can also prove their supremacy and expertise in green auditing.

Green Audit—How is it conducted?

Although various types of Green Audit appraise different issues, all should have the following stages of activities :

Stage I—Audit Planning/Pre-audit Stage

- **Consider terms of engagement :** It dictates the scope, subject matters to be audited and the responsibilities of the auditor(s). In case of joint audit assignment these should be very clear and unambiguous.
- **Understanding of entity and its systems :** It deals with a basic study of the entity and its operating systems.
- **Decision on the scope and objectives :** Scope deals with the basic questions like—What are its goals? Which unit/facility/operations/programmes will be reviewed? Objectives may include assessing the adequacy of data for evaluating the impact on pollution, identification of risks caused by pollution, compliance of environmental laws etc.
- **Selection of audit criteria :** Criteria provide the subject matters against which the audit matters will be audited. Criteria should be appropriate, specific, measurable, reliable, acceptable, timely and coherent. These may include Established Criteria, such as national/international laws, rules and regulations, international agreement (like UNFCCC, Kyoto Protocol), standards issued by monitoring/ regulatory agencies (like ISO 14000, 14001, EU EMS) generally accepted standards or codes of professional practice issued by recognised bodies etc. Sometimes auditor follows Organisaion/Industry Specific Criteria, which are provided by the respective industry unions/ associations/chambers of commerce.
- **Selection of methodology :** Methodology basically includes checklists, sampling, photographs and questionnaires etc.
- **Selection of team members and audit programme development :** It is based on fields of expertise required for conducting the audit and allocation of responsibilities among the team members.
- ***Inform the facility and desktop review* :** These involve arrangements for onsite activities and review background information.

Stage II—Onsite Audit Stage

- **Site/Facility inspection :** The team may inspect facility based on its review and identification of risks involved. Instead of comprehensive inspection, sampling techniques may be used to determine the sites that need inspection.
- **Interview and documents review :** Interview of key personnel and checking of documents reveal present and potential operating problems. They help in collecting information and determining the extent of examination required.
- **Close conference :** If the evidences gathered are not sufficient and appropriate to form the audit conclusion, area of audit may be expanded or comprehensive testing may be adopted. Otherwise close meeting with audit entity to share preliminary audit findings.

Stage III—Analysis and Reporting Stage

- **Analysis and final evaluation of findings :** It is based on predefined standards/ protocols and must be backed by documentary evidences. Deficiencies, if any, of past audit(s) need to be corrected and present deviations must be identified. Findings may be labeled as minor/major or based on intensity and probability of risks etc.
- **Preparation of draft report :** Draft report is discussed with auditee and its responses, if any, are elicited to that report.
- **Preparation of final Green Audit Report :** It is prepared after incorporating auditee's responses to audit conclusion and suggesting recommendations.
- **Follow-up review :** It is carried out to verify the resolution of the findings within a reasonable time and includes tracking the status of management's actions on findings and recommendations.

The process of green auditing is depicted with the help of a flowchart shown in Appendix A.

Roles of Cost & Management Accountants (CMAs) in Green Audit

The Institute of Cost Accountants of India (ICAI) has been issuing and publishing research papers and guidelines on Green Audit related issues. In 2008, it issued Management Accounting Guidelines (MAG)—III on 'Implementing Corporate Environmental Strategies' which guides Green Audit from various perspectives. CMAs have always been efficient, effective and proactive in environment related issues, particularly for protecting and promoting the interests of the stakeholders : (a) CMAs assist organisations to establish EMS to account for environmental and green issues. They assess the need for new/modified management and financial information systems. (b) They help resolve conflicts between green issues and traditional financial management systems such as those that occur in capital investment appraisal and budgeting. (c) CMAs often assist organisations to formulate Green Audit strategies and policies to ensure long term survival, growth and monitoring adherence to such policies. (d) CMAs ensure compliance with regulatory requirements and assist organisations to get their facilities certified by international/national authorities like ISO, Pollution Control Board etc. (e) A 1992 Price Waterhouse Survey of 236 firms having significant environmental liabilities provided evidence of the involvement of internal audit functions in green matters. CMAs, through continuous internal audit, assess continuously the performance towards green issues and make environment-related costs and risks more visible. (f) Through Green Audit report, they inform stakeholders about the operating impacts of the organisations on green issues and guide to implement protective measures.

Achieving Competitive Advantages through Green Auditing Framework

Many people consider Green Auditing exercise ''an action without benefit''. Incorporating Green Auditing would cost an entity in both time and money—e.g. salaries of the environmental units' experts and staffs, fees of the auditors etc. If approached properly, the entity can recover these costs and achieve direct and indirect cost savings. For example, if Green Audit helps organisation to segregate the waste streams into harmful and less harmful, then it can save effluent treatment and discharge cost. Organisation may also be able to feed some of what was waste back into its operations and save on raw materials cost. Its stringent application reduces penalties, interests, legal costs, compensation charges and environment failure costs etc. It helps to reduce wastage and associated costs, increases product quality etc.

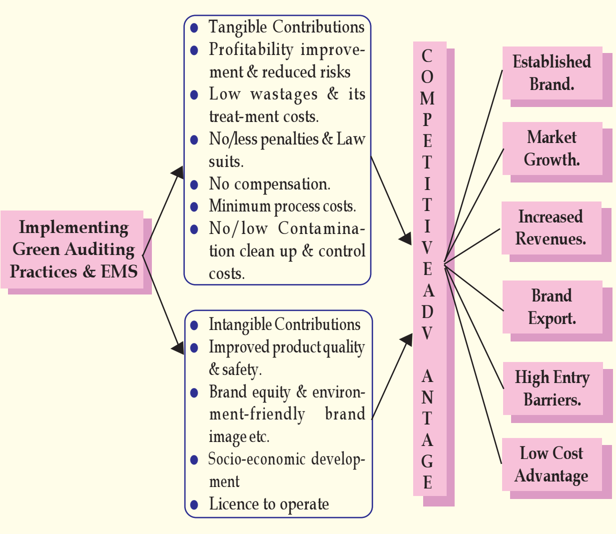

DIAGRAM 1—ACHIEVING COMPETITIVE ADVANTAGE THROUGH GREEN AUDITING.

Sen's Theory of Societal, Environmental and Stakeholders of Competitive Advantage (2006) states that a healthy mix of four kinds of factors : (a) Push (license to exist), (b) Pull (motivate to grow), (c) Pressure (legitimacy to grow), and (d) support for sustenance are needed for competitive advantage. Societal and environmental drivers contribute substantially to a firm's performance in a variety of ways. Tangible contributions of Green Auditing include risk reduction and profitability improvements, while intangible contributions lead to brand equity. The environment receives benefits through cleaner process and products, local community is benefited by socio-economic development, employees gain better working conditions and consumers receive quality products with less impact on the environment. All tangible and intangible benefits and cost savings are the keys to achieve competitive advantages. Competitive advantage helps to place the products into the markets, achieve market growth and gain confidence of the customers and socially responsible investors (SRI). How Green Auditing helps an organisation to achieve competitive advantage is shown is Diagram 1.

Green Audit Framework & Sustainable Development (SD)

Integrating Green Audit framework into sustainable development (SD) is the utmost necessity. SD is being used worldwide as generic term to signify 'all-round development'. Organisation/industry specific/national Green Audit programmes help to develop national policies for stringent compliance of environmental laws, products' and customers' safety norms.These become the parts of national government's SD policies. National Green Auditing and SD measures of various countries are the basis of formulating Planetary SD Framework of the Earth. Planetary SD is very important from the perspectives of welfare of the people and Nature. If such framework can properly be established, development and welfare will flow as 'trickle down' effect from world level to individual unit level and thereby will reach each human being. Linkage of Green Auditing with sustainable development is shown in Diagram 2.

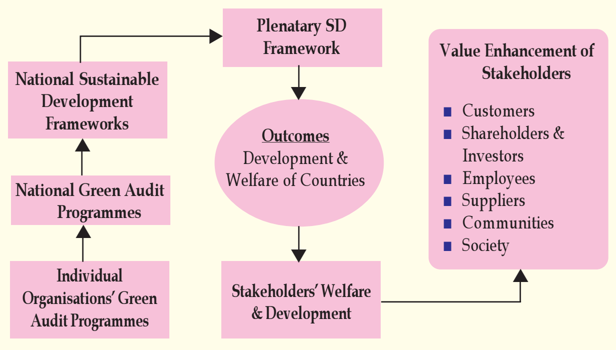

DIAGRAM 2— LINKING GREEN AUDITING TO SUSTAINABLE DEVELOPMENT

Green Auditing—A Study of Global & Indian Practices

World trade and globalisation depend on responsible business practices, if they are to win public confidence and deliver global prosperity. That is where codes of conduct come in, whether towards the environment, labour or other ethical rules (Paramasivan, 2002). The practice of Green Auditing became popular and institutionalised in global context because of several charters, programmes and rules such as International Chamber of Commerce Business Charter, principles of Coalition of Environmentally Responsible Economies (CERES), European Eco-Management & Audit Scheme (EMAS), and International Organisation for Standardisation (ISO) etc. Worldwide different organisations have been certifying their operations and facilities using ISO's standards relevant for Green Auditing.

All of the world's 100 largest MNCs have issued environmental codes/EHS (Environment, Health and Safety) policy statements. Major leading companies of different countries have incorporated such auditing framework into their business practices and get their operations/facilities certified by the Green Auditors. These include Dow Chemicals, Kodak, Shell, Tata Motors, ITC, Jindal Steel Works (JSW) and Reliance etc. Since 2000, there has been a perceptible increase in the number of Green Audits in ASOSAI member nations. Japan, Pakistan, Kuwait, Bhutan, Malaysia, New Zealand, Saudi Arabia, Turkey, Australia, Korea, China, India, Cyprus, Thailand, Azerbaizan, Bangladesh etc. countries have been conducting Green Audits.

Relevance and Development of Green Auditing in India—Article 48-A of the Constitution of India orders the state to 'endeavor to protect and improve the environment and to safeguard the forest and wildlife of the country'. Article 51-A states that it shall be the duty of every citizen to protect and improve the natural environment. Companies Auditor's Report Order (CARO) 2003 (Amended in 2004) made it mandatory for the reporting companies to mention steps for energy conservation. Although it is a fact that there is no legislation that makes conducting of Green Audit compulsory, many companies and PSUs have been conducting such audit voluntarily.

Supreme Audit Institution (SAI) in India, headed by the Comptroller & Auditor General (CAG) of India have been conducting Green Audit in India for the last 29 years. This process was formalised with the introduction of guidelines—MSO (Audit) 2002 for the conduct of Green Audits. In India, snapshots of various aspects of Green Audit are :

- SAI India conducted more than 100 Green Audits (compliance and performance) over the last 25 years.
- CAG conducted audit in 23 states relating to air issues in 2002. Other audits relating to air include ineffective pollution control in Bihar State Electricity Board, 2005, Transport Department of Mizoram 2006 etc.
- The flagship audits under the water issues were the audit of "Ganga Action Plan", measures to control pollution in Yamuna River in 2004, provision for safe drinking water in Madhya Pradesh in 2004, performance audit of arsenic alleviation programme in West Bengal in 2005, conservation & management of Dal Lake in Jammu & Kashmir in 2006 etc.
- CAG, in 2006, conducted audit of 'Conservation & Protection of Tiger in Tiger Reserves in India' in 28 tiger reserves all across India. On biodiversity issues, it conducted audits of preserva-tion of wild life in Meghalaya in 1996, forest management in Delhi in 2001, functioning of zoos and wildlife sanctuaries in Rajasthan in 2002 etc.
- CAG's Report No. 17 (2010-11) indicates that 93 % of the sanctioned projects didn't achieve their 'Greening India' objectives. In biodiversity area, National Biodiversity Authority (NBA) was established by Indian government in 2003. Its efforts were found to be inadequate because it could prepare lists of endangered species only in 7 out of 28 states till that date. Works undertaken under 'Ecocity Programme' of Central Pollution Control Board (CPCB) remained incomplete in all selected 6 cities and INR 1.88 crore was lying unspent with State PCB for over 7 years.

Conclusion

Green Audit is undoubtedly a very sensitive and critical area. If business is required with all its skill at planning and innovation, it is surely in the area of environment. It is a fact that costs, lack of legitimacy, poor supportive environment, confidentiality, lack of skills and technical expertise etc. act as barriers to this audit. Governments of different countries have done splendid jobs in Green Audit areas. In spite of lack of regulations and standards, many organisations have been conducting it absolutely on voluntary basis. In present changing scenario it is expected that Green Audit will no longer remain an 'option' but will become as essential and vital as financial audit. ❐

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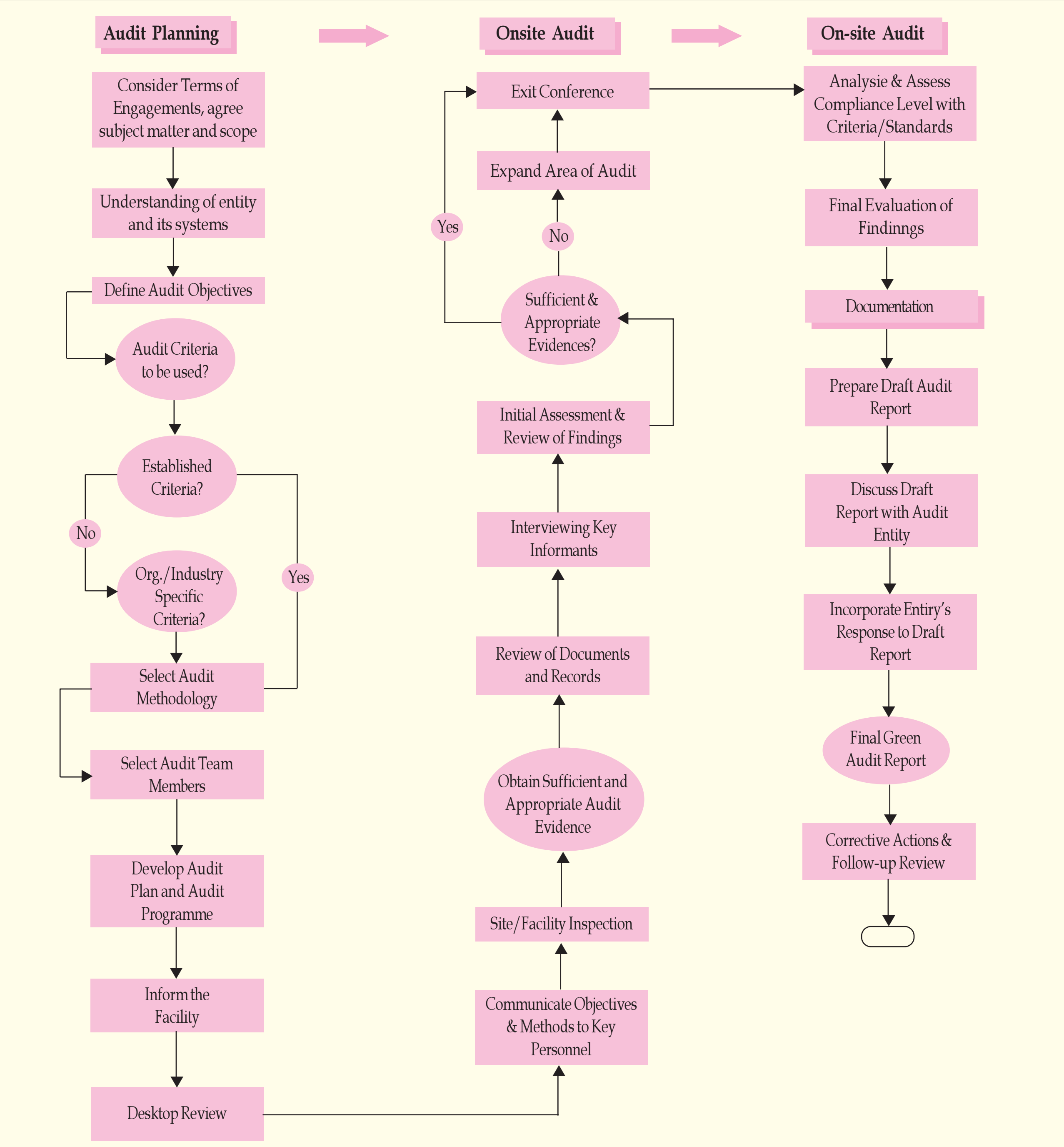

APPENDIX A : FLOW CHART OF GREEN AUDIT PROCESS

Green Audit—A Necessity of the Changing World

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Introduction

The contemporary era is witnessing a major shift of the world towards adaptation of globalization leading to devastation of the environmental resources due to inappropriate exploitation of various natural resources. The loss due to over-exploitation of the natural resources is not only in economic terms but also leading to a huge loss in societal terms.

The major problem faced by the human society is the increase in pollution as the quality of life and survival of the human society is largely dependent on the amount of pollution. Pollution that is a major outcome of industrialization is affecting various natural resources like soil, water, air, etc. and it has a vast impact on the quality of the human life even for a decade or so.

There is an urgent need to keep a check on the activities of the industries, which is leading to such a kind of pollution, and so the concept of Green Audit has come into existence to work as a checkpoint and prevent further devastation of the environment.

A business consists of two key assets— business itself (net worth in Balance Sheet) and the environment in which it is actually operating. A business can't work in an isolated environment and so the surrounding environment affects business and there will be repercussions from various spheres of the environment if organizations try to exploit the same.

It has been observed that the developed countries have been polluting the environment at large wherein the effect of the same has also impacted the developing and underdeveloped countries. So to make a level playing platform for different countries in the world the concept of Carbon Credit has been introduced.

As there is a harsh enforcement on the Carbon Credits Rule various organizations have started to adopt different innovative techniques of production wherein greenhouse emissions can be reduced considerably, even the governments have started to provide incentives to the organizations which do follow such initiatives. United Nations has tried to enforce the concept of carbon credit on most of its member nations under the Kyoto Protocol wherein the nations will be having a limit on the emission of greenhouse gases in the environment according to their assigned limits. Any nation exceeding the assigned limit will have to compulsorily purchase the Carbon Credit from a nation with less carbon emission then the assigned limit. This system will force the business world to reduce pollution. As a result companies have understood the significance of the environment and have started investment in the environment protection with the help of implementing better techniques for air purifier, water purifier and finally user-friendly product etc. For this purpose business organizations doing green investments try to reduce their payback period by covering the installation cost based on the operational cost.

To understand the Green Audit in simple words; ''It is a official examination of the effects of a company's current operations on the environment''. For the betterment of human life Green Audit is considered as one of the best tools. Green Audit will be safeguarding the interest of the future generation wherein it will restrict the over-exploitation of the resources which is also the part of the wealth of future generations. Even the usage of chemical fertilizers for agriculture is reducing the quality and yield of the harvest in longer run so people have started to focus on sustainable means by adopting organic farming wherein all the non-chemical fertilizers and pesticides have been applied to cultivate the crops and outstanding results have been obtained by adopting these new technologies. So one can say that the industrial growth of today is at the cost of tomorrow. Green Audit is a snapshot of the environmental resources being used at a specific venue during a specific time.

The basic objective is to have inculcation of Green

Audit within an organization to conserve the environment on immediate basis so that further harm can be reduced considerably. Considering this objective as a base in mind it can have secondary objectives like conservation of water, wherein one can quote the example of the Coca Cola bottling plant working at Goblage village, Gujarat, that has waste water purification plant through company reuses the water for all purposes other than drinking. Waste reduction is another objective of Green Audit, like wise increasing of energy efficiency.

United States has launched a national plan for energy efficiency wherein the focus is on to increase public-private partnership to create a sustainable aggressive commitment to energy efficiency through collabora-tive efforts of gas and electric utilities and other related organizations. Even the G-8 nations have initiated a drive of promoting low cost high impact energy source. According to this plan, G-8 nations will double their energy efficiency, which will lead to hold the carbon dioxide levels to concentrations below 550 ppmv. The group countries have decided to achieve such a difficult yet achievable target by focusing more on the newer eco-friendly technologies and moving towards cleaner techniques. The primary work starts with the objectives of Reuse, Recycle and Reduction of energy, waste and natural resources as inputs. With the help of this process an organization can improve its efficiency, can be a better place to work, and provide better products to the end-users. Organizations have started to focus more on renewable sources of energy, which will be least polluting and conserving the valuable natural resources to a larger extent.

Disasters

Union Carbide Chemical Disaster at Bhopal

It was again because of gross negligence and discrepancies in the measurement of the safety. There was a leak of methyl isocynate gas and other harmful chemicals from the factory, which had a devastating effect on mankind and the death toll went up to 3000. Even after 20 years of the tragedy the children born to the victims of the gas tragedy are having deformity to the effect of the hazardous gas. Green Audit can play a vital role to minimize such kind of cases by keeping a checkpoint on the operations of the organization.

Chernobyl, Russian Nuclear Power Plant Explosion

In April 1986 due to gross negligence by the reactor operator there was an explosion in the nuclear power plant, which caused a toll of 31 people instantly, and more than 135,000 were evacuated from the surrounding radius of 30 kms due to heavy reactive chemical cloud being noticed due to leakage of the nuclear explosives. As there is a lack of various non-renewable sources of energy, people have been focusing on the nuclear energy, which is also posing a significant danger on the environment—so various European nations after such a disaster have focused more on the Green initiatives and Green Audit principles to avoid such future situations.

Deepwater Horizon Oil Spill

It is considered as one of the largest marine disasters in the history of oil spill wherein the oil from the wells of British Petroleum due to the explosion within a well which resulted in spilling of oil into the Gulf of Mexico leading to the damage of marine and wildlife habitats of the Gulf. Even the flora of the region had been devastated due to the continuous spilling of the oil for more than three months.

Taj Mahal

One of the precious monuments of the world and amongst the Seven Wonders of the World has also been affected by the industrial operations. Installation of the Mathura Oil Refinery on the banks of river Yamuna near Taj Mahal has affected the monument by turning it yellow in color. The gases released by the organizations within the proximity of the monument leads to acid rain and turning the snow-white structure into yellow. After consistent effects the government has established a Taj Trapezium Zone wherein establishment of various organizations within the proximity of the structure is banned by law.

Ganga River

The heart-throb of the inland wetlands of India, the pious and holy river Ganga, is also facing a severe problem of pollution due to proximity to domestic settlements and industrial settlements. Around 100 industries are located within the river itself and from the 100 there are sixty-eight companies which are grossly polluting the river. The government has become aware about the situation and has enforced stringent norms and regulations to abet the organizations to over-exploitation of the natural resource. Under Water (Prevention and Control of Pollution) Act, 1974, and Environment (Protection) Act, 1986, 55 industrial units amongst the sixty-eight grossly polluting industrial units have installed effluent treatment plants to discharge unpolluted water in the river.

Green Audit Implementation

The primary stage towards implementation of Green Audit is to educate the people about the same, wherein people should be made aware about the necessity of Green Audit and their responsibility towards the future generation. After generation of awareness among the people the next stage is to try to reduce the wastage as much as possible at each and every stage of the operations. The third and very important stage can be the stage of continuous improvement wherein the organization should continuously try to reduce their wastage by using new and innovative techniques and so improve on their process, which leads to least wastage. This stage improves efficiency and effectiveness of all the resources that ultimately provide better human life along with high productivity. Green Audit works as a tool to safeguard the environment and the society at large. It will not only help the contemporary society but will also keep a check on eradicating the practices having a devastating effect on the overall society in future.

Green Audit can be done in five steps :

1. Gathering information from employees **:** wherein auditors try to gather all the relevant information about the operations of the organization from the employees working within the organization.

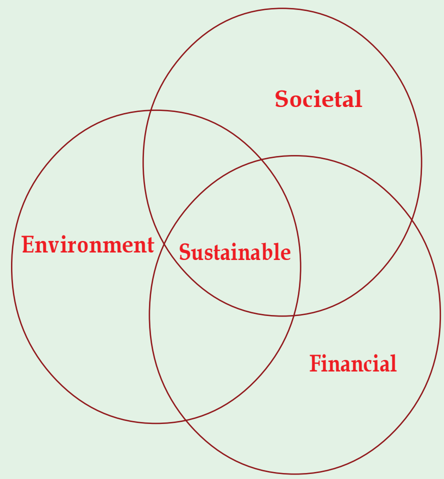
2. Conducting organizational survey **:** after gathering all the vital information about the various operations performed within an organization a survey is conducted about the various activities carried out within the organization.

3. Carbon footprint calculator **:** Carbon footprint is a concept wherein the total emission of greenhouse gases by an organization is measured. Organizations measures the carbon footprint of different operations that are conducted within an organization, also the products which are manufactured within an organization are having their carbon footprint. After precise calculation of carbon footprint, organizations try to reduce the emission of greenhouse gases by adopting various innovative technologies, which leads to eco-friendly environment. The usage of new innovative techniques and technologies which reduce the carbon footprint is known as carbon offsetting.

4. Run visit to work site **:** After calculation of the carbon footprint of various operations and products of an organization there is implementation of new eco-friendly techniques and the effect of these techniques have been evaluated and finally preparation of Green Audit Report—finally the auditors will be evaluating all the options and accordingly preparing a Green Audit Report for the organization which will serve the purpose of the organization towards the society.

Green Audit and Sustainable Development

The organizations which are focusing to sustain in this competitive era of cutthroat competition need to focus on the concept of Green Audit because, by emphasizing on Green Audit, organizations can reap unprecedented gains not only in environmental and societal terms but also in financial terms.



Green Initiatives **:** State of New York in January 2011 established the goals and structure of a green initiative for New York State office of the state comptroller. There has been emphasis on four components : reduce wastage and maximize use of renewable sources of energy, identify areas for improvement in reducing waste and maximizing energy efficiency, increase green investments which lead to clean technology, living and working in a way that sustains on natural resources and harmful impact of any decision or actions is minimized.

Even at Indian level different organizations have started a drive to promote green initiatives, which will reduce the impact of greenhouse gases on the environment.

India has different experiences

ITC pioneered in the use of ''Ozone Treated Elemental Chlorine Free Technology'' for manufacturing an environment friendly paper ''Paperkraft Premium Business Paper''. Paperkraft is a superior and environment friendly, multipurpose paper for office and home use.

According to a survey, by business travel payment and data management firm AirPlus International, of the corporations dealing with airlines business it has been found that corporations set higher social responsibility standards for themselves than for their travel suppliers. Some 55.4 percent of surveyed businesses implement green initiatives but just 41.7 percent of those businesses expected such programs from their travel suppliers, according to CSR initiatives through the Travel Supply Chain.

Tata Metaliks Limited has implemented the principle of everyday as an Environment Day—herein

(contd. to page 797)

Green Audit—Next Generation's Hope

Rabinarayan Dash

ACMA

Introduction

The term ''Green Audit'' seems peculiar when it is considered under the ambit of any particular subject. But this can be understood and clarified only when this is explained with reference to three disciplines—law, science and accounts. Green Audit is synonymous to Environmental Audit.

Green Audit is a concept in its nascent stage which is a derivative of Corporate Environmental Responsibility which, again, is a derivative of Corporate Social Responsibility. To understand the actual impact of industry or any other item with environment and managing the consequential affect under existing legal framework of the state along with measures taken by the corporate bodies to mitigate such effect will be termed Corporate Environmental Responsibility. So the examination whether Corporate Environmental Responsibility has been met by the Corporate houses or not may be termed as Green Audit.

In simple words, to evaluate the sufficiency of technical system available to curb the emission level as prescribed by the legislature besides payment of legal dues or fees in relation to environmental clearance/permit will be called GREEN AUDIT. But the connotation of Green Audit can't be narrowed to Corporate Environmental Responsibility of Compa-nies; rather it may extend to check whether the prescription of law to fight against pollution by an entity whatsoever is met or not (e.g. pollution measures taken for vehicles and their enforcement).

Broader aspect of Green Audit

It will not be rational to say Green Audit is confined to an entity or to industry as a whole. In broader scene, the country as a whole can access the environment. To address the environmental issues of a specific location or of whole country, the Supreme Audit Authority may plan Green Audit. Different countries have formed associations to have a uniform system of such audit, to obtain relevant comparative data and to develop standards for each parameter.

ASOSAI (Asian Organization of Supreme Audit Institutions) is one such organization which have number of members—India, Pakistan, Sri Lanka, New Zealand, Kuwait etc.

These audits are useful for the states to prove their environmental-friendly position globally and to show that the state is in obedience with any conventions or treaty so entered into. UNEP (United Nation's Environment Programme) guides in policy formulations of states and the states derive principles from its policy documents.

Objectives of Green Audit

This concept has got its origin in recent past and suddenly got acceleration due to heavy industrial traffic which ends with unaccountable emission-resulting pollution. Due to growth in population, needs has increased. Needs of humans can only be met by installing industries. The increase in industries has not only supplied the need of humans but also had been damaging the environment by emitting carbon components.

The provision for Environmental Impact Assessment prior to allowing an industry to set up is the first step to ensure that the project or industry will not harm the environment. But still the production and operation process will have some impact on environment. That post-production assessment of impact of environment is the motto of Green Audit.

And its main objectives are :

- To ensure development along with safe-guarding the environment.
- To reduce energy consumption to foster environment.
- To ensure compliance with present legislations of the State and other legal requirements.
- To physically ensure installation of devices that

reduce pollution and authentication of such devices by competent authority.

- To ensure optimum utilization of resources.
- To see whether provisions are made for liabilities arising out of unintentional pollution-related damages and their compliance in cases so arose.
- To ensure that sufficient precaution has been taken by the industry to protect the employees of the industries from pollution resulting from it.
- To suggest improvement in the system to promote safe and clean environment.

The people employed in the industry are directly associated with the environment of the industry and are exposed to many types of diseases specific to industries or occupational diseases eg. Asbestosis, coal worker's pneumoconiosis, carpal tunnel syndrome, lead poisoning.

Legal Aspects of Green Audit

Though it is at nascent stage, there has been a long list of international treaties, conventions or multilateral agreements on environment considering different themes —atmosphere, biodiversity, chemical and waste, land, oceans and seas etc. Under these ambits the countries have entered into agreements to preserve tits and bits of the environment.

ISO 14000 i.e. standard for environment focus on the process of producing the product rather than the product. Which directly finds how the production process has minimum effect to the environment and how it complies all legal requirements related to environment and also improvement in both above.

In Indian context, we do have huge number of legislations in the interest of environment. In broad categories they are to protect the environment from air pollution, water pollution, pollution from solid waste, to protect the bio-diversity etc. Article 48A of our Constitution (under Directive Principles of States) suggests making endeavor to protect environment. In recent past The National Green Tribunal Act, 2010, has been framed to expedite the environmental protection and with the objective to dispose off the cases on environment and also to redress the issues of liability and compensations for victims of pollution or any other environmental damages as resolved in United Nations Conference on Environment and Development.

More legal pronouncements to boost Green Audit are in pipeline. For example: the Companies Bill, 2011 in its clause 135 along with Sl No. (vi) of Schedule VII provides the responsibility of the corporate houses towards the environment.

Audit Process

The audit process will differ from industry to industry, as different industries give different outputs and are having different operation processes. So there will be broadly understated plans to carry out the Green Audit :

- To understand the industry and its specific effect to environment.
- To compare the statements of the industry with standard performance indicators obtained.
- To find whether relevant clearances from different departments/ministries have been obtained or not. Eg. Environment Clearance from Pollution Control Boards, Ministry of Environment and Forest, Water drawls permission etc.
- To find consumption per unit of produce to see whether loss of energy caused.
- To assess inefficiency, bottlenecks which are energy consuming.
- To see all Compliance of Environmental Laws has been made.
- To inquire regarding the pollution effect with the Civil Society of nearby region.
- To find whether the industry has complied with all commitments and assurances given in MoU regarding environment.
- To suggest measures to improve energy efficiency and anti-pollution measures.

Besides, there will be industry-specific variation in audit; there will also be variation in audit process from country to country as per the requirements of the existing legislation of that country.

Next to Green Audit

Green Audit will be seen in near future with its upgraded version which may be due to nuclear proliferation. Use of nuclear power for energy will become vogue very soon and the upgraded version of GREEN AUDIT will be required for tackling it.

Green Audits in India

C&AG have conducted many environmental audits in India which may be industry specific or not. The Supreme Auditing Authority in India has divided these issues into five categories—Air, water, waste, biodiversity, Environment Management System.

As a whole, considering the gravity of the pollution, C&AG can order and conduct an audit in the interest of environment of any part of India.

Some Environmental Audits carried by C&AG are Thermal Power Stations of Bihar State Electricity Board, Transport Department of Mizoram, Thermal Power Stations of Andhra Pradesh and Gujarat etc.

Conclusion

Only legislation and enforcements can never bring radical change in the system and the environment will not be free from effluents. It only requires awareness among every citizen as well as among the corporate houses. The same is also provided in Article 51A (g) of our Constitution as a fundamental duty of citizens of India. But the necessity of Green Audit can never be neglected as it provides the Government and other stakeholders with sufficient information regarding impact of industry to the environment and the Government can have sufficient data on different environmental parameters.

It is not possible to ignore Green Audit. The major role of Green Audit is to curtail arbitrary action of corporate houses which is detrimental to environment by seeing compliance of legislations and environmental policies. Hence our next generation has much hope from Green Audit & also from those persons carrying out Green Audit. ❐

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the organization has made a notice to discourage working on Saturdays at Corporate Office and lights are to be switched off during the daytime within entire office depending on the natural source of light, sun.

HCL Technologies has been considered as the icon for Indian green initiatives and is actively following the go green steps by reducing the problems of toxics and e-waste in the electronics industry. The organization is committed to phasing out the hazardous vinyl plastic and Brominated Flame Retardants from its products and has called for a Restriction on Hazardous Substances (RoHS) legislation in India.

Wipro Technologies has held its commitment towards the environment by launching energy star compliant products in the market, which is applauded due to the energy efficiency of the product.

India's largest oil producer, ONGC, is all set with energy-efficient, green crematoriums that will soon replace the traditional wooden pyre across the country. ONGC's Mokshada Green Cremation initiative will save 60 to 70% of wood and a fourth of the burning time per cremation.

Green banking has been catching up as amongst the banking sector ever since IndusInd opened the country's first solar-powered ATM and pioneered an eco-savvy change in the Indian banking sector. The bank is planning for more such initiatives in addressing the challenges of climate change.

Conclusion

As we have experienced the effects of the globalization and industrialization on mankind and society at large, it is noticed that there is a serious need to create a checkpoint to abet the exponential exploitation of the natural resources for the future generation. The current natural resources is also part of the wealth of the future generation and morally or legally exploiting the rights of the society for the personal benefit should not be granted at any cost. So there is a serious need to inculcate the principle of Green Audit within an organization which will be benefiting the organization and society at large—not only in environmental terms but also in economic terms. Even various international organizations have shifted their focus on sustainable development rather than economic development—so now there is prime focus and urgent need to implement Green Audit so malpractices and negligence of the organizations, which leads to massacres, can be reduced at time and devastating effect on mankind can be reduced. ❐

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Tax Titbits

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Amalgamations and Demergers – Company LAW V. Income Tax Law

An inference of tax evasion in a company-law matter like amalgamation or demerger and that too without the Income-tax Department being a party to it is odd. The High Court declined approval for amalgamation, on the inference that it was intended to avoid tax in Wood Polymer Limited, In re and Bengal Hotels Pvt. Ltd., In re (1977) 109 ITR 177 (Guj). This decision had the approval from the Supreme Court in the context of treatment of tax avoidance in an excise case in McDowell and Co. Ltd. v. CTO (1985) 154 ITR 148 (SC). A request for issue of notice to the Income-tax Department was refused by the High Court, while approving a scheme on a finding that tax avoidance was not the sole object in S.R.F. Ltd. v. Garware Plastics and Polysters Ltd. (1995) 214 ITR 678 (SC). A similar request was rejected and merger approved in another case on the ground that no such notice is prescribed in Vinay Metal Printers Pvt. Ltd., In re (1996) 87 Comp Cas 266 (AP).

Amalgamation could not be disapproved merely because of incidental saving of capital gains tax as decided in Indo Continental Hotels and Resorts Ltd., In re (1990) 69 Comp Cas 93 (Raj). On a request for revision of a scheme after approval on the ground that income-tax dues were pending, the High Court held it was not possible to do so, when the scheme has been fully and effectively implemented in Union of India v. Asia Udyog Pvt. Ltd. (1993) 78 Comp Cas 468 (Delhi). In a matter of allegation of tax avoidance as the sole purpose, it was held that the court can issue appropriate direction, while approving the scheme as decided in Kriti Plastics Pvt. Ltd., In re (1993) 78 Comp Cas 138 (MP).

Amalgamation being a recognised procedure under company law, it cannot be treated as a scheme for tax avoidance as ruled by the Authority for Advance Rulings in Star Television Entertainment, In re (2010) 321 ITR 1 (AAR).

A scheme of demerger was approved by the Gujarat High Court itself in Idea Cellular Ltd., In re (2009) 96 SCL 352 (Guj), but where the same scheme came up in Vodafone Essar Group of cases involving different companies in different States, the Calcutta, Bombay and Madras High Courts had approved demergers on the facts before them. In Vodafone Essar Limited, In re (2011) 163 Comp Cas 119 (Del), where the Income-tax Department had impleaded itself and raised objections claiming that there was a give away of assets without consideration to avoid tax on capital gains, the High Court declined to entertain the objections observing that "according to my mind the Income-tax Department is also not in any sort of loco parentis to the shareholders of the transferor companies ... nor are they the guardians of their interests" and that "It is agreed that the Scheme may be sanctioned whilst relegating the parties to the appropriate fora to determine the tax liability, if any, that may arise. As riders to its decision, it added, that "no action which may be violative of a statute", can be taken, and "that the income-tax authorities are free to move against any of the parties concerned, in case they are of the belief that there has been any impermissible evasion of payment of tax by the petitioners". As regards the validity of accounting principles adopted by the petitioners, it was "left open to the Income-tax Department to enquire under the correctness or otherwise of the same, independently of the sanction of the Scheme". Though there should be little left for the Assessing Officer after approval except to grant exemption, it is not unlikely that more will be read into this judgment to question the approved arrangement itself on grounds of tax avoidance for purposes of tax assessment.

The same objections which failed before the Delhi High Court were found acceptable before Gujarat High Court in Vodafone Essar Gujarat Ltd., In re (2012) 342 ITR 135 (Guj), and approval was not granted. It was felt that there was give away of assets, though described as passive, without consideration cannot be approved by the Court, even if the shareholders were to approve such scheme. The High Court, after detailed discussion of the case law relating to tax avoidance, concluded that the case was covered by the proposition in McDowell and Co. Ltd.'s case (supra).

The conflict of law on the relevance of a tax issue in a company law matter—whether with or without the Income Tax Department being a participant, is yet to be resolved by the Supreme Court. It cannot be that there should be prior consent of the Income Tax Department for such schemes before the approval of the Court.

DEPB Credit—How Understood?

The Supreme Court in Topman Exports v. CIT (2012) 342 ITR 49 (SC) understood that the face value of Duty Entitlement Pass Book Scheme (DEPB) to be the customs duty paid on imports in reckoning the deduction for statutory reliefs. The decision had come up from the assessee's appeal, which was decided by the High Court against it following the decision in CIT v. Kalpataru Colours and Chemicals (2010) 328 ITR 451 (Bom), where the High Court had reversed the decision of the Special Bench of the Tribunal, which took the view that the profit on transfer of DEPB credit can only be the surplus over the face value in Kalpataru Colours and Chemicals v. Addl. CIT (2008) 318 ITR (AT) 87 (Mumbai) [SB]. The object of bringing proceeds of transfer of the credit to tax was not to deprive the assessee of the benefit of duty drawback to which the assessee was otherwise entitled. It felt that only the surplus over the face value could be assessed as business income except in the case of cash assistance schemes. The benefit of duty drawback cannot be taken back merely because the proceeds were made taxable as business income. The Supreme Court in ACG Associated Capsules Pvt. Ltd. v. CIT (2012) 343 ITR 89 (SC) has reiterated this law for purposes of computation of export relief under Section 80HHC.

Buy-Back of Shares—Tax Incidence

An application for advance ruling in A, In re (2012) 343 ITR 455 (AAR) was made by a company in India, the shares of which were held by two group companies among others, one from Singapore and the other from Mauritius. The Indian company, which had not declared any dividend from its inception, had made an offer of buy-back of shares permissible for Indian companies under company law in India. The issue was, whether a Mauritius company, which was a substantial shareholder, which availed the offer, could avoid liability for capital gains with reference to Double Tax Avoidance Agreement. It was felt that it is no more permissible for the assessee to avoid tax merely by choosing legal means available to it, when it is clearly a colourable transaction. It felt that such advantage for the shareholders in its broader sense would itself be a dividend, though it may not be covered within the meaning of Section 115-O of the Income-tax Act, 1961. If treated as dividend, it is clearly taxable and such meaning can well be assigned for dividend in Article 10(2) of the Double Tax Avoidance Agreement between India and Mauritius. Since the amount received on buy-back of shares is consideration for shares held, it could not have possibly be understood as dividend. The ruling is not free from doubt.

Deemed Dividend

Section 2(22)(e) has been extended with effect from A.Y.1988-1989 by amendment to Section 2(22)(e) by the Finance Act, 1987, to loans or advances made to a concern in which the substantial (10%) shareholder of the lending company has substantial (20%) interest. Board Circular No.495 dated September 23, 1987 (1987) 168 ITR (St.) 91 understood the amendment to mean that the concern itself will be assessable on loans and advances obtained by it from a company in which the substantial interest-holder of the assessee concern is a substantial shareholder of the lending company. Since deemed dividend—like any other dividend—should be assessable in the hands of the shareholder and not the company, which was a borrower, but not a shareholder, as was not found assessable by the Tribunal in Asst. CIT v. Bhaumik Colour P. Ltd. (2009) 313 ITR (AT) 146 (Mumbai)[SB]. The Delhi High Court in CIT v. Ankitech P. Ltd. (2012) 340 ITR 14 and CIT v. MCC Marketing Pvt. Ltd. (2012) 343 ITR 350 (Del) and Rajasthan High Court in CIT v. Hotel Hilltop (2009) 313 ITR 116 (Raj) upheld the view taken by the Special Bench. But the Circular which is contrary to this interpretation of law has not been withdrawn. ❐

Counting The Blessing : Tax Retreats Through Executive Interpretation

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The King can do no wrong. It is a fading bromide of the English Constitutional System that the Crown—in effect the Government—can never be acknowledged or seen to be erroneous or held liable in their sovereign sphere. We have seen in modern times that all the three Organs of the State—the Executive, the Legislature and the Judiciary—have come up short at sometime or the other in their functional history. The citizens could forget executive failings excepting dishonest transgressions if they are given measurable benefits or practical concessions. The Governments anywhere in the world attempt to do this, quite often by showing and bestowing concessions to people in the form of tax reliefs or financial grants or aid programmes and welfare policies to alleviate or mitigate the sufferings of particular segments of society. The modern administration is thus is presumed to have some understanding of the sensitivities and needs of the citizens. Thus, the Government often sacrifices revenues, forgoes tax recoveries and literally puts money in the hands of the people in the name of some scheme or plan or the other. Nevertheless, it often happens that some concessions are granted or appear to slip through the fingers of the Government when such bounties or benefits are least expected by the interested citizens. This kind of surprise is not uncommon in the tax arena. In this Article we will see some unusual and unexpected concessions given in the indirect tax arena by the Government without any apparent coherence or logic or policy. Nevertheless, such concessions would be most welcome to the beneficiaries and they would hope for such rain-making from the Executive a little more often than never.

CENVAT Credit

In CENVAT Credit Rules there has been a longstanding restriction that CENVAT Credit relating to capital goods could be availed only to the extent of 50% of the duty in the year of receipt of the capital goods by the manufacturer of finished goods. The remaining 50% would have to be taken in any subsequent year. The provision has been rightly criticized as needlessly discriminating against installation of productive investments. However, this restriction of 50% has been specially made inapplicable to CENVAT credit of additional customs duty paid by the manufacturer under sub-section 5 of section 3 of the Customs Tariff Act in respect of capital goods and parts, components and accessories thereof. In this case, full credit of such duty paid on the capital stock is available to the user-manufacturer. It defies logic as to why full credit is given to a particular tax and not in respect of other taxes. No explanation has ever been offered by the Tax Administration in this regard. Nevertheless, the tax concession of full credit is somewhat of a consolation to the credit-famished tax payers.

The Tax Administration seems to have developed a soft corner for CENVAT credit of the additional customs duty paid under the above noted statutory provision of the Customs Tariff Act. Not stopping with the grant of full CENVAT credit, the Government recently introduced a statutory measure by which they permitted a virtual cheque writing facility on the above credit. The provision introduced as part of budget 2012 and which has since been notified, states that any assessee having unused or unutilized outstanding balance of CENVAT credit of the above customs duty can transfer the credit balance to the CENVAT credit account of any of his other business unit. Here again, no light has been thrown on why such a concession has been instituted in respect of this particular levy and not across the board. Of course, the twin concessions in this area are certainly a breath of fresh air in the narrowed CENVAT credit landscape.

Service Tax

Similar to the pattern as described above, there have been several notable concessions granted in the Service Tax area without worrying about the thin logic or hardly-discernible policy coherence. The following examples may be seen :

Container Detention Charges Made Non-Liable To Service Tax

The Shipping Lines may inter alia charge their customers detention charges over and above the contracted amounts in case of any delay on the part of the customer in returning the container. The Service Tax Department at the field level always sought to tax such charges either under the Business Auxiliary Service or under the Business Support Service. However, the Department has provided some relief to the industry by clarifying that such charges can be called as 'penal rent' for retaining the containers beyond the pre-determined period. The Department decided therefore that an amount collected as detention charges was not liable to service tax and issued a Circular No.121/2/2010-ST (F.No.332/29/2009-TRU) dated 26.4.2010. In the same vein, they had earlier held as non-taxable the collection of overdue interest on late payment of telephone bills by the customers. Strange are the ways of tax bureaucracy. The benevolence afforded to 'penal rents' in respect of Shipping lines and Telecom companies was not extended to Banks when they charged and collected 'fore-closure/pre-payment penalty' on pre-payment of loans by their customers. The Central Board of Excise and Customs (CBEC) asked the field formations to ensure demand of tax on such penal interest recovered by the Banks. The department seems to be star-struck about some businesses while some other businesses are indeed star-crossed!

Applicability Of Service Tax On Laying Of Cables Under or Alongside Roads And Similar Activities

The Department 'analyzed' several disputes in relation to laying or shifting of overhead cables alongside roads and railway tracks as well as certain activities such as erecting and installing flood lights, railway electrification, etc., and came to the conclusion that several of the services would be taxable and several others not taxable. A Circular F.No.332/5/2010-TRU dated 24.5.2010 with a neat, tidy and helpful Table was laid out to settle any lingering doubts. The Table is reproduced as follows :

Sl. No.	Activity	Status
1.	Shifting of overhead cables/ wires for any reason such as widening/renovation of roads.	Not taxable service under any clause of sub-section (105) of section 65 of the Finance Act, 1994.
2.	Laying of electric cables under or alongside roads	Not a taxable service under any clause of sub-section (105) of section 65 of the Finance Act, 1994.
3.	Laying of electric cables (contd.) between girds/ sub-stations/ transformer stations en route.	Not a taxable service (contd.) under any clause of sub-section (105) of section 65 of the Finance Act, 1994.
4.	Installation of transformer/ substations undertaken independently.	Taxable service, namely Erection, commissioning or installation services [section 65 (105)(zzd)].
5.	Laying of electric cables up to distribution point of residential or commercial localities/ complexes.	Not a taxable service under any clause of sub-section (105) of section 65 of the Finance Act, 1994.
6.	Laying of electric cables beyond the distribution point of residential or commercial localities/complexes.	Taxable service, namely commercial or industrial construction' or 'construction of complex' service [section 65 (105) (zzq)], as the case may be.
7.	Installation of street lights, traffic lights flood lights or other electrical and electronic appliances/devices or providing electric connection to them.	Taxable service, namely Erection, commissioning or installation services [section 65 (105)(zzd)].
8.	Railway electrification, electrification along the railway track.	Not a taxable service under any clause of sub-section (105) of section 65 of the Finance Act, 1994.

As can be seen from the above Table, the Government virtually exempts certain services by holding them to be untaxable under any clause of the Finance Act, 1994. The Circular and the Opinion of the Department came as a pleasant surprise to the concerned service providers and they did not mind any absence of logical exposition of the pro-exemption thinking in the Circular. You don't look the gift horse in the mouth!

Construction Services

The Department and the Construction Industry have had a roller-coaster ride in their engagement and the relationship has since swung from Love to Hate and vice versa. The Department virtually exempted the Industry by its Circular dated 23.8.2007 by stating clearly that when the Developer/Builder/Promoter of residential apartments engaged other service providers for the construction, only those vendors would be liable to tax and that if no vendor was engaged for construction work and the builder/promoter/developer undertook construction on his own without engaging the services of any other person, the relationship as service provider and service recipient did not exist and that it was in the nature of self-supply of service, which was not taxable. Hence the question of providing a taxable service did not arise. A broadly similar Circular was also issued during January 2009 to reinforce this exemption tone favorable to the Realty sector.. It was another matter that the Field units of the Department did not favour the line put out by their own Board and virtually scuttled the success of the two Circulars. It is also surprising that the Realty sector remained largely coy and demure in seizing the benefit from what amounted to an outright exemption for much of the construction services. Thus the welcome surprises received during August 2007 and January 2009 soon turned sour for the affected middle class purchasers of residential apartments.

Not stopping with bestowing welcome concessions by issuing interpretative Circulars, the Department recently issued a Circular No.151/2/2010-ST dated 10.2.2012, in which they made a very significant concession, when it was least expected. The Government clearly stated that in cases of joint development type of construction, —

(A) For the period prior to 1-7-2010 :

construction service provided by the builder / developer will not be taxable, in terms of Board's Circular No.108/2/2009-S.T., dated 29-1-2009 [2009 (13) S.T.R. C33].

(i) For the period after 1-7-2010, construction provided by the builder/developer is taxable in case any part of the payment /development rights of the land was received by the builder/developer before the issuance of completion certificate and the service tax would be required to be paid by builder/ developer even for the flats given to the land owner.

Toll Fee paid by road users :

By a Circular F.No.354/27/2012-TRU dated 22.2.2012, the Government stated that Toll Fee paid by users in respect of the roads constructed by a special purpose vehicle (SPV) created under a Concession Agreement involving Public-Private Partnership Model or a Build/Own/Operate/ Transfer Arrangement was not taxable under Service Tax Law.

Road Repair and Maintenance :

By Circular F.No.345/17/2008-TRU dated 23.2.2009, the Department divided certain activities in the taxable category of Repair and Maintenance Service relating to Roads. A distinction was made by the Executive between Construction and Maintenance and it was held that the Construction activities of the chain will not be liable to tax. The Department's divisioning of Road Repair and Maintenance was as follows :

(A) Maintenance or repair activities:

I. Resurfacing
II. Renovation
III. Strengthening
IV. Relaying
V. Filling of potholes

(B) Construction Activities :

I. Laying of a new road
II. Widening of narrow road to broader road (such as conversion of a two lane road to a four lane road)
III. Changing road surface (graveled road to metalled road / metalled road to blacktopped /blacktopped to concrete etc.

Conclusion

The dispensing of concessions by interpretation favorable to the tax payers by the Government is in addition to explicit exemptions announced and implemented from time to time in the form of Subordinate Legislation, such as Rules and Notifications. Normally, a vast majority of Departmental Circulars attempt to delineate and enforce interpretations which are hugely in favour of the Revenue and often unfairly detrimental to the tax payers. All the same, it should be acknowledged that the Government at times produces happy and helpful surprises, which read virtually like Exemption Notifications. The higher judiciary has not looked on with disfavour in relation to such dispensing of tax retreats in the form of Executive Circulars. Perhaps, such Circulars are on the way to acquiring enforceable legitimacy as a kind of Subordinate Legislation, though not ranking in status with Rules and Notifications, which are informed to the Parliament. Such executive retreats from what they have been allowed to do by the Parliament are permitted certain leeway in common law jurisdictions. The Executive Circulars granting unexpected concessions always carry a downside risk of either getting a cold shoulder from the rank and file of the Department or being dropped by the Government itself at whim or fancy. The weight of the risk also lies in the uncertain legal endurance of such Circulars, though they are held to be binding on the Departmental Authorities. Keep a gift horse when you get one, hold onto it and enjoy riding it. ❐

Invoking The Extended Period of Limitation Under Section 73(1) of Finance Act, 1994

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Introduction

Section 73 of the Finance Act, 1994, deals with the recovery of service tax not levied or paid or short-levied or short-paid or erroneously refunded. Section 71(1) of the Act provides that where any service tax has not been levied or paid or has been short-levied or short-paid or erroneously refunded, the Central Excise Officer may, within eighteen months (before 28.05.2012 one year) from the relevant date, serve notice on the person chargeable with the service tax which has not been levied or paid or which has been short-levied or short-paid or the person to whom such tax refund has erroneously been made, requiring him to show cause why he should not pay the amount specified in the notice. The proviso to Sec. 71(1) provides that where any service tax has not been levied or paid or has been short-levied or short-paid or erroneously refunded by reason of :

(a) fraud; or

(b) collusion; or

(c) willful mis-statement; or

(d) suppression of facts; or

(e) contravention of any of the provisions of this Chapter or of the rules made thereunder with intent to evade payment of service tax, by the person chargeable with the service tax or his agent, the provisions of this sub-section shall have effect, as if, for the words eighteen months (before 28.05.2012 one year), the words ''five years'' had been substituted.

Thus the limitation period for demanding service tax under Section 73(1) is 18 months (before 28.05.2012 —one year). This limitation period may be extended up to 5 years from the relevant date where any service tax has not been levied or paid or has been short-levied or short-paid or erroneously refunded by reason of fraud or collusion or willful mis-statement or suppression of facts or contravention of any of the provisions of Chapter V of Finance Act or of the rules made thereunder with intent to evade payment of service tax.

It is the bounden duty of the department to give reasons for invoking extended period of limitation.

Suppression of Fact

Suppression of fact by the assessee is one of the reasons to invoke the extended period. The Department is to establish that the assessee suppressed the required details to the department and the same is alleged in the show cause notice issued to the assessee. Here we may see some of the examples which amounts to suppression of facts and which will not amount to suppression of facts :

In 'Commissioner of Central Excise, Jaipur, V. Ajmer Automobiles (P) Limited' - 2012 (26) STR 19 (Tri. Del)—it was held that the section requires that notice can be issued invoking the extended period only if there was suppression of information. In that case the information regarding commission received and also about payments received from the manufacturer was not disclosed in the service tax returns. This cannot be considered as suppression with intent to evade tax, because the assessee had a bona fide belief that they were not liable to pay tax on the amount received by them out of commission received by Maruti Udyog Limited on which Maruti Udyog Limited has paid Service tax. So this is not a fit case to invoke the extended period alleging suppression.

In 'Kamal Auto Finance Limited V. Commissioner of Service Tax, Jaipur' – 2012 (26) STR (Tri. Del)—the demand for the period April 2001 to March 2002 have been raised by a show cause notice dated 28.02.2005 is clearly barred by limitation having been raised beyond the normal period of limitation. The lower authorities have not referred to any evidence of suppression or misstatement with intent to evade payment of duty on the part of the appellant. Inasmuch as the issue involved in interpretation of provisions of law the appellants cannot be settled with any allegation of mala fide so as to justifiably invoke longer period or so as to impose penalty upon them. Further, the demand stands raised against the appellants pitching the figures of commission from their balance sheet, in which case, the appellants cannot be held guilty of suppression on their part. Accordingly the Tribunal held that the demand is barred by limitation.

In 'Sayaji Hotels Limited V Commissioner of Central Excise, Indore' - 2011 (24) STR 177 (Tri. Del) —the appellants were filing the six monthly ST-3 returns and it is not the allegation of the department that availment of Notification No.12/03-ST was declared in ST-3 returns. When the department had knowledge that the appellants are availing exemption under Notification No.12/03-ST since 01.03.2005, it cannot be said that the appellant suppressed this information from the Department with intent to evade the tax. Thus the criteria for invoking the longer limitation period is not satisfied.

In 'Subash Khandelwal & Sons V. Commissioner of Central Excise, Jaipur—I' - 2011 (24) STR 461 (Tri. Del)—the demands of the service tax were raised against the appellant by invoking the longer period of limitation. The lower authorities have observed that inasmuch as the appellants never informed the revenue about the services being provided to Reliance Engineering Associate, and the same came to the notice of the department during the course of audit, the extended period of limitation is justifiably invoked against them. The Tribunal, however, found that there is no evidence of positive act of suppression against the appellant. It is a well-settled law that mere non-filing of information to the Revenue on the reasonable belief that the activities undertaken by them are not taxable, cannot be held to be a justifiable ground for invocation of longer period of limitation. Apart from the above, the Tribunal has also taken into consideration the fact that the appellants have made a submission that the earlier show cause notice was issued to the appellant on 02.11.2007 for the same period on the basis of audit conducted by the department and all requisite information and records were submitted to them. In any case, in the absence of any positive act of suppression or misstatement with mala fide intention, the Tribunal is of the view that demand beyond normal period of limitation is not liable to sustain.

'Commissioner of Central Excise, Jaipur V. Global Enterprises' - 2011 (23) TR 396 (Tri. Del)—the Tribunal observed the Commissioner (Appeals) order. The Commissioner (Appeals) held that the appellants has registered them under the category of Cargo Handling agency services and Business Auxiliary services and paying service tax, the department has not objected such registration or ST returns submitted by the Appellants. In view of this, the Appellants have contended that the charge of suppression of facts is not applicable on them. In view of these facts, the Commissioner agreed with the Appellants' view that there is nothing mala fide on the appellants; therefore, invocation of extended period of demand is not maintainable. The Tribunal found from the Memo of Appeal filed by the Revenue that the findings of the Commissioner (Appeals) on limitation do not stand challenged by them. There is no ground implicit in the memo of appeal dealing with the findings of the Commissioner (Appeals) on limitation.

In 'Lok Priya Travels V. Commissioner of Service Tax, Ahmadabad' - 2012 (25) STR 49 (Tri. Ahmd)—it was held, though it was a fact that they have taken service tax registration, they never disclosed the nature of services rendered nor they furnished ST-3 returns, which was mandatory for a person providing taxable service. The question naturally arises is that if they were not aware that they had to pay the service tax, why should they take a service tax registration? Non-furnishing of information or non-filing of returns resulted in non-payment of service tax and this action on the part of the appellant is tantamount to deliberate non-compliance with the provisions. In other words, there is only implying suppression of facts with intent to evade payment of service tax. Therefore the extended period under Section 73(1) is rightly invoked by the Revenue.

In 'Instrumentation Limited V. Commissioner of Central Excise, Jaipur-I' - 2011 (23) STR 221 (Tri.Del) —the Central Excise show cause notice dated 15.1.1991 for including 'Engineering charges' and 'Erection, installation and commissioning charges' in the assessable value of the goods cleared by the appellant to their customers and charging differential duty on the basis was dropped vide order-in-original No. 119/94, dated 14.7.94. Thereafter the department would no longer be interested in 'Engineering charges' or 'Erection, installation and commissioning charges'. The Consulting Engineer's service became taxable with effect from 07.07.1997. But the appellant, while providing Consulting Engineer's service in form of preparing basic engineering drawing as well as detailed engineering drawings of the instrumentation and control system to be installed and training of the clients personnel in operation and maintenance of the system, neither informed the Department about this activity for seeking clarification as to whether this activity will attract service tax nor applied for service tax registration nor paid the same. They took service tax registration, for 'Consulting Engineer's Service' along with 'Erection, installation and commissioning service' on 20.01.2004. There is no explanation for nonpayment of service tax and not obtaining service tax registration in respect of 'consulting engineer's service during July 1997 to mid-January 2004 period. Just because in 1991 a show cause notice had been issued to the appellant for including 'Engineering charges' and 'Erection, installation and commissioning charges' in the assessable value of the instruments and equipments being cleared by them to their clients and demand of differential excise duty on this basis, it could not be presumed by the Department officers that during subsequent period also they, in addition to sale of the instruments and control equipment manufactured by them, are also engaged in systems design activity. The Tribunal, therefore, is of the view that the appellants are guilty of suppressing the relevant information from the Department and therefore longer limitation period of five years for recovery of non-paid service tax has been rightly invoked by the Department.

In 'Desert Inn Limited V. Commissioner of Central Excise, Jaipur' – 2011 (23) STR 254 (Tri. Del)—the Tribunal analyzed the definition of the services brought vide Section 65(105) (m) of the Finance Act, 1994. As per this sub-section the taxable service means any service provided to a client by a Mandap Keeper in relation to the use of Mandap in any manner including the facilities provided to the client in relation to such use and also the services, if any, provided as a caterer. The Tribunal found that any services provided by the assessee to their client in relation to Mandap Keeper are also to be included in the services of a Mandap Keeper. It is an admitted fact that the facility of car parking was made available to the clients who availed the services of the Mandap. It is also an admitted fact that the car parking charges were collected from the client who hired the Mandap and not from the persons who were parking their cars in that car parking. Hence these services of car parking are in relation to the use of the Mandap. It is admitted by the appellants that due to rush of vehicle the problem of parking is assuming importance and the appellants who holds a banquet hall has to provide some parking space to be used for parking of vehicles by the guests of the client holding a function in the banquet hall. The said statement by the appellants also confirmed the view of the Tribunal that the car parking facility has been provided by the appellants in relation to the service provided for the Mandap. The appellants suppressed the fact from the department that these car parking charges are collected from the clients who are using the Mandap. Hence the lower authorities has rightly invoked the extended period of limitation.

In 'Alstom Projects Indian Limited V. Commissioner of Service Tax, Delhi' – 2011 (23) STR 489 (Tri. Del)—the Tribunal held that though the appellant had service tax registration and initially they were paying service tax on the amount received from Delhi Metro Rail Corporation (DMRC) in respect of the taxable service provided to DMRC in course of execution of this contract, without giving any intimation to the Department, they subsequently stopped paying service tax in respect of this contract and even stopped declaring in their ST-3 returns, the amounts received from DMRC for jobs covered by the definition of 'Consulting Engineer's Service' and 'Erection, installation or Commissioning Service'. Since the payment of service tax is under self- assessment under which an assessee is expected to determine his service tax liability correctly, pay the tax and thereafter declare the value of taxable service including the value of non-taxable services, tax payable and the tax paid in the six monthly ST-3 returns, the appellant's action of not declaring the amounts received in respect of the same amounts to suppression of the relevant information with intent to evade the payment of tax. Therefore, the Tribunal is satisfied that the longer period limitation period under proviso to Section 73(10 has been correctly invoked and the tax demand is within time.

In 'Commissioner of Service Tax, Bangalore V. Gowri Computers Limited' – 2012 (25) STR 380 (Tri. Bang)—the show cause notice was issued on 09.01.2006 for confirming demand of service tax against the assessee for the period from 27.09.2004 to 08.03.2005. Though there was a proposal in the show cause notice to impose penalty under Section 78 of the Finance Act, 1994, for willful suppression of the value of taxable services rendered by them there was no such allegation of such suppression elsewhere in the notice in the context of demanding/appropriating service tax. Nowhere in the show cause notice was there any specific allegation of suppression of taxable value, nor was it stated as to how much of the taxable value was suppressed. The show cause notice also did not allege any of the other ingredients of the proviso to Section 73(1) of the Act for invoking the extended period of limitation. In this scenario, it can be hardly be inferred that show cause notice invoked the proviso to Section 73(1) of the Act. Mere mention of the proviso of Section 73(1) of the Act in the operative part of the show cause notice would not suffice. It has, therefore, to be held that the proviso was not invoked by the department.

Intention to Evade Payment of Service Tax

Longer period of limitation can be invoked by the department if it is established that there is an intention on the part of the assessee to evade payment of service tax. In 'Cosmic Dye Chemical V. Commissioner of Central Excise, Bombay'—(1985) 6 Supreme Court cases 117 the Supreme Court has observed that mala fide intention is an essential element for invocation of longer period of limitation.

The nonpayment of service tax on the part of the assessee is due to the interpretation of law—then longer period of limitation cannot be invoked. This fact shall be established by the assessee. IIn 'Commissioner of Central Excise, Mysore V. Raid & Taylor (India) Limited' – 2012 (25) STR 85 (Tri. Bang)—it was held that the extended period of limitation is not invokable in view of the divergent opinions of the Tribunals on the disputed issue. The failure on the part of the assessee is acceptable as a bona fide error and cannot be attributed to willful intention to evade tax. In view of the above, appeal fails on the ground of limitation alone.

In 'Rajasthan State Warehousing Corporation V. Commissioner of Central Excise, Jaipur' – 2011 (23) STR 385 (Tri. Del)—the Tribunal held that considering the status of the appellant as a Public Sector Undertaking and other conduct after the matter has been pointed out to them and the fact that the audit by the department on previous occasions did not point out the issue though they were collecting charges during such period also, the Tribunal is satisfied that the Appellant did not have any intention to evade the impugned tax.Therefore the demand will be sustainable only to the extent of the demand covered by the normal period of time of one year.

In 'Essar Projects (India) Limited V. Commissioner of Central Excise, Ahmadabad' – 2011 (23) STR 140 (Tri. Ahmd)—the appellant was paying service tax and were filing due returns with the department. Though the above factual position does not stand disputed by the authorities, the same stands rejected by them on the ground that the appellant never disclosed in their periodical returns that such services being provided by them were not taxable. The Tribunal found no merits in the above reasoning of the Commissioner. When the appellant is paying service tax on the services being provided by them, it is for the Revenue to adjudge whether such service is taxable or not. The service tax having been accepted by the Revenue and a dispute having been raised, only subsequently on finding that the credit was on much higher side than the service tax, proceedings were initiated against the appellants. The Tribunal further found that when the appellants were admittedly paying the service tax on the services and filing the returns and when the audits were taking place during the relevant period, raising objections and subsequently dropping the same, can any suppression or mis-statement can be attributed to the appellants with mala fide intention, so as to invoke the longer period of limitation. There is no evidence on the part of the appellant with intent to evade payment of duty. In view of the above, the Tribunal found favor with the appellant's contention that demand raised beyond the limitation period is barred.

Interpretation of Law

In 'City Motors & Financial Services V. Commissioner of Central Excise, Gurgaon' – 2012 (25) STR 449 (Tri.Del) —the subject matter was interpreted by judicial forum in different ways as may be seen from the decisions quoted by the appellants. The High Court has taken the view that in such situation the extended period of time cannot be invoked for rising demand.

In 'South City Motors Limited V. Commissioner of Service Tax, Delhi' – 2012 (25) STR 483 (Tri. Del)—the period invoked in this appeal is prior to 10.09.2004. The show cause notice was issued on 20.04.2006. The appellant is paying tax from 10.9.2004. This matter relates to scope or the entry for 'Business Auxiliary Service'. There was considerable doubt about the coverage because of the very nature of the entry. There are contrary decisions of the Tribunals in this matter. In most of the case the Tribunal has taken the view that it is a case of interpretation of the taxing entry and no mala fide or element of suppression or misstatement is involved. The Higher courts have been taking the view that—in such situations—the extended period of time cannot be invoked for raising demand. In this case also the demand is raised beyond the time limit of one year and such demand cannot be sustained.

In 'KSB Pumps Limited V. Commissioner of Central Excise, Pune' – 2011 (24) STR 501 (Tri. Mum) —it was held that mere submission that there were different decisions taking conflicting issues cannot by itself be sufficient to hold the demand as time-barred.

In 'Commissioner of Central Excise, Chandigarh V. Krishna Automobiles' – 2011 (23) STR 57 (Tri. Del) —the respondent has raised the argument that the demand is time-barred. It is seen that these impugned commissions were not reported in ST-3 returns filed. An assessee on his own giving an interpretation of law and not bringing the relevant matters to the notice of the department will be a fit case for invoking extended period of time.

Bona fide Belief V. Malafide Intention

When the assessee is able to prove that he has bona fide belief that he has not liable to levy and pay service tax then extended period cannot be invokable. When the bona fide belief is established then there is no mala fide intention to evade payment of service tax.

In 'Commissioner of Central Excise, Tirunelveli V. Tuticorin Alkali Chem. & Fertilizers Limited' - 2011 (23) STR 372 (Tri. Chennai)—the respondent is a manufacturer of products like soda ash and ammonium chloride etc., At about a distance of 5 kms from the factory they have a 'captive' saltpan and salt produced there is being used by the respondents entirely in their factory as raw material. The dispute relates to availability of credit of service tax on security services which was provided for the saltpan. The credit was denied and the demand of service tax was confirmed. On appeal the Commissioner (Appeals) set aside the order of original Authority. Against this, appeal has been filed by the Revenue before the Tribunal. The Revenue contended that saltpan is not part of a factory manufacturing excisable goods. The definition of 'factory' as per Sec. 2(e) of the Central Excise Act specifically excludes premises where salt is produced. Therefore, whatever services utilized in a saltpan cannot be treated as input services in relation to the factory which uses the salt as input. The Tribunal held that in the context of a factory, the security services have to be rendered within the factory and within the precincts of the factory. The security services used in the saltpan though belonging to the respondents are clearly outside the factory premises as recognized under the Central Excise law. In view of the specific exclusion of salt pan from the definition of the term 'factory' which definition is applicable to the CENVAT Rules, the security services which are specific cannot be treated as input services. However the Tribunal accepted the contention of the respondent that the issue involves interpretation of legal provisions and the respondents cannot be held to have suppressed any relevant information and that extended period is not invokable and no penalty is imposable. The belief of the respondents that they were eligible to take credit of service tax paid on security services utilized in a captive saltpan cannot be treated as other than bona fide belief. Therefore, no demand can be sustained invoking the extended period and further penalties are not justified.

In 'Commissioner of Service Tax, Bangalore V. Karnataka State Warehousing Corporation' – 2011 (23) STR 126(Kar)—the High Court found that the assessee did not get themselves registered. It is their intention the service rendered by them is not amenable to the Act. However when it was brought to the notice that they are covered under the Act, they have registered themselves and have paid the tax. The material on record do not disclose a case of fraud, collusion, willful misstatement or suppression of facts or contravention of any of the provisions of the Act or the Rules made therein with intention to evade payment of tax. It discloses that the assessee having bona fide believe that the services provided by them do not attract service tax, they did not get themselves registered. The department also did not levy tax. The moment it was brought to the notice that the services rendered by them comes under the Act they promptly registered themselves and paid tax. Therefore, it is clear the case falls under Section 73(1) of the Act and not under the proviso of the said section. Therefore the period prescribed is one year prior to the date of the show cause notice. Beyond that period, it is clearly barred by time. Therefore the findings recorded by the Appellate Tribunal are in accordance with law and does not suffer from any legal infirmity which calls for interference.

In 'BSNL V. Commissioner of Central Excise, Jaipur' – 2011 (24) STR 435 (Tri. Del)—it was held as regards the argument that extended period cannot be applied in respect of the appellant firstly on the ground that there is no mention in the show cause notice of the same and secondly on the ground that the appellant being a public sector unit cannot be attributed any mala fide and consequently no penalty and interest can be charged, the Tribunal is unable accept such an argument. First the appellant has not shown their bona fide they have not reflected the actual service charges received by them towards the value of taxable service in their statutory returns and further the show cause notice alleged that there has been suppression with intention to evade on their part and demand has also been raised under Section 73(1) of the Act. The service tax law does not make a distinction between the private sector assessee and a public sector assessee and the provisions are equally applicable to both categories of assessees and the law makers have not made special provisions for one category.

In 'Aadishwar Motors Private Limited V. Commissioner of Service Tax, Ahamedabad' – 2012 (24) STR 81 (Tri. Ahmd)—the Tribunal found that there were doubts in the fields as regards the alleged activities being chargeable to service tax. If that be so, no mala fide can be attributed to the appellants with intent to evade payment of duty. Mere non-approaching the department or non-seeking of classification by itself cannot be made a ground for invocation of longer period of limitation unless the same is associated with a willful intent to evade payment of tax. The Tribunal found that the demand raised beyond the normal period of limitation against the appellant is clearly barred by limitation. The Tribunal allowed the appeal.

In 'Idea Mobile Communication Limited V. Commissioner of Central Excise, New Delhi/Rohtak' – 2012 (26) STR 27 (Tri.Del)—it was held that admittedly earlier decision of the Tribunal, in the appellant's case, as also in other case were in favor of the assessee. It was also observed in the decision of Kerala High Court that since the issue is bona fide interpretation and as such penal provision was not justified. The Tribunal noted that the grounds for penal provision and for invoking longer period of limitation are identical. It has to be held that there was bona fide doubt about the non-inclusive of the cost of SIM card in the value of services. If that be so, no mala fide can be attributable to the appellant so as to invoke the extended period of limitation.

Other Reasons to Invoke Extended Period

In 'DTDC Couriers & Cargo Limited V. Commissioner of Central Excise and Service Tax, Bangalore' – 2012 (26) STR 365 (Tri. Bang)—the activities of the applicant as 'co-loader' prima facie is falling under the category of 'Business Auxiliary Service' inasmuch as the applicant has rendered such services to other parties who provided courier services. Merely because the parties to whom they provided services under the banner of DTDC in terms of franchise agreements the said parties cannot be treated other than as clients. Therefore the applicant is rendering the service of 'Business Auxiliary Service' after the amendment of the definition of 'Business Auxiliary Service' with effect from 10.09.2004 and the applicant has failed to disclose the relevant details to the Department and, therefore, extended period of limitation is also invocable for the purposes of demanding the service tax.

In 'Ideal Security V. Commissioner of Central Excise, Allahabad' – 2011 (23) STR 66 (Tri. Del)—the Tribunal looked into the appellate order and it was able to confirm that there was difference in two sets of documents that were relied upon by the appellant. One such document was ST-3 return and the second one is its own balance sheet and profit and loss account. The authority recorded that the appellant failed to explain the difference. Therefore, the disclosure being found to be faulty, adjudication was completed on the basis of figures appearing in its financial statements. The authority did not give any concession on the statutory dues. So for as the contention of the appellant in respect of time bar issue and also adjudication under Section 73 is concerned, the appellate authority found that one of the elements like suppression which is essential ingredient in Section 73 is present. Therefore he held that the proceedings were well within time. When he found all these aspects, he made the appellant liable to pay penalty also. The Tribunal agreed with the findings of the appellate authority in the matter of the discrepancy noticed by him in respect of the considerations received and appearing in different statutory documents. While the ST-3 return was statutory document under Finance Act, 1994, the balance sheet and profit and loss account were statutory documents under Companies Act, 1956. Therefore, when the public documents bring the discrepancy, the onus of proof was on the assessee to come out with clean hand to prove its stand. The appellate authority is correct in invoking Sec. 73(1).

Relevant Date

Sec. 11(6) of the Finance Act defines the term 'relevant date'. The term 'relevant date' means

(i) in the case of taxable service in respect of which service tax has not been levied or paid or has been short-levied or short-paid —

(a) where under the rules made under this Chapter, a periodical return, showing particulars of service tax paid during the period to which the said return relates, is to be filed by an assessee, the date on which such return is so filed;

(b) where no periodical return as aforesaid is filed, the last date on which such return is to be filed under the said rules;

(c) in any other case, the date on which the service tax is to be paid under this Chapter or the rules made thereunder;

(ii) in a case where the service tax is provisionally assessed under this Chapter or the rules made there—under, the date of adjustment of the service tax after the final assessment thereof;

(iii) in a case where any sum, relating to service tax, has erroneously been refunded, the date of such refund.

In 'ITC Limited V. Commissioner of Central Excise, Guntur' – 2011 (23) STR 41 (Tri.Bang)—the plea of the appellant is that part of the service tax demand raised by the show cause notice is time-barred. During the period of dispute, the limitation period for raising demand of short paid or non-paid service tax was one year from the 'relevant date' as defined in Section 73(1) of the Act. Since the appellant was filing periodical six monthly returns the relevant date was the date on which such return was to be filed. ST-3 return for the six monthly period ending 30th September is required to be filed by 25th October and for the period ending 31st March is required to be filed is by 25th April. The Tribunal found that all show cause notices were issued within the limitation period of one year from the respective relevant date and therefore the Tribunal did not find any infirmity in Commissioner's order holding that show cause notices are within time.

Conclusion

Failure to levy service tax or pay service tax or short levy of service tax or short payment of service tax will attract payment of duty along with interest and penalty. The assessee will be dragged on to litigation unnecessarily. Payment of service tax before issue of show cause notice will not attract interest as well as penalty. At the same time if it is paid at the instance of the department or pointed during the audit etc., no defence will be available to the assessee. Complying with the provisions of Finance Act, 1994, in respect of levy and payment of service tax will give more peace to the assessee. ❐

Impact of Direct Tax Code on Capital Gains in India

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Introduction

Formal taxation statute has been first introduced in India by the British rulers way back in 1860. At that time, after the Queen's proclamation in 1858 following the 'Sepoy Mutiny' of 1857, the Income Tax Act was introduced to recover the cost of that war. After the first Income Tax Act, 1860, the British Government introduced new Income Tax Act in 1869, 1886, 1918, and 1922, substituting the earlier one. The main objective of the introduction of new Acts was to increase the revenue by imposing more and more tax. The Income Tax Act, 1922, was very important in the history of Indian tax system as in this Act the administrative portion of law relating to the income tax was separated from the fiscal portion. It empowered the government to charge taxes at rates to be fixed by the annual Finance Act. As a result the government can easily fix the rate of tax as per budgetary requirements.

Over the periods, the taxation statutes evolved to face the challenges of the changing economic world. The reform in Indian Tax system started in the year 1956, when the Government of India referred the Act of 1922 to the ''Law Commission'' for review. To prevent tax evasion, remove difficulties of tax payers and to suggest reform on Indian taxation policy, the Govt. of India constituted ''Direct Taxes Administration Enquiry Commission'' headed by Sri Mahavir Tyagi (1958) and Kaldor Commission headed by Sri Nicholas Kaldor (1961). This reform is a continuous process.

On the recommendations and suggestions of several committees, members of the public, chamber of commerce and industries, the Income Tax Act, 1961, was passed in Parliament in September 1961. It came into effect on 1st April 1962. Till now this Act is in force. The Income Tax Act, 1961 is an exhaustive tax law. There are 23 Chapters, 298 Sections and indefinite number of sub-sections and 14 Schedules in this Act.

The Govt. of India constituted ''Boothalingam Committee'' (1967), ''The Direct Taxes Enquiry Committee'' headed by Sri K. N. Wanchoo (1970), ''The Direct Tax Law Committee'' headed by Sri C.C. Chokshi (1978), ''The Tax Reform Committee'' headed by Dr. Raja Chelliah (1991), ''The Task Force'' headed by Dr. Vijay Kelkar (2002) to reform the tax system of India. The mandate of the reports of all the committees was to simplify tax system with an object to improve tax administration and reduce tax exemptions.

On the recommendations of the above-mentioned committees/commissions, several efforts have been made to achieve the reforms of direct taxes. All the measures of direct tax reforms focused on :

(i) Expanding the tax base,
(ii) Reducing rates of taxes,
(iii) Rationalizing the taxes by removing most of the categories of exempted income,
(iv) Simplification of tax administration through online tax resources for tax management and planning.

Rationality of DTC

To address all the above-mentioned issues, the Direct Tax Code (DTC) has been placed before Parliament for enactment. The first draft of DTC was released by the Government of India in August 2009 for public opinion and debate. The revised DTC was published in August 2010 and finally placed before parliament on August 30, 2010. This Bill contained 319 Sections divided into 20 Chapters. There are 22 Schedules and 297 definitions annexed to this Bill which explain the details about computation of income, procedure to be followed, rates of taxes, rates of depreciation etc. The DTC will replace the 51 year old Income Tax Act, 1961, and Wealth Tax Act, 1957. The Direct Tax Law Committee recommended in its report in 1978 to introduce a single direct taxation laws substituting various direct tax laws, viz. Income

Tax Act, Wealth Tax etc. The new Direct Tax Code aims at improving efficiency and equity of the tax system which will eliminate distortions in the tax structure as well as broadening the tax base for smooth transaction by the tax laws. It seeks to encourage simplification and aims for stable taxes and better tax compliance. It is designed to ensure reduction of leakage of revenue through eliminating tax exemptions, protection of social interest and to provide stability in the new tax regime as it is based on simpler process, well-accepted principles of taxation with minimum litigations and best international practices. The new code will completely overhaul the existing tax laws and structure for not only individual tax payers, but also corporate houses and foreign residents.

Salient Features of DTC

The Code seeks to consolidate and amend the law relating to all direct taxes, that is, income-tax, dividend distribution tax, minimum alternate tax and wealth-tax so as to establish an economically efficient, effective and equitable direct tax system which will facilitate voluntary compliance and help increase the tax-GDP ratio. Another objective is to reduce the scope for disputes and to minimize litigation making the whole process simpler.

The objectives of the Government while drafting the Direct Tax Code Bill can be outlined :

(a) Providing stability **:** At present, the rates of taxes are stipulated in the Finance Act of the relevant year. So, there is an uncertainty and instability in the prevailing rates of taxes. Under the code, all rates have been prescribed in the DTC itself (First Schedule) thereby eliminating the need for an annual Finance Bill. The changes in the rates, if any, will be done through appropriate amendments to DTC brought before Parliament in the form of Amendment Bill. With the introduction of the new Direct Tax Code, the tax rates will not be part of the budget presented to Parliament every year.

(b) Single Code for direct taxes **:** All the direct taxes like income-tax, corporate tax and wealth-tax were brought under a single Code through a simple way of tax management and planning.

(c) Use of simple language **:** A very simple language and direct voice was used in drafting the DTC so that an ordinary tax payer can also understand the provisions.

(d) Reducing the scope for litigation **:** The Government aims at minimizing the scope for litigation between the taxpayers and the tax administration.

(e) Flexibility **:** The structure of the statute has been developed in a manner which is capable of accommodating the changes in the structure of a growing economy without resorting to frequent amendments.

(f) Consolidation of provisions **:** For a better understanding of tax legislation, provisions relating to definitions, incentives, procedure and rates of taxes have been consolidated. Further, the various provisions have also been rearranged to make it consistent with the general scheme of the Act.

Impact of DTC on Capital Gains

The Direct Taxes Code Bill, 2010, that seeks to replace the five decade old Income Tax Act, 1961, brings in significant changes in the Act. The DTC aims at bringing about the changes in the chargeability, computation and deductions aspects of capital gains taxation. The new DTC proposes that the assets will no longer be treated as short term investment or long term investment based on how long they are held. The calculation will be done from the end of the financial year in which the asset is acquired. The Code replaces the term 'capital asset' as used under the existing Act with the term 'investment asset'. An investment asset includes all capital assets which are not business capital assets, securities held by foreign institutional investors (FIIs) and any undertaking or division of a business. Any gain/loss from the sale or transfer of business related capital assets will be chargeable under the head ''Income from Business'' and not capital gains. According to the new DTC, ''business capital asset'' means any capital asset self-generated in the course of business, any intangible asset related to the business (goodwill, trademark/brand name, right to manufacture/carry on business, tenancy rights, license, permits, etc), tangible assets like building, plant, machinery, furniture and any other capital asset, not being land, connected with or used for the purposes of any business of the assessee.

The important changes that the new DTC proposes for the capital gains are :

- ***Calculation of holding period*** **:** The holding period will be calculated from the end of the financial year in which the assets were acquired as against the existing provisions where the holding period is calculated from the date of the transfer.

If a person buys a share on 1st April 2011 and sells it on 2nd April 2012—it will be treated as a long term capital asset, and no tax is required to be paid on securities held for more than a year from the date of acquisition and sold on the stock exchange on which securities transaction tax (STT) is paid as per Income Tax Act, 1961. But with the introduction of DTC, the holding period will be calculated from the end of the financial year in which it was acquired, so in this situation, the holding period will be calculated from 31st March 2012 and it will be treated as short term capital assets.

- ***Normal tax rate for all kinds of short-term capital gains :*** The capital gain arising from transfer of any investment asset held for less than one year from the end of the financial year in which it is acquired will be computed without any specified deduction or indexation. It will be included in the total income and will be charged to tax at the rate applicable to taxpayer.

- ***Normal tax rates on long-term gains on equity shares :*** Capital gains arising from transfer of equity shares of a company listed on a recognized stock exchange or units of an equity oriented fund, which are held for more than one year, shall be computed after allowing a deduction at a specified percentage of capital gains without any indexation. This adjusted capital gain will be included in the total income of the assessee and will be taxed at the applicable rate. Here the security will be required to be held for a period of one year from the end of the financial year in which it is acquired to be treated as long term.

- ***Base year changed from 1.4.1981 to 1.4.2000 :*** For taxation of capital gains arising from transfer of investment assets held for more than one year, the base date for determining the cost of acquisition will be considered 1.4.2000 instead of 1.4.1981.

- ***Gains of FII to be charged as capital gains only :*** Currently, FIIs are governed by Section 115AD of the Income Tax Act, 1961, which refers to the taxation on income of FIIs from securities or capital gains arising from their transfer. While some FIIs have been classifying their income from securities transactions as capital gains, others have also been classifying such income as business income, thus claiming total tax exemption by declaring on absence of a permanent establishment in India. The DTC proposes that the income arising on purchase and sale of securities by FII shall be deemed to be income chargeable under the head "Capital Gains".

- ***No TDS on Capital Gains of FII :*** The capital gains arising to FIIs shall not be subjected to TDS and they will be required to pay tax by way of advance tax on such gains as is the existing practice.

As per Income Tax Act, 1961, an assessee can claim following deductions in respect of the capital gains subject to fulfillment of specified conditions :

(i) Long-term capital gain on transfer of house property used for residence (Sec.54)

(ii) Any capital gain on transfer of land used for agricultural purposes (Sec. 54B)

(iii) Any capital gain on compulsory acquisition of land and building forming part of an individual undertaking (Sec. 54D)

(iv) Long-term capital gain on transfer of long-term capital assets not to be charged on investment in certain bonds (Sec. 54EC)

(v) Long-term capital gain on transfer of asset other than a residential house (Sec. 54F)

(vi) Capital gain on transfer of assets in case of shifting of industrial undertakings from urban areas (Sec. 54G).

As per proposed DTC, only the individual and HUF are eligible to enjoy the relief for rollover of investment assets. There are only two options available for reinvestment : (i) transfer of agricultural land could be reinvested by acquiring another agricultural land; and (ii) transfer of any investment asset invested in a residential house. The rollover is limited to the proportion of reinvestment as it bears on net sale consideration. Reinvestment of capital gain is not sufficient for avoiding the tax liability as is available in Sections 54, 54B, 54D, 54EC and 54G of the Income Tax Act, 1961.

Though the tax savings of IT Act, 1961, will not be available, the positive change in the DTC is that all capital losses can be set off against each other and a carry-forward allowed indefinitely for all losses. In the Income-Tax Act as it stands today, there are limitations on carry-forward and setoff of capital losses.

The benefit of indexation is now sought to be provided in respect of all assets transferred after one year from the end of the financial year in which it is purchased. The indexation base and fair market value date has been moved from 1st April 1981 to 1st April 2000. The reduction in period for availing indexation benefit (from existing three years in certain cases) will largely be beneficial to taxpayers.

The new DTC has also proposed a significant change regarding computation of capital gains as well as the taxation on such gains. Computation of capital gains depends upon the nature of investment asset transferred, viz., short-term or long-term capital asset. As per the existing provisions of Income Tax Act, 1961, an asset is considered as long-term if it is held for more than 36 months as on the date of its transfer. The new DTC has removed the concept of short-term and long-term capital assets. This is, however, merely technical, since it indirectly recognizes this distinction based on the fact whether the investment assets are held for more than 12 months or not.

Computation of Capital Gains under DTC

According to Section 51 (1) of DTC the following deductions will be allowed for the purposes of computation of income from the transfer of an investment asset :

(i) the cost of acquisition, if any, of the asset;

(ii) the cost of improvement, if any, of the asset; and

(iii) the amount of expenditure, if any, incurred wholly and exclusively in connection with the transfer of the asset.

Further, according to Section 51 (2) of DTC, in the case of transfer of an investment asset, being an equity share in a company or a unit of an equity oriented fund and is chargeable to securities transaction tax (STT) under Chapter VII of the Finance (No. 2) Act, 2004,

(a) where the asset is held for a period of more than one year,

(i) if the income computed after giving effect to sub-section (1) is a positive income, a deduction amounting to hundred per cent of the income so arrived at shall be allowed;

(ii) if the income computed after giving effect to sub-section (1) is a negative income, hundred per cent of the income so arrived at shall be reduced from such income.

(b) where the asset is held for a period of one year or less,

(i) if the income computed after giving effect to sub-section (1) is a positive income, a deduction amounting to fifty per cent of the income so arrived at shall be allowed;

(ii) if the income computed after giving effect to sub-section (1) is a negative income, fifty per cent of the income so arrived at shall be reduced from such income.

As per Section 51(3) if an investment asset, other than that referred to in sub-section (2) of the section or sub-section (5) of Section 53, is transferred at any time after one year from the end of the financial year in which the asset is acquired by the person, the deductions for the purposes of computation of income from the transfer of such asset shall be the following, namely :

(i) the indexed cost of acquisition, if any, of the asset;

(ii) the indexed cost of improvement, if any, of the asset;

(iii) the amount of expenditure, if any, incurred wholly and exclusively in connection with the transfer of the asset; and

(iv) the amount of relief for rollover of the asset, as determined under Section 55.

Tax Rate under DTC

Short Term Capital Gain (STCG) : Where the investment asset is held for less than a year from the end of the financial year in which the asset was acquired, capital gains are computed without any specific deduction or indexation. The STCG will be added to income, and then be taxed based on whatever slab the individual/assessee falls.

In case of listed equity shares and units of equity oriented funds the DTC has reduced the tax burden substantially for short-term small investors. Short-term capital gains on such securities would be eligible for 50% deduction if STT is paid and thereafter taxed as per the normal slab rates applicable to the assessee.

Long Term Capital Gain (LTCG) : In case of long term capital gain tax method of computation of taxable amount of LTCG is different and slightly complex. Capital gain would be taxable as income from ordinary sources at slab rates applicable to different income brackets. In other words, an individual falling under 30% bracket pays long-term capital gains tax at 20 % as per IT Act, 1961. But, such individual has to pay tax at 30% under the DTC regime since, the concessional tax rate of 20 percent for the long-term capital gains available under the existing Act are done away with. The benefit of indexation is proposed to be provided in respect of investment assets transferred after one year from the end of the financial year in which it is purchased. This adjusted capital gain will be included in the total income of the taxpayer and will be taxed at the applicable rate.

The LTCG gain arising from listed equity shares or equity linked mutual funds on which STT has been paid would continue to be not taxable as 100 per cent deduction is to be allowed from such gains under new DTC.

So, one of the most significant changes brought in by the draft Code is the removal of the entire head of "Income from capital gains". Any income received as capital gains earned by an individual on transfer of investment assets shall be considered as income from ordinary sources and shall be taxed according to the individual's tax slab.

Conclusion

The first draft bill of DTC, Direct Tax Code 2009, which had over 5,000 amendments to the current tax legislations, Income-Tax Act, 1961, was met with stiff opposition from all stakeholders (both corporate and the commoners). However, the second draft, i.e. Direct Tax Code 2010 was introduced after making numerous favourable changes for the individual tax payers as well as corporate tax payers.

Since, the LTCG is computed after allowing indexation on the raised base (1st April 2000), all the unrealized gains on investment assets between 1st April 1981 and 31st March 2000 are not liable to tax. The assessees will be benefitted for non-taxation of capital gains of the period.

As per the DTC, a deduction of 100% and 50% of capital gain will be available in respect of LTCG and STCG, respectively, if the STT has been paid on such transfer. Here the deduction has been used instead of allowing exemption. It is meant that the assessee should show the computation of income in the return. This will bring more transparency and control in terms of true reflection of return of income.

In case of long-term capital gains, deductions such as expenses incurred on transfer of an asset and relief from rollover (Sec. 55) would be available subject to fulfillment of certain conditions. Among other conditions, the relief from rollover of investment assets {in respect of any investment assets other than assets referred to Section 51(3)} will be allowed only if the assessee does not own any residential house, other than the new asset, on the date of transfer of the original asset. The advantage of a concessional tax rate for long-term capital gains has been removed, which may result in higher tax cost for investment transactions.

The primary objectives of the new tax law is to make the whole process of tax management and planning simpler and broaden the tax base. It aims at bringing about the changes in the chargeability, computation and deductions aspects of capital gains taxation. The concept of investment assets has been narrowed down as per DTC. As a result the deduction of 100% or 50% as the case may be, will not be applicable if the securities are not listed or are not categorized as investment assets. Again, since the holding period is calculated only from March 31st, assets have to be held for a longer period to be converted into long-term capital assets.

What is required is that the Government ensures a smooth transition from the current tax law to the new regime of DTC. It should also be noted that any new law is bound to face wide criticism from different stakeholders (like tax payers, practitioners, administrators, policy-makers, industries etc.), as all concerned may not be happy. It is estimated that the implementation of the revised DTC may reduce the revenue collections on the direct tax front by approximately Rs. 50,000 crores. This means that the purchasing power of the tax payers will improve to that extent and they would have extra amount to either spend or invest. The tax payers will have a motivation to spend if the taxes are moderate on the indirect tax front too. Accordingly, it is imperative that the GST is implemented before the DTC is effective or, at the most, both the tax reforms are implemented together. The introduction of both DTC and GST will impact revenue collections as both the direct and indirect tax are being reformed to increase the tax base, moderate the tax rate and improve compliance. It is expected that the significant positive changes in the new Code will help the Indian economy to cope up with the changing economic environment, modernization of trade and commerce, increase in cross-border transaction as a result of globalization, development of information technology etc. It will help India to sustain high growth rates. ❐

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Hi-Tech Mechanisms to Stop Corruption

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The greatest ever of social maladies is the corruption among the politicians, bureaucrats, officials and even the rank and files are not far away. Neither is corruption a new phenomena nor has it been an accomplice with any particular political party or leader rather—all political parties irrespective of colours, isms or leftist or rightists are involved in the practice of corruption, indulge corruptions and hide the culprit party followers. Everybody raises voice against corruption; there are numerous debates, discussions, articles to decry the issue. Since after independence there are at least three major movements against corruptions at the national level—once in the seventies led by the social leaders Joy Prakash Narayan and then in the eighties by Mr. V. P. Singh, the leader of Janata Party and now there is a similar movement led by Anna Hazare and his followers. In the previous two cases the ruling party, the Indian National Congress was thrown out of power. Yet the cases of corruptions are not abated but have increased enormously either in magnitude and number and have burrowed their tentacles even deeper and firmer.

Recent movement against corruption led by Anna Hazare and his acolytes has greater spread effect because of improved commutation process, over sensitive and active mass media and television net work which present live telecast in various channels with analytical discussion by political leaders, experts, even assembling the eye witnesses or the victims and their relatives. Current events with their live discussions have greater impetus to influence people and create public opinion. Corruptions, no body denies, not only absorbs funds meant for development or poor people but also affect social environment create disorder and dissatisfaction among people. It has compounding spread effect to engulf the whole community particularly the youth, unemployed and illiterate. Many experts suggest different ways how to combat corruptions. In this context the writer tries how to plug off mechanically the lacunas of the existing systems to check and eradicate corruption without suggesting any new alternative.

Income Tax Practice and Procedure has a very long track record since the early days of the British regime in India. On various occasions many amendments have been done and many new sections have been inserted or deleted to make the system more effective yet here are many lacunas through which corrupt people get escaped, create black money, stash illegal money in foreign banks thus secretly shift national resources to other countries. The following the defects that generate scopes for creation of black money.

Income Tax Return : For every person deriving incomes from any source has to file return and to pay income tax to the government of India if his incomes exceed the non taxable limit. It is a great source of revenue of the government for developmental work and payment of recurring expenditure. For the purpose of ascertainment of tax on income every person or institution, called an assessee, has to submit details of his incomes in the prescribe form of the Income Tax Department, called Income Tax Return (ITR). It will be a blunder if it is taken that every person living in India is quite honest, sincere and truthful that he will fully disclose all about his sources of incomes—whether it is legal or illegal. It is a common practice that those derive unlawful and immoral incomes or take bribes, don't disclose them in their ITRs. As a result there is scope of generation for black money in the existing system of Income Tax Practice and to create illegal assets. Where the illegal money is more they stash it in foreign banks. Business community by various tactics deflates profits to reduce tax burden and thus facilitate tax evasion. By these ways and others there is a parallel economy of unaccounted money in India like many other countries in the world. An assessee deriving secret money from illegal and immoral sources may transfer it in the name of his near relations, purchase costly assets like land, building, furniture or gold and jewellery, or may lead luxurious lifestyle, or get accustomed in conspicuous consumptions etc. The present system and practice of income tax has little scope to ascertain such money and punish the culprits. Getting full advantages of the shortcomings of legal framework, they create huge money through depriving governments and people, distorts economic balance and social peace.

Some people of our country stash huge money in some foreign banks (Swedish Banks are now in the centre of debate.) As there is no scope or compulsion in the present practice of the CBDT to disclose assets including bank deposits and cash balance these dishonest persons go on multiplying their assets by their ever increasing thirst for illegal money.

Assets Statement: To restrain people from creation of assets through illegal and immoral ways Asset Statement should be made compulsory along with the ITR. The present practice of income tax procedure does not lay emphasis on furnishing asset statement along with the income statement. When the legal income is shown in the income statement and illegal incomes are used in increasing assets and thus the person remains untouched by the Income Tax Act until there is raid by the CBI or Income Tax Department on having reports of major financial corruption. Each person who is earning income in any capacity must furnish his asset statement year to year indicating the yearly increase or decrease along with Income Tax Return. It should be made compulsory and mandatory to stop black money creation.

Ascertainment of assets: For the purpose of preparing an asset statement at the initial phase an assessee can prepare and disclose his own list of immovable and immovable assets, authenticated by a chartered accountant or an advocate. For persons contesting any election, entering into jobs or profession or obtaining business liscence a high level enquiry as to ascertainment of assets and liabilities must be there. This will serve as the basis upon which yearly increase or decrease of assets will be measured thereafter. If there is any asset beyond what are disclosed will be liable to confiscated by the Government.

PAN stands for Permanent Accountant Number which consists of ten characters like ADPAJ6276H- the first five are letters, four are numerals and the last character is a letter. It has been designed by the Income Tax Department of India to prevent assessees from tax evasion. But cases of tax evasion detected by the use of PAN are not yet reported. Corruptions and black money creation is rampant everywhere and cases like 2G Spectrum, commonwealth games and IPL Scams, security scams etc. have ignited the recent national movement led by Anna Hazare and his acolytes. PAN is very sophisticated device but is half heartedly used in selective ways for certain financial transactions. It is at present used for purchase and sale of immoveable assets valued over Rs. 5 lakh and deposit over Rs. 50,000 in banks etc. It means that frequent purchases and sales below Rs. 5 lakh or time deposits below Rs. 50,000 do not require PAN to be mentioned. Or in case deposits in foreign banks and private banks use of PAN is not yet strictly observed. By this way black money get escaped though small but in millions ways and those who are big culprits take recourse to many other improved ways to get escaped and stash money in foreign banks.

Why is not the PAN used compulsorily for all financial transactions of any denomination so that net inflow or outflow of an assessee can be measured and appreciation of assets can be ascertained? A comprehensive and integrated control system is to be evolved for the effective application of the PAN. It should be designed to ascertain mechanically the economic status of a person as indicated in the UD (later). It will blink in red in the case any abnormality found.

BAN–Business Account Number : For business houses, institutions and events and some device, called BAN like PAN may be invented to check institutional evasion of sales tax, VAT, business income and income tax thereon etc. Today's business world is scattered and complicated. Businessmen and higher officials are on the habit of earning excess income in some secret ways or others, suppressing income through falsification of accounts, increasing personal as business expenses and not disclosing certain incomes etc. Use of BAN should be made compulsory for all transactions of business, institutions and events so that nothing is left unaccounted for or done through secret ways.

Unique Identification Number (UID) : Recently the Government of India has taken a pilot project to identify every citizen by a number called Aadhaar. It is a 12-digit unique number which will store in a centralized database all information of demographic and biometric- like photograph, prints of the fingers and iris - of each individual which can not be altered or doctored in any way. Thus it will act as an authentic way of identifying and verifying a person without any paper evidence.As such it will be cost-effective and easy process of personal identification and verification for different purposes like opening banking account, admission in schools, colleges or universities, or employment and election purposes etc. So also, it is a unique and robust enough to eliminate the large number of duplicate and fake identities in government and private databases, check infiltration, flesh trading etc. The random number generated will be devoid of any classification based on caste, creed, religion and geography. The above is a specimen of UID as fabricated by the author. It is deviated from what is designed as the official Proforma of UID by the Authority.

Specimen copy of UID

PERSONAL IDENTIFICATION NUMBER (PIN) 123456789
NAME : SUKANTA NANDI SEX : MALE PAN ADAPJ7256H
FATHER'S NAME : LATE AMITAVA NANDI AGE: 54 YRS.
DATE OF BIRTH: 12/1/1957 PHOTO
MARITAL STATUS : MARRIED
STATE CODE: WB/WMID/DEB/MGT-7/Tng-12
QUALIFICATIONS : M. COM.; B. ED.PH. D. Caste GEN
OCCUPATION : SERVICE-- TEACHING
DESIGNATION: ASSOCIATE PROFESSOR
INSTITUTE : A. C. COLLEGE, JALPAIGURI ; W. B.
BLOOD GROUP : O+ ECONOMIC STATUS: C+
CONTACT NUMBER: 9434885376 LAND LINE: (03561)221268
EMERGENCY CONTACT NO. : 99333202339
Signature sknandi THUMB IMPRESSION

Due to technological advancement it is no longer impossible to incorporate certain data like age of persons, qualifications, photo, residential location, change of occupation, economic status, contact number etc. Some information of the UID like age, photo etc. will be auto updated so that the UID remains dynamic and authentic. For incorporation or deletion of certain changes, the concerned person should initiate certain formalities. He will do so because of his social obligations as well as personal gains and benefits.

The UID should be designed in such a way that click on the PAN will reveal net inflow and outflow of cash and net increase or decrease of assets of the person concerned. Of course it may be protected by password for maintaining privacy and secrecy but economic status will blink in red for any abnormality or yellow to doubt and green to normal. Similarly the click on the state code will reveal the place of birth, present address; click on —the qualification will reveal details of qualifications, year of passing , names of the alma meters etc; —click on institutes will reveal details of present and past occupational address; click on contact number will reveal details of contact numbers etc. click on photo will reveal iris and click on thumb will exhibit the prints of ten fingers. On the opposite side of the UID card there will have the emblem of the Government of India, statuary warnings if any, name and logo of the issuing authority.

Preparation, updating and uses of such a card should be made compulsory and mandatory for all Indians. Persons dealing in any financial or social matter will thereafter just mention their UID numbers, if forgotten his signature, or thumb impression for his identification and verification and other necessary information will be collected through web.

As per the Government guidelines the UID is optional/voluntary to apply , of course those who will miss to posses it will face some inconveniences. Some persons/agencies are appointed to collect biometric data and information for the preparation of UID.

Here lie the defects of making the technique, UID as a useful instrument to reap what benefits are expected to be derived from. In the opinion of the writer, for making the system successful the GOI should come forward to make it mandatory for all people taking the State Governments, all the political parties, NGOs and Gram Panchayats (GPs) in the process. But it is now a practice of top to down process instead it should come up from the down to the top under the direct supervision and control of the Gram Panchayat Officers (GPO)/ Municipality Officers. For proper administration and control of the three tiers Panchayati Raj System and decentralisation of decision making at the ground level and settlement of rural disputes the GPOs should be not below the rank of a trainee WBCS (West Bengal Civil Service as in the case of WB) trainee officers. He will be entrusted and made liable for the task of collecting all necessary information, recording and updating information. He will act as the grass root level authorised person on behalf of the government to collect and update data, to deal out justice for rural disputes, will keep complete records of all funds and receipts and expenditures, and collect true and fair report of all things on verification at the spot personally. He will act as the friend, philosopher and guide to the rural people as well as executors of Government policies.

List Price : it has been made as a device for earning excessive income or cheating rural people in the remote area. By an example the matter can be raised for discussion. From a retail shop at Jalpaiguri Town a CFL bulb of 11 Watt of Havel Company bought for Rs. 100 when the list price printed on the case was Rs. 150. The businessmen undoubtedly have earned a profit not less than 25 to 30 % on sale. That means that the cost of the bulb to the seller was Rs.75/70. He has bought in large quantity from a wholesaler who is expected to earn at least 5% on sale. Therefore, the cost to the wholesaler is about Rs. 72. It means when the off factory cost of a product to a wholesaler is about Rs 72 its list price is made at Rs. 150 or more and the rural people purchase the goods at the list price or more. The gap between the off factory price, list price and the price paid by rural buyers is quite imaginable. Is it not a joke to the customers? Is there no remedy to get escaped from the clutches of intermediaries who are actually playing a great role in the growing of inflation in the country? They are very organized and determine price of a product caring little for demand and supply. Can it be imaginable when a farmer is bound to sell his potatoes at 20 paisa a kilo the urban people buy them at Rs. 6 a kilo? Blaming and counter blaming of political parties seem ridiculous and unacceptable to many. If rural people is to save from the low price of their products and to save others from food inflation political parties should find out a workable solution instead shedding crocodile tears or shouting slogan against the Government or calling strikes, road blocking and others . Why are not the farmers allowed to sell their products directly in town areas at a government regulated markets there? If arrangements are made in town areas by NGOs, SHGs, Political parties, cooperatives where the farmers will be able to sell directly at Government support prices, the farmers and the general public will be benefited and agriculture will flourish.

Judicial System of India itself fosters corruptions and malpractices. Most of the advocates in order to save their clients practice law very unethical and immoral ways to bye pass the truth, delay the proceedings , harass the opponent parties, intimidate them in some cases, and earn huge money and favour in various ways. Can it be imagined --a case continues over 30 or 40 years, ridiculously the grand father starts a case for justice and the grand child may expect verdict at the time of his retirement from the earth. This is unfortunate and fascinating. With space of time every thing has gone changed, quickened and transparent beyond its traditional ways by means of technical advancement except the judicial procedures. Thousands of victims are in jail for several years without trial, many people are converted into street beggars for taking recourse to legal battle. No remedy is there though there are so many NGOs, Human Right Commission and Various Rights under the Constitution of India. Time is up to rebuilt and to revitalize the judicial system replacing the existing set up.

Conclusion

Not our country alone is trapped; the corruption is a global problem. To eradicate corruption and malpractices a multi-prong attack is necessary collectively by all the countries of the world through a mandatory process. The UN should come forward with the introduction of National Security Numbers for every country of its own to identify and locate its people. For all financial transactions and social events use of the UID is to be made compulsory so that everything is gone for accounting. Use of such number is to be made compulsory for all financial transactions and social matters so that nothing can be made secretly and unethically.

Judicial system should be made modernized and decentralized to the fullest possible extent so that the fact comes out quickly to the masses who are the better judges.The advocate who knowingly and intentionally suppress the truth, bye pass the fact, delay the proceedings in order to save his clients should be punished. Decentralisation of Judicial system lower to the GP/Municipality level should be brought down to the officer in charge there. He will by his own machinery find out the truth of every dispute record it in details, consult wise men and political parties of the area and then give his verdict. In order to stop corruption every transaction must be recorded, given transparency and have full disclosure. ❐

Profitability Impact Assessment in Selected Indian Central Public Sector Power Companies : Empirical Evidence on Aggregation

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Introduction

Profitability may be defined as the ability of an enterprise to earn a return from its given investment. It indicates overall results of the management. Profitability is a relative concept and its measurement can be achieved by profit and its relation with the other objects by which the profit is affected. The efficiency of a business enterprise is judged by the amount of profit it earned. Greater the profit, the more efficient is the business and vice versa. Profit is the engine that drives the business enterprise. Thus, ''profitability is the primary measure of overall success and the necessary condition for survival and growth of a firm'' (Misra, D. P. & Mishra, P. K., 2006). It acts as an index of economic growth. Moreover, it indicates public acceptance of the product and shows that the firm can produce competitively.

In particular, profitability analysis is useful for pricing policy, selection of the product mix, short-term decision, strategic decision, project evaluation, valuation of goodwill and shares and to study the impact of price increase or price decrease.

Indian Electric Power Industry : A Synoptic Overview

Electricity came to India over a century ago when a small power plant was set up in Calcutta (presently known as Kolkata) in the year 1818. With the implementation of FiveYear Plans, power generation programmes have made phenomenal progress. The share of thermal power generation in total power generation is about 66%, followed by hydro 26%, nuclear 3% and renewable 5%.

The Ministry of Power (MOP) and the Ministry of Non-Conventional Energy Sources of the Govt. are primarily responsible for the development of the power industry. The Central Electricity Authority (CEA), a statutory organization established in the year 1975 and constituted under the Electricity (Supply) Act, 1948, is primarily responsible for power planning at the national level.

From the 5th Plan onwards (1974-1979), the Govt. of India got itself involved in the generation and bulk transmission of power by setting up National Thermal Power Corporation Limited (NTPC Ltd.) and National Hydroelectric Power Corporation Limited (NHPC Ltd.) in the year 1975. North-Eastern Electric Power Corporation (NEEPCO) was set up in the year 1976 and two more generation corporations were set up in the year 1988 viz, Tehri Hydro Development Corporation Limited (THDC Ltd.) and Nathpa Jhakri Power Corporation Limited [presently known as Satluj Jal Vidyut Nigam Limited (SJVNL)]. The National Power Transmission Corporation (NPTC) was set up in the year 1989 which was renamed as Power Grid Corporation of India Limited (PGCIL) in the year 1992. The Power Trading Corporation of India Limited (PTC Ltd.) was formed in the year 1999 to allow surplus power supplies to be efficiently traded to utilities with deficit power supplies.

Since independence, the growth of Indian power sector has been noteworthy. The increasing installed power capacity from 1362 MW to over 100000 MW and electrification of more than 500000 villages are impressive. Inspite of this achievement, very high level of technical and commercial losses and lack of commercial approach in the management of utilities created an unsustainable financial operation. The most important problem faced by the power sector is the irrational and unremunerative tariff structure. Out of total energy generated, only 55% is billed and ultimately 41% is realized from the consumer end. Lack of competition and monopoly status has made all the SEBs ineffective and commercially unviable leading to erosion of its internal resource generation.

To improve the performance of the electric power industry, Govt. of India has initiated several reform measures, creating a highly liberal framework for the sector. The key developments in this context that has opened up new vistas in the sector is outlined below :

- 100% foreign ownership of power generating assets since 1991.

- Unbundling of the SEBs into separate companies for generation, transmission and distribution.
- Enactment of the Regulatory Commission Act, 1998 (ERC Act, 1998).
- Implementation of the Accelerated Power Development and Reforms Programme (APDRP) and Electricity Bill in the year 2001.
- Implementation of the scheme for One Time Settlement of Outstanding Dues (the "One Time Settlement") on 17th April, 2000.

• The Electricity Act, 2003 which came into effect from June, 2003 has consolidated all the existing laws governing the industry. The object of the Act is to induce competition, protect consumer's interest and provide power for all. The aim is to push the sector onto a trajectory of sound commercial growth and to enable the States and Centre to move in harmony and coordination.

• Introduction of major policy initiatives like National Electricity Policy, National Tariff Policy and Energy Conservation Act, 2001.

Review of Previous Studies

A brief review of some of the studies is highlighted below :

Mohanakumar, P.S. (1996), compared the intersectoral financial performance of the selected spinning mills in Kerala by ownership as well as by firm-size from 1982-83 to 1991-92. They pointed out that profitability in textile industry was generally low when compared to that in other major industries. It was therefore imperative for the mills to control each and every item of cost to stay competitive.

Dasgupta, Debajyoti (2001), assessed the profitability performance of six selected public sector banks during the period 1986 to 1996-97 on the basis of net profit and net worth. It was observed that the two banks viz, Vijaya Bank and Corporation Bank had attained better results compared to that of other banks selected for the study. Both Vijaya Bank and Corporation Bank had secured better results in 5 years out of 10 years as compared to that of total public sector banks.

Rej, Debasis and Sur, Debasish (2001), concluded that profitability of Cadbury India Ltd. in terms of Gross Profit Ratio (GPR), Net Profit Ratio (NPR) and Return on Investment Ratio (ROIR) was not stable during the study period. Some variability was observed in respect of these three profitability ratios which were supported by high coefficient of variation.

Pandey, Rajendra and Bandyopadhyaya, Sanjiban (2003), observed that profitability of the 27 public sector banks was influenced by several factors namely operating cost, interest earned, interest paid and other income.It was concluded that the reduction in operating cost was the most influential and permanent factor for increase in profitability of the banks under study.

Abdurahman, Amar, Awad S. Hanna, Erik, V. Nordheim and Jeffrey S. Russell (2003), studied the firms' size-profitability relationship of electrical contractors in the United States (U.S) during the period 1985 to 1996. It was found that small, medium and large firms were significantly different from each other in terms of their profit rate. The profitability level decreased as firms grown larger than 50 million US dollar in sales.

Oberholzer, M. and Westhuizen, G. Van Der (2004), compared the financial performance with respect to profitability and efficiency of 10 regional offices of one of South Africa's largest banks for a period of 36 consecutive months. The study showed that there was no significant relationship between technical efficiency and the conventional profitability and efficiency measurements. The results of the study confirmed that region 10 had the highest technical efficiency and profitability.

Eljelly, Abuzar M.A. (2004), empirically examined the relationship between profitability and liquidity on a sample of joint stock companies which had operated in Saudi Arabia. They found significant negative relationship between the firms' profitability and its liquidity. At the industry level, the cash conversion cycle was more important than current ratio as a measure of liquidity Misra, D.P. and Mishra, P. K. (2006), found that most of the factors selected in the study had significant effect on the profitability of Orissa State Warehousing Corporation (OSWC) during 1985-86 to 2002-03. In particular, operating cost ratio, liquidity ratio and fixed assets turnover ratio were the major factors that influenced the profitability of OSWC during the period under study.

Abu-Tapanjeh, Abdussalam Mahmoud (2006), examined the relationship of firm structure and profitability on a sample of 48 Jordanian industrial companies listed in the Amman Stock Exchange for the period 1995 to 2004. It was observed that firm structure emerged as an important factor affecting profitability. The results further indicated that with the exception of debt ratio, a weak relationship existed between some of the independent variables and profitability.

Selvi, A. Manor and Vijayakumar, A. (2007), evaluated the trends in rates of profit of selected Indian automobile industries over the period 1991-92 to 2003-04.The study revealed that most of these industries had a tendency for rates of profit to fall over a long period. Moreover, time explained this fall in profitability at various degrees.

Jonsson, Bjarni (2007), examined the profitability performance of Icelandic firms in relation to their size with reference to fisheries and fish processing, banks and civil engineering consulting firms for the period 2000 to 2004. The analysis of the study showed that size had no statistically significant effect on profitability, irrespective of how size or profitability was measured. The study also revealed a weak inverse relationship between size and profitability for all the firms (except fisheries and fish processing in 2004).

The Problem Focus

The growth and prosperity of the electric power industry can be directly associated with the economic development of the country. The growth and development of the electric power industry is not possible until and unless the sector itself is financially sound. Accordingly, several reform measures have been initiated by the Government to improve financial health of the electric power industry. In this backdrop, the present study is an attempt to examine the impact of profitability performance in the liberalized Indian electric power industry.

Research Objectives

The main objective of the present study is to examine and analyze the impact of profitability performance of the selected companies by comparing the two sub-period performances of the chosen study period.

To attain this main objective, the following incidental objectives are sought to be achieved :

i. To examine the trend growth rates of selected performance indicators relating to profitability.
ii. To examine the impact of profitability performance.

Research Hypotheses

In conformity with the objectives of the study, the following testable hypotheses have been framed as under :

i. Significant positive trend growth rates are observed in selected performance indicators.
ii. There is significant improvement in profitability performance during the study period.

Data, Sample and Methodology

Sample Size

To carry out the present study, five central public sector companies mainly engaged in the generation of electricity are selected. The sample companies are shown below :

1. North Eastern Electric Power Corporation Limited
2. National Hydroelectric Power Corporation Limited
3. National Thermal Power Corporation Limited
4. Neyvelli Lignite Corporation Limited
5. Nuclear Power Corporation of India Limited

Study Period

The study period has been selected from the year-end 31st March, 1999 to the year-end 31st March, 2008 i.e., a span of 10 years.

Segmentation of the Study Period

To examine the impact of profitability performance of the selected companies, the study period (1998-99 to 2007-08) has been sub-divided into two segments: (i) 1998-99 to 2002-03 and (ii) 2003-04 to 2007-08.

Data Source

To carry out the present study, data have been collected from the following sources :

a. Published Annual Reports/Audited Financial Statements of the selected companies.
b. Website of the selected companies.

Selection and Description of Variables (expressed in the form of ratios)

The ratios that are used in the analysis of our study are as follows :

Gross Profit Ratio = Gross Profit ÷ Net Sales

[This ratio indicates the gross profit per rupee of sales. Accordingly, it can be said that more the margin, the more the profitability and vice versa]

Net Profit Ratio = Net Profit after Tax ÷ Net Sales

[This ratio indicates how much per rupee of sales remain left to the firm after meeting production and other costs. Higher the ratio, higher the return to the owner of the firm and vice versa]

Return on Total Assets Ratio = Net Profit after Tax ÷ Average Total Assets

[This ratio reflects the rate of return on total assets employed in the business. Higher the ratio, the more favourable is the position and vice versa]

Return on Capital Employed Ratio = Net Profit after Tax ÷ Average Capital Employed

[Alternatively, this ratio is popularly known as Return on Investment (ROI) which measures the overall profitability of a firm. It reflects the rate of return on capital employed in the business. Thus, this ratio provides a test of profitability related to the sources of long term funds. The higher the ratio, the more efficient is the use of the capital employed and vice versa]

Return on Net Worth Ratio = (Net Profit after Tax - Preference Dividend) ÷ Average Net Worth

[This is the most important ratio to judge whether the firm has earned a satisfactory return for its equity holders or not. Higher the ratio, the more favourable is the position and vice versa]

Methods and Techniques of Data Analysis

After collection of necessary data, these are suitably re-arranged, classified, tabulated and computed as per requirements of the study. Further, data have been cross-checked for its accuracy. Necessary calculations have been done with the help of SPSS, Wolfram Mathematica and Microsoft-Excel software packages.

Descriptive Statistics

It comprises of calculating mean, standard deviation (S.D.) and coefficient of variation (C.V.) for the selected ratios in order to analyze the overtime changes and to facilitate comparison between the two sub-periods of the chosen study period. Further, to judge the stability of the selected ratios during the period under study, it has been arbitrarily divided into relatively stable (C.V. with a value up to 25%), moderately fluctuating (C.V. lying between 25.1% to 50.0%), highly fluctuating (C.V. lying between 50.1% to 75.0%) and erratically fluctuating (C.V. above 75.0%) [Selvi, A. Manor and Vijayakumar, A., 2007].

Trend Growth Rate Analysis

To examine the trend growth rates of selected performance indicators, trend equation has been fitted to the annual time series data, taking time as independent variable. The trend equation that has been used for this purpose is ''Log Linear Trend'' equation, since it gives the relative change that is generally more relevant. Further, it shows instantaneous (at a point in time) rate of growth (Gujrati, Damodar N., 2003). The equation is shown below :

$$\log Y_t = a + b_t + u_t$$

Where :

Y = predicted value; a = intercept; b = regression coefficient; t = time and u = error term of the model.

The 't' test has been used to examine statistically whether there is any significant trend growth rate of the performance indicators selected in the study. The 't' statistic with (n – k – 1) degrees of freedom is computed as follows :

$$t = |\hat{b} \div S\hat{b}|$$

Where:

$\hat{b}$ = estimated regression coefficient

$S\hat{b}$ = standard deviation (or standard error) of the estimated regression coefficient.

Profitability Performance Analysis

The profitability performance of the selected companies are analyzed in terms of : (i) Gross Profit Ratio; (ii) Net Profit Ratio; (iii) Return on Total Assets Ratio; (iv) Return on Capital Employed Ratio; and (v) Return on Net Worth Ratio.

To carry out discriminant analysis among the selected profitability ratios (as stated above), a test based on F-ratio has been conducted which required the calculation of Mahalanobis D_2. The F statistic is computed as follows :

$$F = \frac{n_1 n_2 (n_1 + n_2 - m - 1)}{m (n_1 + n_2)(n_1 + n_2 - 2)} D^2 \sim F \text{ distribution}$$

with m, $n_1 + n_2 - m - 1$ d.f.

Where : n_1 = number of observations in group1

n_2 = number of observations in group2

m = number of independent variables

D_2 = Mahalanobis square distance

The formula for calculating D^2 is as follows :

$$D_2 = (n_1 + n_2 - 2) \{(\bar{X}_{12} - \bar{X}_{11}) + \lambda_2(\bar{X}_{22} - \bar{X}_{21}) + \ldots\ldots + (\bar{X}_{m2} - \bar{X}_{m1})\}$$

In the present study, we formed two groups, one consists observations pertaining to the first half from 1998-99 to 2002-03 (i.e., Pre Electricity Act, 2003 Period) and the other consists of observations pertaining to the second half from 2003-04 to 2007-08 (i.e., Post Electricity Act, 2003 Period). Thus, we are interested to examine the profitability performance by comparing the

two sub-periods in order to judge whether the profitability performance has improved significantly or not during the period under study.

Empirical Findings and Analysis

Trend Growth Rate Analysis

The performance indicators selected in this respect are gross profit, net profit after tax, net sales, total assets, capital employed and net worth. Growth rates of the selected performance indicators are shown in Table 1 below:

Table 1

Trend Growth Rates of Selected Performance Indicators in Sample Central Public Sector Companies (aggregate) during 1998-99 to 2007-08

Selected Performance Indicators	R_2 Whole Period	R_2 First Half Period	R_2 Second Half Period	Growth Rates (%) Whole Period	Growth Rates (%) First Half Period	Growth Rates (%) Second Half Period
Gross Profit	0.865	0.805	0.162	10.97*** (7.172)	10.92** (3.523)	3.35 i (0.761)
Net Profit after Tax	0.896	0.868	0.377	11.24*** (8.287)	12.68** (4.433)	2.54 i (1.347)
Net Sales	0.943	0.866	0.988	8.62*** (11.540)	9.27** (4.412)	12.80*** (16.005)
Total Assets	0.996	0.998	0.994	11.08*** (43.942)	10.93*** (38.136)	9.40*** (21.780)
Capital Employed	0.856	0.99	0.942	7.12*** (6.907)	11.44*** (18.758)	12.28*** (7.001)
Net Worth	0.984	0.999	0.971	12.21*** (22.387)	13.98*** (67.553)	8.52*** (10.059)

Key Notes :
Whole Period = 1998-99 to 2007-08; First Half Period = 1998–99 to 2002-03; Second Half Period = 2003-04 to 2007-08
*** marked values indicate significant at 1% level (2 – tailed)
** marked values indicate significant at 5% level (2 – tailed)
i marked value indicates insignificant
Figures in bracket indicate the value of t – statistic
Growth rates are computed by multiplying the estimated trend coefficient by 100 to express it in percentage per annum form

From the regression results (Table 1), we found healthy R_2 values for all the performance indicators during the whole period and the two sub-periods (except gross profit and net profit after tax in the second half period) under study. These R_2 values are to be considered as very high in the face of magnitude of cross-section data. Thus, these high R_2 values signifies that the performance indicators are well explained by the explanatory variable i.e., time during the period under study.

Table 1 reveals that gross profit (10.97%), net profit after tax (11.24%), net sales (8.62%), total assets (11.08%), capital employed (7.12%) and net worth (12.21%) of the total sample companies (i.e., all the sample central public sector companies taken together) recorded significant positive trend growth rate during the whole period under study. The sub-period analysis shows that gross profit (10.92%), net profit after tax (12.68%), net sales (9.27%), total assets (10.93%), capital employed (11.44%) and net worth (13.98%) have significant positive trend growth rate in the first sub-period. On the other hand, net sales (12.80%), total assets (9.40%), capital employed (12.28%) and net worth (8.52%) registered significant positive trend growth rate during second half of the study period.

Overall, significant positive trend growth rates have been observed (except gross profit and net profit after tax in the second half) during the whole period as well as for the two sub-periods under study. This also leads to the acceptance of the first hypothesis of the study.

Profitability Performance Analysis

Profitability performance of the total sample companies (i.e., all the sample central public sector companies taken together) has been analyzed by the selected profitability ratios. Thereafter, discriminant analysis among the selected profitability ratios is employed to examine statistically whether any significant improvement in profitability performance has taken place or not during the period under study.

Profitability Ratio Analysis in Sample Central Public Sector Companies

Table 2

Profitability Ratios of Sample Central Public Sector Companies (aggregate) during 1998-99 to 2007-08

Ratios Year	Gross Profit Ratio	Net Profit Ratio	Return on Total Assets Ratio	Return on Capital Employed Ratio	Return on Net Worth Ratio
1998-99	0. 33	0.21	0. 07	0.10	0.12
1999-00	0.31	0.20	0. 06	0.10	0.11
2000-01	0. 34	0.22	0. 07	0.12	0.13
2001-02	0. 35	0.25	0. 07	0.12	0.12
2002-03	0. 33	0.23	0. 07	0.10	0.11
2003-04	0. 56	0.35	0. 09	0.16	0.14
2004-05	0.43	0.31	0. 08	0.17	0.12
2005-06	0. 37	0.27	0. 07	0.15	0.10
2006-07	0.37	0.25	0.07	0.14	0.11
2007-08	0.38	0.23	0.07	0.13	0.11
Whole Period :					
Average	0.377	0. 252	0.072	0.129	0.117
S.D.	0.073	0. 047	0.008	0. 026	0. 012
C.V.	19.363%	18. 651%	11.111%	20.155%	10.256%
First Half Period :					
Average	0.332	0. 222	0.068	0.108	0.118
S.D.	0.015	0. 019	0.004	0. 011	0. 008
C.V.	4.518%	8. 559%	5.882%	10.185%	6.780%
Second Half Period :					
Average	0.422	0. 282	0.076	0.150	0.116
S.D.	0.081	0. 048	0.009	0. 016	0. 015
C.V.	19.194%	17.021%	11. 842%	10.667%	12.931%

Key Notes :
Whole Period = 1998-99 to 2007-08; First Half Period = 1998-99 to 2002-03;
Second Half Period = 2003-04 to 2007-08
S.D. = Standard Deviation
C.V. = Coefficient of Variation

Gross Profit Ratio (GPR) : The GPR shows a fluctuating trend during the whole study period. The ratio varied between 0.31 in 1999-00 to 0.56 in 2003-04 with an average of 0.377 during the whole period under study. The C.V. of the ratio is 19.363% which is relatively stable during the entire study period.

The sub-period analysis shows that GPR varied between 0.31 to 0.35 in the first sub-period and 0.37 to 0.56 in the second sub-period. The average GPR increased from 0.332 in the first sub-period to 0.422 in the second sub-period. The ratio is relatively stable during both half of the study period, with the first half (C.V. 4.518%) better in comparison to the second half (C.V. 19.194).

Net Profit Ratio (NPR) : The NPR indicates a mixed trend during the entire study period. The ratio varied between 0.20 to 0.35 with an average of 0.252 and remained relatively stable (C.V. 18.651%) during the whole study period.

The sub-period analysis shows that the time series data of NPR ranged between 0.20 to 0.25 and 0.23 to 0.35 in the first and second sub-periods respectively. The average NPR increased from 0.222 in the first half to 0.282 in the second half. The ratio is relatively stable during both the sub-periods with first half (C.V. 8.559%) better in comparison to the second half (C.V. 17.021%).

Return on Total Assets Ratio (ROTAR) : This ratio shows no specific trend and ranged between 0.06 to 0.09 with an average of 0.072 during the whole study period. The C.V. of the ratio is 11.111% which indicates that it is relatively stable during the entire study period.

The sub-period analysis reveals that on the average, ROTAR marginally increased from 0.068 in the first sub-period to 0.076 in the second sub-period. The ROTAR ranged between 0.06 to 0.07 in the first half and 0.07 to 0.09 in the second half. The ratio is relatively stable during both the sub-periods, with the first sub-period (C.V. 5.882%) better than that of the second sub-period (C.V. 11.842%).

Return on Capital Employed Ratio (ROCER) : The ROCER, an overall measure of profitability shows no specific trend throughout the study period. The ROCER ranged between 0.10 to 0.17 with an average of 0.129 during the entire study period. The C.V. of the ratio is 20.155% which is relatively stable during the whole study period.

In respect of sub-period analysis, we found that ROCER ranged between 0.10 to 0.12 in the first half and 0.13 to 0.17 in the second half. The average of this ratio increased from 0.108 to 0.150 during the study period. The ratio remained relatively stable during both half of the study period, with first half (C.V. 10.185%) marginally better than that of the second half (C.V. 10.667%).

Return on Net Worth Ratio (RONWR): RONWR shows a fluctuating trend with a range between 0.10 to 0.14 during the entire study period. The whole period average of the ratio is observed to be 0.117. The ratio is relatively stable (C.V. 10.256%) during the entire study period.

The sub-period analysis indicates that RONWR ranged between 0.11 to 0.13 in the first sub-period and 0.10 to 0.14 in the second sub-period. The average of RONWR marginally decreased from 0.118 in the first half to 0.116 in the second half. The ratio is relatively stable during both half, with the first half (C.V. 6.780%) better than that of the second half (C.V. 12.931%).

From the above analysis, it is observed that on the average, profitability performance in terms of all the selected ratios (except RONWR) has improved during the study period, since the second half has registered better performance in comparison to the first half. Moreover, all the selected ratios are found to be relatively stable during the whole period as well as during the two sub- periods under study.

Discriminant Analysis among Profitability Ratios in Sample Central Public Sector Companies

Table 3

Results of Discriminant Analysis among Selected Profitability Ratios in Sample Central Public Sector Companies (aggregate) during 1998-99 to 2007-08

Discriminant Function :

$Y = 157.132960X_1 - 186.288136X_2 - 42.965460X_3 + 280.249220X_4 - 466.895144X_5$

First Half Period (1998-99 to 2002-03)		Second Half Period (2003-04 to 2007-08)	
Year	**Discriminant Score (Z_1)**	**Year**	**Discriminant Score (Z^2)**
1998-99	–18.276709	2003-04	–1.598726
1999-00	–14.457881	2004-05	–2.004436
2000-01	–17.632228	2005-06	0.181685
2001-02	–16.980591	2006-07	–3.563996
2002-03	–17.333521	2007-08	–1.069396
Total	–84.680930	Total	–8.054869
Mean ($\bar{Z}_1$)	–16.936186	Mean ($\bar{Z}_2$)	–1.610974

Grand Total of Discriminant Scores = –92.735799

Grand Mean of Discriminant Scores ($\bar{Z}_{12}$) = –9.273580

Mahalanobis Square Distance (D^2) = 122.601697

F = 30.650424 (significant at 1% level)

Table 3 shows that the mean discriminant score of the second half ($\overline{Z}_2$ = –1.610974) is greater than that of the mean discriminant score of the first half ($\overline{Z}_1$ = –16.936186). The grand mean of discriminant scores for the entire study period ($\overline{Z}_{12}$) is –9.273580. It is also observed from Table 3 that the discriminant score of each year in the first half period is less than that of $\overline{Z}_{12}$ (–9.273580), while the discriminant score of each year in the second half period is greater than that of $\overline{Z}_{12}$ (–9.273580).Thus, it indicates that the second half period has shown better profitability performance in comparison to the first half period. The results of discriminant analysis further reveals that it is significant during the period under study since the calculated value of F (30.650424) is greater than that of the table value of F (15.52) at 1% level.

On the whole, profitability performance of the total sample companies (i.e., all the sample central public sector companies taken together) has improved significantly during the study period, thereby leading to the acceptance of the second hypothesis of our study.

Conclusions

In relation to the main objective of the study, it may be concluded that the profitability performance of the sample companies in aggregate has improved significantly (i.e., positive impact) during the period under study. Further, the profitability performance has remained relatively stable during the whole period as well as during the two sub-periods. The growth rates are observed to be significantly positive in all the cases (except gross profit and net profit after tax in the second sub-period).

The above empirical results implies that the implementation of the reform measures in the electric power industry have brought desired results by way of improvement in the profitability position of the power generation industry. The study results should therefore encourage for further, investment through different modes, particularly by the private players in order to augment power generating capacity addition in the Indian electricity industry.

Limitations of the Study

The study is based on secondary data. Moreover, the study is based on the consolidated published financial statements. So it is subject to all the limitations that are inherent in the consolidated financial statements. ❐

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Capital Employed Leverage—A Tool for Efficient Capital Management

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Introduction

The amount of capital employed can be ascertained from two opposite approaches—(i) Liability Approach; and (ii) Asset Approach.

From liability approach capital employed means total of owned capital, internal capital and loan capital. Owned capital means the sum of equity capital and preference capital (in case of body corporate). Internal capital refers to the various reserves and surplus which are free for payment of dividend and also capital reserves less fictitious assets, if any. Loan capital constitutes long-term and short-term loans plus debenture and/or bonds.

From asset approach, capital employed means total tangible assets less current liabilities and provisions. This approach is further decomposed into two parts-fixed capital and working capital. Here net concept is considered in case of working capital but in case of fixed capital, gross concept is taken. So, Gross fixed capital means total fixed assets less depreciation written off. Net working capital means total current assets less current liabilities.

What is important is that the two components of capital employed under asset approach have distinct roles to play. The role of fixed capital is quite different from that of working capital. Fixed capital provides the basic infrastructure to generate revenue and profit. Working capital operates on the basis of the set-up laid down by the fixed capital. Working capital alone cannot operate unless there is a sound foundation offered by the fixed capital. A given amount of fixed capital determines the domain of business operation of firm for a long period. It is not subject to change every now and then. If fixed capital is allowed to change frequently, a substantial amount of rigidity in the form of production capacity is bound to emerge. This sort of rigidity might in turn give rise to inevitable risk and serious impediment to the growth. The fixed capital, once invested cannot be curtailed or withdrawn, even if the recession appears. Every bit of increase in fixed capital can be logically perceived to booster the capacity of production. But even when such addition is absent, mere depreciation can cause reduction in the amount of fixed capital. Again, with the passage of time the production capacity is bound to decrease due to decline in service potentiality of the concerned fixed asset(s). To maintain the level of production capacity, if overhaul expenditure is incurred, such expenditure is also included in total fixed capital. Then, one point becomes clear that if no addition is made to, the book value of fixed capital normally reduces by the amount of depreciation written off. Similarly the service potentiality in the form of remaining capacity of production also declines.

On the contrary, working capital has no such limitation. It is rather dynamic and has the required flexibility to change its volume according to the needs of the firm. When the amount of fixed capital is determined, the capability of the firm becomes very much measurable. With this given amount of fixed capital, working capital becomes operative. Now the confusion grows which component of capital employed dominates the entire phenomenon of generating and maintaining profitability. The present study enquires into the role of capital employed in generating profitability with due weight given to the respective roles played by both the components of capital employed.

Study of Literature

Extensive research work on working capital and its efficient management has been carried on and the process is still continuing in large number. There is no doubt that working capital circulation in a firm is equivalent to the blood circulation in the body of all living organism. All firms irrespective of size and nature of profit motive have to depend upon working capital for smooth and efficient operation. But in the small enterprises, adequate working capital and its cautious utilization gains additional importance.

These firms have to rely much on working capital rather than on fixed capital (Padachi K, 2006). Inadequate amount of working capital mingled with inefficient management has brought about failure to small enterprises in US and UK (Berryman 1983). Working capital has the capacity to increase profit through increase in output to cope up with the increased demand provided the capacity of production exists.

There is a usual assumption that profitability has an inverse relationship with liquidity. If liquidity is maintained at a very high level in pursuant to conservative approach, this will affect the profitability and vice-versa. But Gentry James E (1976) has explained the varied relationship between liquidity and profitability. After maintaining a sound short-term liquidity which harmonizes with the nature, size and volume of operation, a firm can increase its profitability in the long-run. Suppose, a firm has the capacity to produce 1,00,000 units. But due to some constraints, say market constraints, the firm is currently producing and selling 60,000 units. Now, if there occurs a favourable change in the market to the effect of increase in demand, the firm can increase its profit merely by increasing the working capital, since the capacity for production still remains there. This phenomenon will continue until the volume of actual production touches the installed capacity of production. As soon as actual production is equal to production capacity, further increase in working capital fails to induce increased profit. More investment in working capital out of sheer optimism will push the profit graph down as the cost of investment in working capital will increase without simultaneous increment in sales revenue.

Working capital management has three basic objectives to be accomplished at a time. These objectives are — (i) Ensuring adequate liquidity; (ii) Maximizing profitability; and (iii) Minimising non-insurable risk and uncertainty. Too low working capital may result in bad credit-rating (so far as short-term credit is concerned), loss of creditors' confidence, high cost of borrowing and even sometimes closure of business.

On the other hand, if working capital is maintained at a very high level, cost of investment or holding current assets will go up. This will ultimately affect the profitability adversely. Another important aspect to be taken into account is the non-insurable risk (Mandal. Niranjan). Lower liquidity will reduce the holding cost and thus increase the profitability. But the risk of insolvency will increase. The risk dimension of liquidity mentions about the degree of uncertainty in converting current assets into cash with smallest possible loss. Another perception of risk is better understood by technical insolvency which occurs when a firm fails to meet its short-term liabilities. Change in the anatomy in the working capital has an impact on such technical insolvency and profitability.

Another pertinent observation about liquidity-profitability and risk is given by Walker E.W. (1964). Walker, in the first principle of his four-part theory of working capital management, has argued that working capital changes with the volume of sales. As a result, the amount of risk that a firm assumes is also varied which gives opportunity to profit to increase. Financial management's decision regarding the level of investment in working capital is dependent upon (i) attitude towards risk and (ii) factors that influence the amount of receivables, inventories and other current assets to support a given level of sales. According to Walker, risk in working capital management is involved in (a) maintaining adequate amount of current assets to meet short-term liabilities when they become due for payment; and (b) supporting proper level of sales. On the basis of this view, Walker has pondered a new concept 'Working Capital Leverage', where he has pledged for a relationship between liquidity, risk and profitability. According to Walker :

$$\text{Working Capital Leverage} = \frac{\text{Percentage change in Return on Capital Employed}}{\text{Percentage change in Capital Employed}}$$

In the above concept of working capital employed leverage, a direct relationship has been explored between risks and profitability, measured in terms of return on Capital Employed (ROCE). Reducing the amount of working capital, a firm can assume higher risk in making compromise with liquidity. A portion of so released working capital, when invested within the business will boost up the ROCE, by diminishing the denominator of ROCE.

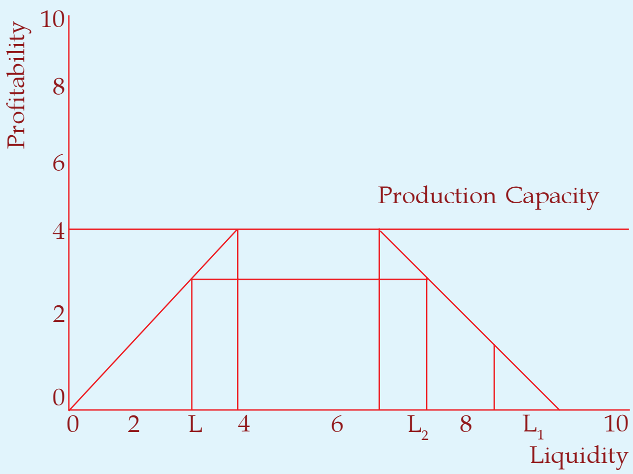
Research Gap

In almost all the studies relating to efficient capital management, major emphasis has been given on working capital, ignoring the crucial role played by the fixed capital. It is something like that entire role is played by the working capital itself so far as the matter of profitability is concerned. So many techniques have been developed to determine the optimum volume of working capital. But it should not be ignored that fixed capital creates an environment congenial to the effective utilization of working capital. Fixed capital does not undergoes changes frequently particularly in the short-run. Once invested, it could not be withdrawn or recovered easily. Rather, it is bound to decrease as a part of it is written off as depreciation.

Not only that, the service potentiality decreases with the passage of time and due to physically wear and tear. Maintenance of production capacity requires some short of replenishment of capacity through overhaul to fixed assets. In the absence of recuperation against exhaustion to the fixed assets, the production capacity is sure to decline over time.

From Gentry's curve it is witnessed that there is positive relationship between profitability and liquidity unless actual volume of output touches the existing capacity of production. When these actual production and available capacity of production become identical, increase in working capital fails to bring about an increase in profit. Further increase in working capital will result in negative impact on profitability. So, it is clear that production capacity has strong stand in the profit making phenomenon.

If Walker's view is accepted, then decrease in working capital will bring in increased profitability. But this could happen only when there is an inverse relationship between working capital and profitability. This relationship is visible in the third stage of Gentry's curve where profitability curve is downward slopping to the right.



From the figure above, it is seen that for profit of P_1L_1, working capita is OL_1. If the firm wants to earn a profit equal to P_2L_2, it can have it by reducing the working capital by L_1L_2 and thereby assuming greater risk. But the firm can earn similar volume of profit by investing working capital equal to OL. This will happen when the firm is on the uprising path of liquidity-profitability curve. This is the judicious line on which every firm will intend to remain.

A rational and progressive firm will intend to remain on the first stage as there increase in liquidity will have a positive impact on profitability. It will not opt for remaining on the 2nd or 3rd stage of the Gentry's curve. If we have to accept Walker's view, then even a slight reduction in liquidity will push the profitability up from left to right. But same volume of profit can be earned by investing well less amount of working capital.

Suppose initially, the capital employed is C. Earnings before interest and taxes is E. here C= fixed capital (net) + Working Capital (gross).

C= F+W, F= Net Fixed Assets; W= Gross Working Capital.

$$\text{Return on Capital Employed (ROCE)} = \frac{E}{C}.$$

L= Degree of Working Capital Leverage.

Suppose the change in working capital is ΔW,

Then, working capital leverage

$$Lw = \frac{\text{Percentage Change in Return on Capital Employed}}{\text{Percentage Change in Working Capital}}$$

After decrease in working capital by ΔW, ROCE will be

$$\frac{E}{(C-\Delta W)}$$

$$\text{Change in ROCE is } \frac{E}{C-\Delta W} - \frac{E}{C} = \frac{\Delta W}{C(C-\Delta W)}$$

$$\text{Percentage Change in ROCE} = \frac{\Delta W}{C(C-\Delta W)} \times \frac{E}{C} = \frac{\Delta W}{(C-\Delta W)}$$

$$\text{Percentage change in working capital } \frac{W}{\Delta W}$$

$$\text{Walker's Working capital leverage } L_W = \frac{W}{(C-\Delta W)} \times \frac{W}{\Delta W} = \frac{W}{C-\Delta W}$$

The above expression of working capital leverage as given by Walker has certain limitations. These are :

(a) He has related volume of working capital with volume of sales. But it should be considered that sales volume is more subject to some external factors which is not within the control of the business entity.

(b) ROCE has changed due to decrease in working capital. As a result of which the denominator has decreased and thus the magnitude of ROCE increased.

(c) The phenomenal relationship between profit, fixed capital and working capital has been bypassed. Earning has been assumed to remain constant which is not plausible.

(d) Another important limitation is that fixed capital has been taken to be unchanged. Fixed capital is bound to change as it will depreciate over years.

Objective of the study

On the basis of interpretation of Walker's model of working capital leverage this study intends to explore a relationship between capital employed and profitability. Here, the role of fixed capital has not been ignored. In addition to considering the importance of working capital, an endeavor has been made to find out an optimum volume of capital employed so that a business entity can justify such volume of capital employed with the help of its impact on profitability.

With this background, the present study ponders –

- To see how do profitability and Capital Employed change simultaneously.
- To see the direction of changes in profitability as a result of changes in capital employed.

Present study proposes a different concept to relate profitability with capital employed. Here, profitability is measured in terms of Return on Capital Employed (ROCE).

The concept deals with Capital Employed Leverage.

$$\text{Capital Employed Leverage} = \frac{\text{Rate of change in ROCE}}{\text{Rate of change in Capital Employed}}$$

$$\text{ROCE will be taken as } \frac{\text{Earning before Depreciation, Interest and Taxes (EBDIT)}}{\text{Capital Employed}}$$

Capital Employed = Fixed Assets (Gross) + Working Capital (Net).

Suppose the EBDIT for year I and year II are E_1 and E_2 respectively and Capital employed for year I and year II are C_1 and C_2 respectively.

Now,

ROCE in year I and year II are $\frac{E_1}{C_1}$ and $\frac{E_2}{C_2}$ respectively.

$$\text{Change in ROCE is } \frac{E_2}{C_2} - \frac{E_1}{C_1} = \frac{C_1.E_2 - C_2.E_1}{C_1.C_2}$$

$$\text{Rate of change in ROCE is } \frac{C_1.E_2 - C_2.E_1}{C_2} \times \frac{C_1}{E_1}$$

$$= \frac{C_1E_2 - C_2E_1}{C_2.E_1} \text{ .... (1)}$$

Rate of change in Capital Employed is

$$= \frac{C_2 - C_1}{C_1} \text{ .... (2)}$$

If we consider rate of change in EBIT is 'k' and rate of change in Capital Employed is 'r', then

$$\frac{E_2}{E_1} = k; \text{ and } \frac{C_2}{C_1} = r.$$

$E_2 = k.\ E_1$ and $C_2 = r.C_1$

Now replacing C_2 and E_2 by r. C_1 and k. E_1 respectively, we can rewrite (1) as

$$\frac{C_1.K.E_1 - r.C_1.E_1}{r.C_1.E_1} = \frac{K-r}{r}$$

Similarly, from (2) we get $\frac{C_2 - C_1}{C_1} = \frac{r.C_1 - C_1}{C_1} = (r-1)$

Then Capital Employed Leverage is given by L_{CE} $\frac{k-r}{r(r-1)}$ or $\frac{k-r}{r_2-1}$.

If r = 1, then $r_2 = 1$ and $r_2 - r = 0$; the denominator becomes zero or the capital employed leverage becomes undefined as the denominator becomes zero. In the basic proposition 'r' has been taken as the rate of change in capital employed. So, when r = 1, there is no change in capital employed and as such the scope for leveraging on capital employed does not arise.

If r > 1, then $r^2 > r$ or $r^2 - r > 0$.

If r < 1, the $r^2 < r$ or $r^2 - r < 0$.

Here, the basic intention is to witness how both 'k' and 'r' changes simultaneously and as a result capital employed leverage takes place. For this purpose we consider only the positive values of r^2-r. So, taking the modulus of r^2-r, we get

Capital employed leverage $L_{ce} = \frac{k-r}{|r^2-r|}$; Now let us see when and how the value of L_{ce} varies.

When $L_{ce} = 1$, then $k-r > r^2-r$, or $k > r^2$; similarly
When $L_{ce} > 1$, then $k > r^2$ and when Lce < 1, $k < r^2$.

There should be a clear difference between Financial Leverage and Capital Employed leverage. The basic points of difference are :

Financial Leverage	Working Capital Leverage
1. It is based on capital structure.	1. It is based on asset structure.
2. It is liability approach to check the vulnerability of profit.	2. It is an asset approach to measure the change in profit due to change in composition of assets.
3. The benefit of financial leverage is enjoyed by the equity only.	3. Here, the benefit goes to the entity as a hole.
4. It considers the sources from which capital is procured.	4. It considers how the capital is invested in various types of assets.

Now, it has become important to place the model in real world situation to assess how it matches the actual situation. Considering the question of viability of this concept of capital employed leverage this study has considered the published annual report of Indo-Rama Synthetics (India) Ltd.

INDO-RAMA Synthetics (India) Ltd.

Company Profile **:** The establishment of Indo Rama

Synthetics (India) Ltd. dates back to 1989, when it first forayed into the business of polyesters. Forth seeing that polyester was going to be the most commonly usable fibre of the future, the perseverance over the years by the company has today brought in an unchallenged leadership position for it in the Indian polyester market. A leading manufacturer and supplier in the country's fast growing polyester sector since the last two decades, Indo Rama has emerged as India's second largest polyester manufacturer having carved a niche in the market place for its unmatched quality offerings.

The Company produces a great variety of pol yester products which include Polyester Staple Fibre (PSF), Partially Oriented Yarn (POY), Draw Texturised Yarn (DTY), Fully Drawn Yarn (FDY) and Polyester Chips.

Equipped with a state-of-art integrated manufacturing complex at Butibori near Nagpur in Maharashtra, Indo Rama also has several technical collaborations with various technology leaders in Japan, Germany and USA. A customer focused organization, Indo Rama stands for high quality standards and innovative business practices.

The Company's combined power generation capabilities are integrated into a common power supply pool, from which required amount of power is fed for internal use and the surplus is sold to external agencies.

The Indo Rama Group has a strong presence in Indonesia, Thailand, USA, Nepal and Sri Lanka, besides India. It has concentrated its business activities in the field of Textiles, Polyesters and Industrial Chemicals.

Construction of Capital Employed Leverage

Year	GFA	NCA	CE = Cj	r =Cj/(Cj–1)	PBDIT=E_x	k=E_x/(E_{x-1})	r^2	k–r	|r^2–r|	L=(k-r)/(r2-r)
1998-99	19351	1086	20437	-	1232	–	–	–	–	–
1999-00	22212	1256	23468	1.15	2669	2.166	1.32	1.02	0.17	6.0
2000-01	22653	1157	23810	1.01	3050	1.143	1.03	0.13	0.01	13
2001-02	23049	668	23717	1.00	2784	0.913	0.99	-0.08	0.00	Undefined
2002-03	20802	940	21742	0.92	3704	1.330	0.84	0.41	0.08	5.125
2003-04	20578	424	21002	0.97	3960	1.069	0.93	0.10	0.03	3.33
2004-05	20737	307	21044	1.00	2431	0.614	1.00	-0.39	0.00	Undefined
2005-06	20734	-1522	19212	0.91	1947	0.801	0.83	-0.11	0.08	-1.375
2006-07	28060	54	28114	1.46	1807	0.928	2.14	-0.54	0.68	-0.794
2007-08	30109	1360	31469	1.12	2455	1.359	1.25	0.24	0.13	1.846
2008-09	30723	-164	30559	0.97	1388	0.565	0.94	-0.41	0.03	-13.67

Source : Annual Report of INDO-RAMA Synthetics (India) Ltd.

GFA=Gross Fixed Assets; NCA= Net Current Assets;

CE= Capital Employed= GFA+NCA:

PBDIT= Profit before Depreciation, Interest and Taxes.

L= Capital Employed Leverage.

From the above table it is found that where k > r^2, L > 1 and vice-versa. Negative L arises when k < r. Actually, this leverage measures the rate of increase in profitability for lesser rate of change in capital employed. But when the situation is reverse, the negative L emerges. This idea of capital employed leverage could help the financial management to decide about the volume of capital employed under varied circumstances.

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Efficiency of Working Capital Management in Selected Companies in Pharmaceutical Industry

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Introduction

Efficiency of working capital management is essential for achieving excellence in the day-to-day operations of a company. The present study seeks to analyse the efficiency of working capital management in the Indian pharmaceutical industry during the period 1998-99 to 2009-10 and also to examine whether its findings conform to the theoretical arguments. Besides this, the paper has also made a modest effort to compare the aspect of the efficiency of working capital management practices of multinational companies with that of the domestic companies of the Indian pharmaceutical industry during the same period.

Objectives of the study

- To measure the extent of relationship between efficiency of cash management and profitability, between efficiency of inventory management and profitability and between efficiency of debtors management and profitability of the selected companies and to compare the said matters of the multinational companies with that of the domestic companies in Indian pharmaceutical sector.
- To assess the joint effect of cash management, inventory management and debtors management of the selected multinational and domestic companies on their earning performance as well as to compare the said matter of multinational companies with that of domestic companies under study.

Methodology of the study

The study is based on twenty (consisting of ten multinational and ten domestic companies) pharmaceutical companies which have been selected from Indian pharmaceutical sector following purposive sampling procedure. The selected ten multinational and ten domestic companies have been listed in Appendix 1. The data of the selected companies for the period 1998-99 to 2009-10 used in this study have been taken from secondary sources i.e. Capitaline Corporate Database of Capital Market Publishers (I) Ltd. Mumbai. The ratios relating to the measurement of efficiency of working capital management which have been used in this study are: (a) cash turnover ratio (CTR), (b) inventory turnover ratio (ITR) and (c) debtors turnover ratio (DTR). The profitability measure which has been selected for this study is return on capital employed (ROCE). The degree of relationship between efficiency of working capital management and profitability has been assessed through correlation coefficients between the selected measures of working capital management and profitability taking into account their magnitudes (i.e. by Pearson's simple correlation coefficient), ranking of their magnitudes (i.e. by Spearman's rank correlation coefficient) and the nature of their associated changes (i.e. by Kendall's correlation coefficients). For studying the joint influence of the selected measures relating to the efficiency of working capital management on the profitability, multiple correlation and multiple regression techniques have been applied. In order to examine whether the computed values of correlation coefficients and partial regression coefficients are statistically significant or not, t test has been used. The multiple correlation coefficients have been tested by F test.

Findings of the study

A. In Table 1.1 efficiency-profitability status of the selected multinational as well as domestic companies in Indian pharmaceutical sector has been assessed with reference to efficiency of cash management (CTR) and overall profitability (ROCE). Four multinational companies (Aventis, Organon, Abbott and Fulford) and six domestic companies (Aurobindo, Dr. Reddy's, Lupin, Piramal, Ranbaxy and Wockhardt) registered a positive correlation between cash management and overall profitability. Aventis and Organon (both are multinational companies) were 'high efficiency-high profitability' companies whereas multinational companies like Abbott, Fulford, and domestic companies like Aurobindo, Dr. Reddy's, Lupin, Piramal, Ranbaxy and Wockhardt were placed in the low efficiency-low profitability class. Cipla (domestic company) maintained moderate efficiency-high profitability blend whereas in case of Cadila and Ipca (both are domestic companies) a combination of moderate efficiency and low profitability was found. Astrazeneca, Glaxosmithkline, Merck, Pfizer and Wyeth (all are multinational companies) were placed in low efficiency-high profitability cell. Novertis (multinational company) and Sun (domestic company) maintained a low efficiency-moderate profitability combination.

In Table 1.2 efficiency-profitability profile of the selected companies has been measured on the basis of efficiency of inventory management (ITR) and overall profitability (ROCE). Two multinational (Pfizer and Novartis) and three domestic (Sun, Ipca and Ranbaxy) pharmaceutical companies under study recorded positive correlation among the ITR and ROCE. Pfizer (multinational company) was the only company out of twenty companies under study recorded 'high efficiency-high profitability' combination. Both Novartis (multinational company) and Sun (domestic company) were 'moderate efficiency-moderate profitability' company whereas Ipca and Ranbaxy (both are domestic companies) were placed in the 'low efficiency-low profitability class. Astrazeneca, Aventis, Glaxosmithkline, Merck and Organon (all are multinational companies) maintained a moderate efficiency-high profitability combination whereas two multinational companies (Abbott and Fulford) and three domestic companies (Aurobindo, Cadila and Dr.Reddy's) were placed in moderate efficiency-low profitability category. Lupin, Piramal and Wockhardt (all are domestic companies) placed in high efficiency-low profitability category whereas a low efficiency-high profitability blend was maintained by Wyeth (multinational company) and Cipla (domestic company) during the period under study.

In Table 1.3 efficiency-profitability status of the chosen companies has been analyzed in terms of efficiency of credit management (DTR) and overall profitability (ROCE). Two multinational (Aventis and Glaxosmithkline) and eight domestic companies (Aurobindo, Cadila, Dr. Reddy's, Ipca, Lupin, Piramal, Ranbaxy and Wockhardt) registered a positive correlation between DTR and ROCE. Besides this five multinational companieds (Astrazeneca, Merck, Organon, Pfizer and Wyeth) and one domestic company (Cipla) recorded moderate efficiency-high profitability combination. Fulford (multinational company) was the only company that placed in high efficiency-low profitability cell. Abbott (multinational company) was the only company among the selected companies that maintained a moderate efficiency and low profitability combination. Both Novartis (multinational company) and Sun (domestic company) displayed low efficiency-moderate profitability combination during the study period.

B. (i) Table 2 shows that out of sixty correlation coefficients between CTR and ROCE in the selected companies, thirty eight coefficients were positive, out of which only three coefficients were found to be statistically significant, whereas the remaining twenty two correlation coefficients were negative, out of which eight coefficients were found to be statistically significant. But more negative relationship (eight correlation coefficients) between firm's efficiency of cash management and profitability was statistically significant compared to positive significant association (three correlation coefficients) between firm's efficiency of cash management and profitability during the study period. Table 2 exhibits that, in case of multinational companies, out of total thirty correlation coefficients between CTR and ROCE nine coefficients were positive, out of which three coefficients were statistically significant. Remaining twenty one coefficients were negative, out of which eight coefficients were found to be statistically significant. Whereas, in case of domestic companies, out of thirty correlation coefficients between CTR and ROCE twenty nine coefficients were positive and rest one correlation coefficient was negative (but none was statistically significant).

(ii) Table 3 exhibits that out of sixty correlation coefficients between ITR and ROCE in the selected companies, fourty nine coefficients were positive, out of which twenty five coefficients were statistically significant while the remaining eleven correlation coefficients were negative, out of which three coefficients were found to be statistically significant. Table 3 also discloses that in case of multinational companies out of total thirty correlation coefficients between ITR and ROCE, twenty five coefficients were positive, out of which nine coefficients were statistically significant. Remaining five coefficients between ITR and ROCE were negative and statistically insignificant. In case of domestic companies out of total thirty correlation coefficients between ITR and ROCE twenty four coefficients were positive, out of which sixteen coefficients were statistically significant whereas the rest six correlation coefficients between

ITR and ROCE were negative out of which three coefficients were statistically significant.

(iii) Table 4 reveals that out of sixty correlation coefficients between DTR and ROCE, fourty one coefficients were positive, out of which eleven coefficients were found to be statistically significant. Remaining nineteen coefficients between DTR and ROCE were negative, of which only six coefficients were found to be statistically significant. Table 4 depicts that while considering only multinational companies, out of total thirty correlation coefficients between DTR and ROCE, twenty one coefficients were positive, of which two correlation coefficients were statistically significant whereas remaining nine coefficients were negative, out of which three correlation coefficients were statistically significant. In case of only domestic companies under study, out of thirty correlation coefficients between DTR and ROCE, twenty coefficients were positive, out of which nine coefficients were statistically significant. Remaining ten correlation coefficients between DTR and ROCE were negative, of which three coefficients were statistically significant.

C. The joint influence of the selected ratios indicating efficiency of working capital management on the overall profitability of the companies under study has been studied in Table 5. The multiple regression equation which has been fitted in this study for each company is: ROCE= $B_0 + B_1$.CTR + B_2.ITR +B_3.DTR where B_0 is the constant, B_1, B_2, and B_3 are the partial regression coefficients.

In case of multinational companies under study when CTR increased by one unit, the ROCE improved (statistically insignificant) in three out of ten multinational companies, whereas for one unit improvement of CTR, the ROCE came down in seven out of total ten multinational companies and the decrease in ROCE was found to be statistically significant in case of three multinational companies (Astrazeneca, Novartis and Organon) under study. In case of domestic companies under study when CTR increased by one unit, the ROCE improved in seven out of ten multinational companies and the increase in ROCE was found to be statistically significant in one company (Cadila), whereas for one unit improvement of CTR, the ROCE came down in rest three domestic companies under study and the decrease in ROCE was found to be statistically significant in case of one company (Aurobindo) under study.

In case of multinational companies, when ITR improved by one unit, the ROCE stepped up in eight out of the ten companies under study and the increase in ROCE was found to be statstically significant in two companies (Merck and Novartis), whereas for one unit increase in ITR, the ROCE decreased (statistically insignificant) in two companies. In case of domestic companies when ITR increased by one unit, the ROCE went up in eight companies, out of which in six cases (Aurobindo, Cadila, Cipla, Dr. Reddy's, Piramal and Ranbaxy) the increase in ROCE was statistically significant whereas for one unit increase in ITR, the ROCE detoriated in two companies, out of which in case of one company (Sun) decrease of ROCE was statistically significant.

In case of multinational companies under study when DTR increased by one unit, the ROCE improved (statistically insignificant) in six out of ten companies, whereas for one unit improvement of DTR, the ROCE came down in four companies out of which in case of one company (Novartis) this change was statistically significant. On the other hand, in case of domestic companies under study when DTR increased by one unit, the ROCE improved in six companies and the increase in ROCE was found to be statistically significant in two companies (Aurobindo and Wockhardt), whereas for one unit improvement of DTR, the ROCE came down in rest four domestic companies under study and the decrease in ROCE was found to be statistically significant in case of one company (Cadila) under study.

Table 6 reveals that the joint influence of firm's efficiency in managing its cash, inventory and debtors on profitability was notable in ten companies (Abbott, Astrazeneca, Aventis, Glaxosmitkline, Merck, Wyeth, Aurobindo, Cadila, Ranbaxy and Wockhardt). The coefficients of multiple determination in the selected companies reflected that the percentage of the total variation in the ROCE of the selected twenty companies due to the variation in CTR, ITR and DTR ranged between 48.90 per cent (Lupin) and 99.50 per cent (Aurobindo). Table 6 also exibits that the multiple correlation coefficient of ROCE on CTR, ITR and DTR in the selected multinational companies ranged between 0.559 (Fulford) and 0.895 (Merck) and that of domestic companies ranged between 0.489 (Lupin) and 0.995 (Aurobindo). This coefficient was found to be statistically significant in six multinational companies (Abbott, Astrazeneca, Aventis, Glaxosmithkline, Merck and Wyeth) and four domestic companies (Aurobindo, Cadila, Ranbaxy and Wockhardt) under study. Besides this, the coefficients of multiple determination in the selected multinational companies reflected that the percentage of the total variation in CTR, ITR and DTR ranged between 55.99 per cent and 89.50 per cent, whereas that of the domestic companies ranged between 48.90 per cent and 99.50 per cent.

Concluding remarks

(a) Aventis captured high efficiency - high profitability combination in Tables 1.1 and 1.3. It reflects that the cash management and credit management of the Aventis (multinational company) made a significant contribution towards achieving its excellent performance in terms of profitability during the study period. Organon (multinational company) captured high efficiency—high profitability combination in Table 1.1 only. It denotes that the cash management of the Organon made a significant contribution towards achieving its excellent performance in terms of profitability during the period under study whereas Pfizer (multinational company) captured high efficiency—high profitability combination in Table 1.2. It implies that the inventory management of the Pfizer made a significant contribution towards achieving its excellent performance in terms of profitability. Glaxosmithkline (multinational company) captured high efficiency—high profitability combination in Table 1.3 only. It reflects that the credit management of the Glaxosmithkline made a significant contribution towards achieving its excellent performance in terms of overall profitability. Thus, all the 'high efficiency - high profitability' combinations were captured by multinational companies (Aventis, Organan, Pfizer and Glaxosmithkline) during the period under study.

(b) Novartis (multinational company) and Sun (domestic company) were placed in the moderate efficiency—moderate profitability category in Table 1.2. It implies only the inventory management out of other components of working capital (cash management and creditors' management) made a positive influence on its profitability during the study period.

(c) Ranbaxy was placed in the low efficiency - low profitability cell in Tables 1.1, 1.2 and 1.3. It denotes that the inefficiency of the cash management, inventory management and credit management of Ranbaxy were responsible for poor performance in terms of its earning capability during the period under study. Aurobindo, Dr. Reddy's, Lupin, Piramal and Wockhardt were placed in the low efficiency—low profitability cell in both the Tables 1.1 and 1.3. It implies that the inefficiency of the cash management and credit management of these companies were responsible for poor performance in generating overall profitability during the period under study. Abbott and Fulford were placed in the low efficiency - low profitability cell in the Table 1.1. It indicates that the inefficiency of the cash management of these companies was the cause for poor performance in terms of its earning capability during the period under study. Ipca was placed in the low efficiency - low profitability cell in both the Tables 1.2 and 1.3. It denotes that the inefficiency of the inventory management and credit management were responsible for poor performance in terms of its earning capacity of this company during the period under study. Cadila was placed in the low efficiency - low profitability cell in the Table 1.3. It reveals that the inefficiency of the credit management of this company was responsible for poor performance in terms of its earning capability during the period under study. Thus majority of the domestic companies (Aurobindo, Dr.Reddy's, Lupin, Piramal, Ranbaxy, Wockhardt, Ipca and Cadila) compared to the multinational copmpanies (Abbott and Fulford) were placed in low efficiency—low profitability cell during the study period.

(d) The analysis of correlation between CTR and the selected profitability measure reveals that in 63.33 per cent cases a positive association was observed but only in 7.89 per cent of these cases the positive association was significant. Therefore, when taken all the companies, the study failed to eatablish a strong evidence of positive relationship between efficiency of managing cash and profitability. But in majority of the domestic companies under study (compared to the multinational companies under study) a positive relationship between companies' efficiency of cash management and profitability prevailed during the study period. In fact, positive relationship between companies' efficiency of cash management and profitability was observed in 30 per cent and 96.66 per cent cases of the multinational and domestic companies respectively.

(e) The study of correlation between ITR and ROCE exhibits that there was a positive relationship between efficiency of inventory management and profitability in 81.67 per cent cases and in 51.02 per cent of these cases the relationship was found to be statistically significant. Hence, these results provide strong evidence of positive contribution of inventory management towards improving profitability in a substantial portion of the sample companies during the study period. It is also notieceable that in 83.30 per cent cases there was positive relationship between multinational companies' efficiency of inventory management and profitability whereas the positive relationship between domestic companies' efficiency of inventory menegement and profitability was 80 per cent during the study period. Thus in case of both multinational and domestic companies under study majority of the companies recorded a positive relationship between companies' efficiency of inventory management and profitability was noticed.

(f) The analysis of correlation between DTR and ROCE discloses that in 68.33 per cent cases a positive association was found. This study also reveals that 64.71 per cent of the total significant correlation coefficient was positive while 35.29 per cent of the same was negative. Although both significant favorable and adverse effects of the performance of debtors management on profitability were present in the selected companies, the outcome of the study conforms to the hypothesis in the majority cases that the higher the efficiency of credit management, the higher the profitability. The relationship between companies' efficiency of credit menagement and profitability were 70 per cent and 66.66 per cent in case of multinational companies and domestic companies respectively. Thus in case of both multinational and domestic companies under study majority of the relationship between companies' efficiency of debtors' management and overall profitability were positive.

(g) The study of the partial regression coefficients reveals that in case of seven domestic companies (Cadila, Cipla, Dr. Reddy's, Ipca, Lupin, Sun and Wockhardt) and three multinational companies (Fulford, Glaxosmithkline and Merck) the effect of efficiency of cash management on profitability was positive whereas majority of both multinational (Abbott, Astrazeneca, Fulford, Merck, Novartis, Organon, Pfizer and Wyeth) and domestic companies (Aurobindo, Cadila, Cipla, Dr. Reddy's, Ipca, Lupin, Piramal and Ranbaxy) recorded the positive effect of efficiency of inventory management on overall profitability during the study period. Besides this, the study also exhibits that the effect of efficiency of debtors' management on profitability was positive in case of majority of the multinational (Astrazeneca, Aventis, Fulford, Glaxosmithkline, Organon and Wyeth) and domestic companies (Aurobindo, Ipca, Piramal, Ranbaxy, Sun and Wockhardt) during the period under study.

(h) The study of multiple correlation coefficient reflects that the joint impact of liquidity management, inventory management and credit management on profitability was notable in ten out of twenty companies, while the study of coefficient of multiple determination witnesses that atleast 68.90 per cent of the total variation in the profitability of these ten companies was accounted for by the joint variation in the three selected measures (CTR, ITR and DTR) relating to efficiency of working capital management. The joint influence of companies' efficiency in managing its cash, inventory and debtors on profitability was notable in case of six multinational companies (Abbott, Astrazeneca, Aventis, Glaxosmithkline, Merck and Wyeth) and four domestic companies (Aurobindo, Cadila, Ranbaxy and Wockhardt) during the study period.

Table 1.1: Efficiency-Profitability Status of the Selected Companies in Indian Pharmaceutical Industry based on Combination of Cash Management and Profitability

CTR \ ROCE	High (≥ 25%)	Moderate (> 15% but <25%)	Low (≤15%)
High (≥ 100%)	Aventis, Organon		
Moderate (> 50 but <100)	Cipla		Cadila, Ipca
	Astrazeneca, Glaxosmithkline, Merck, Pfizer, Wyeth	Novartis, Sun	Abbott, Fulford, Aurobindo, Dr. Reddy's, Lupin, Piramal, Ranbaxy, Wockhardt

Source : Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Table 1.2 : Efficiency-Profitability Status of the Selected Companies in Indian Pharmaceutical Industry based on Combination of Cash Management and Profitability

CTR \ ROCE	High (≥ 25%)	Moderate (> 15% but <25%)	Low (≤15%)
High (≥ 10%)	Pfizer		Lupin, Piramal, Wockhardt
Moderate (> 7 but <10)	Astrazeneca, Aventis, Glaxomithkline, Merck, Organon	Novartis, Sun	Abbott, Fulford, Aurobindo, Cadila, Dr. Reddy's
Low (≤ 7)			Ipca, Ranbaxy

Source : Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Table 1.3 : Efficiency-Profitability Status of the Selected Companies in Indian Pharmaceutical Industry based on Combination of Cash Management and Profitability

CTR \ ROCE	High (≥ 25%)	Moderate (> 15% but <25%)	Low (≤15%)
High (≥ 25%)	Aventis, Glaxosmithkline		Fulford
Moderate (> 10 but <25)	Astrazeneca, Merck, Otganon, Pfizer, Wyeth, Cipla		Abbott
Low (≤ 10)		Novartis, Sun	Aurobindo, Cadila, Dr. Reddy's, Ipca, Lupin, Piramal, Ranbaxy, Wockhardt

Source : Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Table 2 : Analysis of Correlation Between Cash Management and Profitability of the Selected Companies in the Indian Pharmaceutical Industry

	Company	Correlation coefficient between CTR and ROCE		
		Pearson	Kendall	Spearman
Multinational Company	Abbott	-0.329	-0.689**	-0.806**
	Astrazeneca	-0.127	-0.200	-0.321
	Aventis	-0.741*	-0.778**	-0.903**
	Fulford	-0.637*	-0.629 *	-0.802**
	Glaxosmithkline	-0.129	-0.156	-0.127
	Merck	-0.257	-0.156	-0.188
	Novartis	-0.481	-0.067	-0.091
	Organon	0.428	0.289	0.382
	Pfizer	0.181	0.289	0.406
	Wyeth	0.742*	0.689**	0.867**
Domestic Company	Aurobindo	0.237	0.182	0.266
	Cadila	0.135	0.121	0.147
	Cipla	0.241	0.061	0.105
	Dr Reddy's	0.164	0.303	0.287
	Ipca	0.302	0.273	0.252
	Lupin	0.024	0.121	0.154
	Piramal	0.134	0.061	0.091
	Ranbaxy	-0.029	0.121	0.119
	Sun	0.111	0.121	0.168
	Wockhardt	0.394	0.273	0.469

Note : * Significant at 5 per cent level,
** Significant at 1 per cent level,

Source : Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Table 3 : Analysis of Correlation Between Inventory Management and Profitability of the Selected Companies in the Indian Pharmaceutical Industry

	Company	Correlation coefficient between CTR and ROCE		
		Pearson	Kendall	Spearman
Multinational Company	Abbott	0.496	0.424	0.538
	Astrazeneca	0.079	-0.121	-0.182
	Aventis	0.797**	0.606**	0.804**
	Fulford	0.452	0.168	0.270
	Glaxosmithkline	0.513	0.229	0.333
	Merck	0.785**	0.657**	0.834**
	Novartis	0.321	0.273	0.413
	Organon	-0.068	0.061	0.133
	Pfizer	0.602*	0.473 *	0.641 *
	Wyeth	-0.088	0.183	-0.014
Domestic Company	Aurobindo	0.938**	0.809**	0.928**
	Cadila	-0.437	-0.168	-0.291
	Cipla	0.629*	0.485 *	0.692 *
	Dr Reddy's	0.584*	0.303	0.448
	Ipca	0.419	0.091	0.231
	Lupin	0.424	0.394	0.490
	Piramal	0.672*	0.455 *	0.622 *
	Ranbaxy	0.933**	0.565 *	0.704 *
	Sun	-0.696*	-0.515 *	-0.636 *
	Wockhardt	0.671*	0.606**	0.783**

(contd.)

(contd.)

Note : * Significant at 5 per cent level,
** Significant at 1 per cent level,

Source : Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Table 4 : Analysis of Correlation Between Debtors Management and Profitability of the Selected Companies in the Indian Pharmaceutical Industry

	Company	Correlation coefficient between CTR and ROCE		
		Pearson	Kendall	Spearman
Multinational Company	Abbott	0.540	0.212	0.308
	Astrazeneca	0.396	0.290	0.371
	Aventis	0.122	0.091	0.119
	Fulford	0.434	0.351	0.511
	Glaxosmithkline	0.436	0.636**	0.664**
	Merck	0.566	0.229	0.298
	Novartis	0.288	0.242	0.378
	Organon	-0.212	-0.212	-0.294
	Pfizer	-0.430	-0.303	-0.371
	Wyeth	-0.658*	-0.606**	-0.818**
Domestic Company	Aurobindo	0.952**	0.788**	0.909**
	Cadila	-0.733**	-0.545 *	-0.741**
	Cipla	-0.084	0.091	0.014
	Dr Reddy's	0.334	0.182	0.315
	Ipca	-0.094	-0.137	-0.165
	Lupin	-0.323	-0.061	-0.049
	Piramal	0.432	0.242	0.266
	Ranbaxy	0.682*	0.585**	0.768**
	Sun	0.191	0.121	0.217
	Wockhardt	0.827**	0.636**	0.762**

Note : * Significant at 5 per cent level,
** Significant at 1 per cent level,

Source : Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Table 5 : Analysis of Multiple Regression of ROCE on CTR, ITR and DTR of the Selected Companies in the Indian Pharmaceutical Industry

Regression Equation of ROCE on CTR, ITR and DTR :
$ROCE = B_0 + B_1 . CTR + B_2 . ITR + B_3 . DTR$

	Company	Correlation coefficient between CTR and ROCE			
		B_1 (CTR)	B_2 (ITR)	B_3 (DTR)	Constant B_0
Multinational Company	Abbott	-0.020 (-1.530)	0.399 (1.365)	-0.887 (-1.226)	2.595 (0.502)
	Astrazeneca	-0.268 (-2.078)*	1.029 (1.614)	0.923 (1.179)	-2.328 (-0.297)
	Aventis	-0.009 (-1.647)	-1.611 (-0.662)	0.484 (0.775)	-20.991 (-1.475)
	Fulford	0.027 (1.056)	0.640 (1.065)	0.153 (0.950)	1.764 (0.419)
	Glaxosmithkline	0.028 (0.560)	-3.162 (-0.819)	0.041 (0.221)	0.241 (0.013)
	Merck	0.001 (0.326)	1.555 (5.104)****	-0.295 (-0.527)	-3.163 (-0.565)
	Novartis	-0.052 (-2.156)*	3.417 (2.841)**	-2.272 (-1.998)*	2.860 (0.357)
	Organon	-0.017 (-2.486)**	0.399 (0.628)	0.538 (0.750)	0.694 (0.057)
	Pfizer	-0.005 (-0.063)	1.683 (1.503)	-0.340 (-0.640)	9.004 (0.683)
Domestic Company	Wyeth	-0.087 (-0.701)	1.741 (1.468)	0.541 (1.472)	2.184 (0.274)
	Aurobindo	-0.027 (-3.235)***	3.187 (7.547)****	5.442 (9.556)****	-19.072 (-13.035)
	Cadila	0.011 (1.923)*	3.644 (1.999)*	-3.432 (-4.025)****	22.523 (3.264)
	Cipla	0.014 (0.690)	10.323 (2.903)***	-0.432 (-1.108)	-0.409 (-0.313)
	Dr Reddy's	0.238 (1.661)	5.616 (2.317)**	-1.529 (-0.271)	-14.678 (-0.855)
	Ipca	0.053 (0.046)	13.424 (1.507)	2.472 (0.524)	-60.757 (-1.076)
	Lupin	0.051 (0.718)	0.672 (1.052)	-0.102 (-0.117)	9.934 (1.064)
	Piramal	-0.037 (-1.124)	3.235 (2.483)**	1.709 (1.251)	-8.713 (-0.786)
	Ranbaxy	-0.013 (-0.293)	19.283 (6.091)****	3.925 (1.774)	-88.158 (-7.020)
	Sun	0.030 (0.431)	-6.459 (-2.694)**	0.320 (0.169)	69.06 (3.020)
	Wockhardt	0.033 (1.517)	-1.424 (-0.681)	9.964 (2.917)***	-21.926 (-2.213)

Note : Figures in the parentheses indicate t values,

* Significant at 10 per cent level, ** Significant at 5 per cent level, *** Significant at 2 per cent level, **** Significant at 1 per cent level

Source:* *Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Table 6: Analysis of Multiple Correlation of ROCE on CTR, ITR and DTR of the Selected Companies in the Indian Pharmaceutical Industry

	Company	R	R_2	F
Multinational Company	Abbott	0.819	0.671	5.447*
	Astrazeneca	0.838	0.702	6.286*
	Aventis	0.852	0.726	7.079*
	Fulford	0.559	0.312	1.210
	Glaxosmithkline	0.830	0.689	5.909*
	Merck	0.895	0.801	10.756**
	Novartis	0.750	0.562	3.424
	Organon	0.651	0.423	1.957
	Pfizer	0.609	0.371	1.574
	Wyeth	0.857	0.735	7.401*
	Aurobindo	0.995	0.990	275.788**
Domestic Company	Cadila	0.860	0.739	7.549*
	Cipla	0.736	0.541	3.147
	Dr Reddy's	0.720	0.518	2.866
	Ipca	0.541	0.293	1.103
	Lupin	0.489	0.239	0.837
	Piramal	0.745	0.555	3.325
	Ranbaxy	0.953	0.907	26.130**
	Sun	0.707	0.499	2.660
	Wockhardt	0.871	0.758	8.353**

Note : * Significant at 5 per cent level,
** Significant at 1 per cent level

Source :* *Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Appendix 1

List of the Companies under Study

Abbott
Astrazeneca
Aventis
Fulford
Glaxosmithkline
Merck
Novartis
Organon
Pfizer
Wyeth
Aurobindo
Cadila
Cipla
Dr Reddy's
Ipca
Lupin
Piramal
Ranbaxy
Sun
Wockhardt

Appendix 2

Companywise Working Capital Efficiency — Profitability Data

	Company	Average Cash Turnover Ratio (CTR)	Average Inventory Turnover Ratio (ITR)	Average Debtors Turnover Ratio (DTR)	Average Return on Capital Employed (in percentage) (ROCE)
Multinational Company	Abbott	56.21	6.28	9.66	17.36
	Astrazeneca	8.67	6.69	9.26	40.34
	Aventis	244.83	6.66	13.55	34.15
	Fulford	70.88	5.80	12.62	23.31
	Glaxosmithkline	28.44	6.27	15.37	33.68
	Merck	80.69	5.85	8.45	37.80
	Novartis	53.97	6.15	7.29	31.13
	Organon	254.77	5.27	8.54	33.37
	Pfizer	14.41	7.27	10.52	39.94
	Wyeth	12.71	4.55	10.56	35.42
Domestic Company	Aurobindo	45.99	5.92	4.02	20.42
	Cadila	99.77	6.16	7.82	19.19
	Cipla	135.81	3.83	9.24	33.39
	Dr Reddy's	21.08	6.36	3.67	20.44
	Ipca	151.85	4.71	5.04	22.88
	Lupin	43.63	8.30	4.14	17.32
	Piramal	79.34	7.23	7.63	24.73
	Ranbaxy	44.15	4.69	4.75	20.42
	Sun	33.67	6.60	7.18	29.73
	Wockhardt	29.17	7.72	5.47	22.52

Source: Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

A Case Study On A Re-look at Break-Even Analysis

Sabyasachi Sengupta

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M/s Innovative Ventures Private Limited (a manufacturing company) currently manufactures a variety of products and their product portfolio essentially comprises cosmetics and toiletries. Their products particularly appeal to a select group of quality-conscious customers in the high-income category and the superior quality of their products had been instrumental in positioning their company as a dominant market player so far as their current product range is concerned. Over the years, the said company had successfully applied a simple yet effective business model which involves the following steps :

(a) Conduct a detailed market survey in order to identify the ''gaps'' that exist in the cosmetics and toiletries sector coupled with a detailed analysis of prospective future demand that may emerge in case such ''gap'' is addressed

(b) Innovate, design, develop & launch a product that would fulfill such ''gap''

(c) Swiftly capture the market comprising target customers through aggressive advertising and marketing clout.

Such marketing and operating strategies had proved to be extremely effective over the years and the same had been appropriately reflected in terms of impressive growth in top line, bottom line and operating cash flows of the company.

However, of late, the last two product launches failed to fetch the desired results. In fact, in these two instances the company had experienced adverse impact on their bottom line and operating cash flow performances. Naturally, these two product launches involved substantial quantum of initial investments and the final outcome could not justify the productivity of such investments. The company had undertaken a post mortem analysis of such failures and tried their level best to identify the root causes that culminated in such dismal performances. Such a post mortem study essentially hinted at wrong estimation of prospective future demand and inability to visualize and mitigate a few operating risks inherent in such investment options as the major reasons for failure. Having burned their fingers with these two product launch experiences, the senior management of the company had consciously decided to be more cautious in respect of future product launches.

Now, currently, Mr. Dasgupta (the CEO of the company) is toying with another fresh proposal of a product launch which essentially appears very attractive at the first glance. However, he had already learned from his past experiences that an investment proposal which looks very ''rosy'' at the inception stage may actually result into disastrous consequences as well. Moreover, by this time, Mr. Dasgupta also understands and appreciates that once a capital investment fails to deliver the desired results and the venture translates into failure—the exit options become quite limited which in turn magnifies the monetary losses making the situation even worse than anticipated.

Mr. Dasgupta distinctly recalls that failure of the previous two product launches was essentially attributed to ''over-estimation'' of product prospects in terms of their market demand, revenue and profit generation possibilities etc. In view of the same, Mr. Dasgupta contacted Ms. Bose (the Finance Manager) and requested her to develop a ''worst-case'' scenario in respect of the fresh proposal pertaining to the new product launch in consultation with the Production and Marketing Divisions of the company. He had also clarified (to her) that this ''worst-case'' scenario is actually required in order to counter the ''over-estimation'' phenomenon that had occurred in the previous two product launch circumstances that had adversely affected the final outcome.

Ms. Bose had since worked on the said proposal and developed such ''worst-case'' scenario (as per the advice of the CEO) in consultation with the concerned personnel of various departments of the company and her estimations are provided in Exhibit I (enclosed) for ready reference.

Mr. Dasgupta studied the ''worst-case'' scenario as developed by Ms. Bose (in depth) and commented that it appears that she had missed out on the ''working capital investments'' aspect that may be specifically required in the instant case. However, Ms. Bose opined that the ''working capital investments'' that may be specifically attributable to the case under review may be regarded as ''negligible'' due to the following reasons :

(a) As the company intends to operate on ''cash and carry'' basis so far as this new product is concerned, the investment in debtors may be ignored altogether.

(b) So far as this new product is concerned, the production schedule would only be developed based on orders received from prospective customers and, hence, the investments in finished goods inventory would be negligible as well.

(c) Moreover, the raw material required for production of this new product is readily available from suppliers and, hence, lead time in delivery of raw material is not a crucial consideration in the instant case. Therefore, the company would operate the ''just-in-time'' model so far as raw material inventory management issues are concerned and as hence, there is no need to provide for investments in raw material inventory in the proposal under review.

Mr. Dasgupta was pretty impressed (rather, convinced) with the arguments provided by Ms. Bose and they both agreed that the crucial parameter that needs to be thoroughly examined before going ahead with the said product launch happens to be the ''minimum average annual market demand'' of this new product. Thus, naturally, the next assignment to be undertaken is a detailed market survey/demand analysis exercise in order to assess the prospective future demand of such new product in the market. Ms. Bose commented that while the marketing team undertakes such market survey/demand analysis assignment, she would simultaneously undertake a simple exercise of computing the ''break-even point (in units)'' based on the ''worst-case'' financial estimates as already developed by her. She explained that if the outcome of the market survey report finally suggests that the ''average annual market demand'' of the product would exceed the ''break-even level'' (to be computed by her, shortly) comfortably, the product launch (as currently being contemplated by the CEO) is bound to succeed. Mr. Dasgupta naturally saw lot of merit in the approach suggested by Ms. Bose and requested her to undertake such ''break-even analysis'' exercise. He agreed that this exercise may aid in visualizing and ascertaining the crucial operating risk exposure of the proposal under review.

Ms. Bose had since conducted a simple break-even analysis (based on the ''worst-case'' financial estimates) and generated the ''break-even'' information as well. Such ''break-even analysis'' is provided in Exhibit II (enclosed) for ready reference.

Once Mr. Dasgupta observed that the new product would break even at average annual demand of 7 lakhs units, he instructed his marketing team to undertake a detailed market survey/demand analysis exercise. He specifically requested their team to spell out the minimum anticipated annual demand of the product under a ''worst-case scenario'' as well. The market survey was duly conducted by the marketing team and key information obtained from their report is provided as :

(a) Average Annual Market Demand would range between 9 to 10 lakhs units

(b) Even in the ''worst-case scenario'' annual demand would amount to 8 lakh units

Mr. Dasgupta was extremely happy with the outcome of the market survey report because he realized that the new product launch is sure to succeed.

The evening before he was officially expected to give clearance to the new product launch proposal, a relieved Mr. Dasgupta was attending an informal get-together where he happened to meet one Mr. Basak who is a renowned freelance financial consultant by profession. In course of the conversation, Mr. Dasgupta cited the above case facts to Mr. Basak while clarifying how he tried to visualize, ascertain and address the risk exposure of a real life project. The case facts naturally interested Mr. Basak and fortunately, Mr. Dasgupta still had the papers available with him in his attaché case, which he readily shared with Mr. Basak. Mr. Basak studied the case related papers for half an hour or so and commented :

"Mr. Dasgupta, I suggest that you give a second thought before clearing the proposal tomorrow morning. Since you and your entire team had heavily stressed on the worst-case scenario while evaluating the proposal, I guess that possibility of such a scenario emerging may not be ruled out altogether. I can tell you one thing for sure. In such worst-case scenario, your project won't break even at 7 lakh Units at all. The break-even analysis conducted by your finance manager is characterized by a conceptual limitation because it happens to ignore one crucial—yet significant—"cost" in relation to the project under review. Therefore, the break-even figure of 7 lakh Units that your finance manager had actually arrived at has distorted the reality. As per my guess the actual break-even for this project (under the worst case scenario) is far higher than 7 lakh Units. In fact, such break-even would actually exceed the minimum market demand of 8 lakh Units of the new product (under the worst-case scenario) as captured in your market survey report."

List of Review Questions

(a) Do you agree with Mr. Basak that the break even of 7 lakh Units as arrived at by the finance manager depicts distorted reality?

(b) In case you agree with the views expressed by Mr. Basak, please clarify the conceptual limitation that the break even analysis given in Exhibit II actually suffers from.

(c) Mr. Basak had also commented that the break-even analysis provided in Exhibit II actually ignores one crucial—yet significant—"cost" in relation to the project. What "cost" is he referring to?

(d) Suggest an alternative method of arriving at a more reliable break-even number and compute such break-even sales (in units).

Exhibit I

New Product Launch—The Proposal

(The "Worst-Case" Scenario—Estimated Financials)

Capital Investment Required	Rs. 20 Crores
Useful Life of the Capital Asset (Estimated Salvage Value—ZERO)	10 Years
Depreciation Policy (As would be allowed by IT Authorities in the instant case)	Straight Line
Effective Tax Rate	35%
Mode of Financing of the above capital investment	Internal Accruals
Expected Returns of Equity Investors	18%
Selling Price Per Unit of this new product (Minimum)	Rs. 500
Variable Cost Per Unit (Maximum)	Rs. 400
Attributable Annual Fixed Cost—Other than Depreciation (Maximum)	Rs. 5 Crores
Annual Average Market Demand of this New Product (In Units)	"Subject to Market Survey"

Exhibit II

New Product Launch—Break-Even

(Based on the "Worst-Case" Estimated Scenario)

	Level of Operation—New Product		
Details	**4 lakh Units Rs. lakhs**	**7 lakh Units Rs. lakhs**	**9 lakh Units Rs. lakhs**
Revenue (@ Rs 500)	2000	3500	4500
Variable Cost (@ Rs 400)	(1600)	(2800)	(3600)
Contribution	400	700	900
Attributable Fixed Costs	(500)	(500)	(500)
Depreciation Charges	(200)	(200)	(200)
Profit Before Tax (PBT)	(300)	0	200
(Tax Charge)/Tax Savings	105	0	(70)
Profit After Tax (PAT)	(195)	0	130
		BE Level	

Break Even Sales (in Units)	**7 lakhs Units**
Break Even Sales (in Rupees)	**Rs 3,500 lakhs**

Accounting Treatment of Spares Consumption

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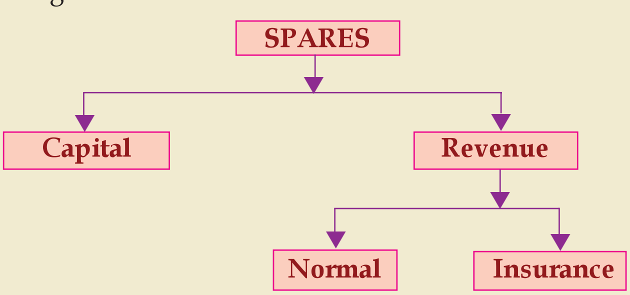
This paper examines the accounting treatment of spares consumption by critically examining the procedures laid down both in cost accounts and financial accounts.

Generally, cost of consumption of spares is included in the repairs & maintenance cost. In Cost Accounting Standard 12—Cost Accounting Standard on Repairs and Maintenance Cost, Clause 4.7, Repairs and Maintenance Cost has been defined as :

"Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency."

Broadly speaking, the repairs and maintenance include activities such as routine or preventive maintenance, planned, breakdown, normal overhaul, major overhaul etc.

In gigantic industries like power generation, the above referred activities are regular and is the repairs and maintenance cost. During such activities replacement of spares is a common phenomenon. Here, spares can be broadly categorized into two types—capital and revenue. Again, revenue spares can be categorised into normal and insurance :



Definitions of the above are given below for better understanding

Capital Spares : (1) Capital spare is that part of inventory that are acquired as spare parts/as sub-assemblies of capital assets. The capital spares life is equal to that of the associated equipment, though kept in store depreciate at the same rate of depreciation and not treated as normal inventory, and obsolescence forces the unit to condemn the principal equipment these items also need to be discarded. That is, the life cycle of the capital spares.

(2) Major machinery spare parts/sub-assemblies are classified as capital spares when they are expected to be utilised over more than one period or when they are expected to be used only in connection with an item of Property, Plant and Equipment (PPE). These are refurbishable and when the major spare in the equipment goes for repair (which normally takes considerable time and cost), these spares will stand the place of that item and production/running of the equipment is ensured.

Normal Spares : (1) All spare parts required to cover adequately the day-to-day maintenance of equipment following the first year of operation.

(2) Spares which do not cover as capital spares are normal in nature.

Insurance Spares : Insurance spares are those parts of equipment, equipment assemblies or complete items of equipment that are required for replacement of items not subject to deterioration by normal use but failure of which is critical for long term availability of the plant.

It is pertinent to mention here that treatment of the above spares in accounts is also different as their definitions do. In general, capital spares will be capitalised and normal spares will be treated and accounted as inventory. Now, a question arises about the accounting treatment at the time of their consumption. Generally, cost of consumption of normal spares will be treated as R&M cost and being followed by many industries without having any clog. But in case of capital spares, several industries are facing problems in determining the value of such taken out spare as value of such spare was capitalised along with the main equipment. Hence it is difficult to ascertain the value of such taken out capital spare. In this regard, different companies formulate their own policies for accounting of the same. For instance, during my research study in one of the power company, the company's policy in this regard was as :

"If the taken out spare is irreparable and it is replaced with the new capital spare then the gross block and accumulated depreciation of the replaced spare shall be removed from the books."

In another company the procedure adopted is "assessed value is the criteria for valuation of taken out spare if the value of the taken out spare is not available".

Like this, different companies will have different accounting treatment in this regard.

With this background, spares replacement cost as suggested in CAS 12 may be looked into. Two clauses 5.7 and 5.8 of CAS 12 deal with this subject. These two clauses are :

"5.7. Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost."

"5.8. High value spare, when replaced by a new spare and is reconditioned, which is expected to result in future economic benefits, the same shall be taken into stock. Such a spare shall be valued at an amount that measures its service potential in relation to a new spare which amount shall not exceed the cost of reconditioning the spare. The difference between the total of the cost of the new spare and the reconditioning cost and the value of the reconditioned spare should be treated as repairs and maintenance cost."

It is important to note the phrase "Future economic benefits" from the above clauses.

From the clause 5.7 it can be inferred that replacement cost not resulting in enhancement of the life of the asset or no assessable future economic benefits from the existing asset—such cost shall be treated as R&M cost.

From the clause 5.8, it can be inferred that, if the taken out spare is reconditioned and which is expected to result in future economic benefits, such cost shall be reduced from the cost of new spare and net amount shall be treated as R&M cost.

It may be observed that both clauses are silent about the nature of the spare, i.e., capital or revenue.

The above two clauses are critically analysed based on the nature of the spare, i.e., Capital or revenue as follows :

If the taken out spare is revenue in nature and cannot be reconditioned, i.e., irreparable, then the total value of the new spare which is replacing the old spare shall be treated as R&M cost. For example :

Exhibit 1

Particulars	Amount (Rs. lakhs)
Value of New Spare	
Reconditioning cost of old spare	10.00
	NIL
Treatment : Rs. 10 lakhs is to be treated as R&M Cost. Here, value of taken out spare is irrelevant because it is not repairable and revenue in nature.	

If the taken out spare is revenue in nature and which can be reconditioned, i.e. repairable then the R&M cost shall be net of the value of new spare and the salvage value of the old spare after reconditioning. Here, it is to be noted that the value of the reconditioned spare should not exceed the recondition cost. This can be better understood with the following example :

Exhibit 2

Particulars	Amount (Rs. lakhs)
Value of New Spare	
Reconditioning cost of old spare	10.00
	2.00
Treatment : Rs. 8.00 lakhs is to be treated as R&M Cost and reconditioned spare shall be taken to stock with Rs. 2.00 lakhs.	

In our view, above treatments shall be implemented irrespective of the value of the spares—high or low.

What is the position if the taken out spare is capital in nature? Initially, capital spares will be capitalised along with the main equipment. Hence, whenever a capital spare is being replaced with a new spare, then the spare removed from the equipment is to be decapitalized, if such spare is irreparable. Several companies face difficulties for valuation of the taken out capital spare. As mentioned earlier, it is difficult to ascertain the value of the capital spares capitalised along with the main equipment because such spares will be recorded with nil value in stores ledger. To overcome this difficulty, companies will formulate their own policies in this regard. In this connection, it is worthwhile to note :

If the taken out capital spare is repairable, no decapitalisation is required because such capital spare is available to attach to the main equipment again. CAS 12 is silent in this regard—whether the cost incurred towards reconditioning can be treated as R & M cost and such spare to be taken to stock.

If the taken out capital spare is irreparable, then it is to be removed from the books of accounts. Here also CAS 12 is silent about the treatment of 'loss on de-capitalisation of asset.' Whether net book value of such spare can be treated as R&M cost in view of the definition of R&M Cost in clause 4.7 of CAS 12. Till now 'loss on decap of assets' is not being considered in cost accounts. If it is considered as per the above referred definition then there will be impact on profitability as per cost accounts.

Conclusion

Treatment of consumption of spares is an important aspect to be looked into both in cost accounting and financial accounting. Since R&M cost is one of the important cost drivers having impact on profitability of a firm, a clear-cut mechanism is required to be developed separately for both normal spares and capital spares for uniform accounting among the various companies.

To overcome the difficulties in identifying the value of taken out spares either for reconditioning or removing it is suggested to maintain a separate record for capital spares with all relevant details viz., value, main asset, date of capitalisation etc for better accounting. ❒

References

- Cost Accounting Standards issued by The Institute of Cost Accountants of India
- www.wikiwords.org

Kolkata, the 24th May, 2012

Notification

18-CWR (1617)/2012 : It is hereby notified in pursuance of amended Regulation 18 of the Cost and Works Accountants Regulations, 1959, that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the name of :

1. Shri Nettemadathil Vijayaraghavan, BCOM, ACA, ACMA, Nettemadam, Warriam Road Cochin 682016 (Membership No. 5575) with effect from 24th May, 2012

Sd/-
(M. Gopalakrishnan)
President

Kolkata, the 15th June, 2012

Notification

11-CWR (441-446)/2012 : In pursuance of sub-Regulation (3) of Regulation 11 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that the Certificates of Practice granted to :

1. Shri Sumit Kumar Sarawgi, BCOM (HONS), ACMA, Sarawgi & Co., 36, Ganesh Chandra Avenue, 4th Floor, Kolkata-700 013, West Bengal, (Membership No. 29759), is cancelled from 30th March, 2012 to 31st March, 2012 at his own request.
2. Shri Anshul Sharma, ACMA, A-6, Ashok Nagar, Mandoli Road, Shahdra, Delhi-110093, (Membership No. 31428), is cancelled from 17th March, 2012 to 31st March, 2012 at his own request.
3. Shri Suman Anil Pai, BCOM, ACMA, Suman & Co., 9/820-A, ''Gowri'', Kembiri Road, Pandikudi, Cochin-682002, Kerala, (Membership No. 29442), is cancelled from 27th March, 2012 to 31st March, 2012 at his own request.
4. Shri S. R. Prakash, BCOM, BL, ACMA, 1630, 4th Cross, 17th Main Road, J. P. Nagar, 2nd Phase, Bangalore-560078, Karnataka, (Membership No. 2091), is cancelled from 7th March, 2012 to 31st March, 2012 at his own request.
5. Shri C. P. Gupta, BCOM (HONS), ACMA, 15, Panchanantala Road, 1st Floor, Kolkata-700 041, West Bengal, (Membership No. 16416), is cancelled from 10th February, 2012 to 31st March, 2012 at his own request.
6. Shri P. K. Parthiban, MCOM, ACMA, H/20A, Power Apartment, Nerkundram Road, Vadapalani, Chennai, 600026, Tamil Nadu, (Membership No. 9885), is cancelled from 12th June, 2012 to 15th June, 2012 at his own request.

Sd/-
(M. Gopalakrishnan)
President

Investment Allowance Reserve & Block of Assets : A Critical Look

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Introduction

The problems of maintenance of capital and under-depreciation have influenced the methods of taxation of different countries. For example, the Economic Recovery Tax Act, 1981, of the USA included a set of depreciation procedures known as the Accelerated Cost Recovery System. This system can alleviate considerably the ''under-depreciation'' effects associated with the depreciation methods at least based on historical cost.

In India also a scheme of Investment Allowance (IA) under Section 32A of the Income Tax Act, 1961, had been introduced with effect from April 1976. However, this allowance is not available from the Assessment Year 1991-92. IA was a deduction available once in the year of installation over and above normal depreciation charges. In the normal case the deduction allowable under the scheme was 25% of the original cost of the asset owned by the assessee and used wholly for the business. It is interesting to note that a deduction on account of IA would not be granted unless an amount equal to 75% of such allowance had been debited to Profit and Loss Account of the previous year in respect of which actual amount would be made and credited to a new account entitled Investment Allowance Reserve (IAR) Account.

An interesting situation would happen in that case. Taxable profit would reduce at the rate of 25% of actual cost of the asset acquired on account of investment allowance while accounting profit would be reduced by 75% of IA which would come up to 18.75% of the asset on account of creation of IAR. Consequently, the difference of 6.25% between IA and IAR (25% - 18.75%) of the cost of the asset acquired might be distributed as dividend assuming that there was sufficient profit. So, in accounting the effect of IA was actually IAR of 18.75% of the actual cost of the asset concerned.

Block of Assets (BOA) under Section 2 (11), on the other hand, refers to mean here a group of assets falling within a class of assets comprising tangible assets, viz., building, machinery, plant or furniture and intangible assets, viz., knowhow, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, in respect of which same percentage of depreciation is prescribed. Based on the definition of ''block of assets'' and specified depreciation rates, assets may be classified into 13 blocks. An additional depreciation on new machinery and plant acquired and installed after March 31, 2005 shall be allowed to an assessee if he fulfills certain conditions.

It may be noted that this study will present an indication of the future result and will show only the trend that may occur. An endeavour has been made in this paper to measure the quantum of the fund retained by charging depreciation under the two methods viz., IAR and BOA. Covered in this paper in that order are depreciation and retention of fund; a hypothetical example to show the depreciation provided both under IAR and BOA methods; an algebraic approach of the same and an application of it in the actual field of operation.

Depreciation and Retention of Fund

Before entering into the main discussion let us see how depreciation relates to retention of fund. Depreciation is often described as a source of fund at least when profit is sufficient to cover the periodical depreciation charges that bring in fund with them in the form of current assets. Unless externally invested, the said fund is allowed to accumulate and remain invested internally.

It is sometimes argued that depreciation itself does not provide any fund. Funds of a concern are provided by the flow of the actual revenues of the business which are provided ultimately determined by the sale proceeds of the products during a period, and not by charging off depreciation. It cannot be denied that revenue is the ultimate source of additional fund. In fact, the same amount of funds would have been available to the business had the depreciation been not charged at all. But, in that case, the reported profit would have been higher by the amount of the said depreciation which, in due course, would have been let out of the business by being participated by the owners. Thus, the charge of depreciation to revenue ultimately reduces the reported earnings without any corresponding outflows of funds. So, it may be said that assets are retained in the business in other forms against loss of assets by depreciation.

A Hypothetical Example

The following is a hypothetical example which has been taken up to show the effects of depreciation provided both under IAR and BOA methods and also to show a comparison made between the two methods.

Machinery Balance on 01.04.2000 : Five Machines of Rs. 65,000 each under BOA Method

(Assumed those Machines have been purchased at the beginning of the previous year @ Rs. 1,00,000 each)

One Machine of Rs. 1,00,000 each purchased every year (Five Machines during five years)

One Machine sold every year for Rs. 50,000 each (Five machines sold during five years)

Assumed purchase and sale of Machines occurred at the beginning of each year.

Computation of IAR and Depreciation

Though deduction is allowed under this scheme at 25% of the original cost of machinery, in fact, 75% of the aforesaid allowance is to be considered besides the general rate of depreciation allowance at the rate of 15% on written down value of machinery and plant. Again, it is assumed that the conditions for granting IA have been duly fulfilled in order to enjoy the said benefit. Table 1 shows the calculations of IAR and depreciation based on the hypothetical example given above.

The total accumulated fund of the concern by charging depreciation and IAR together becomes Rs. 3,88,285 at the end of 2010-11. On the other hand, loss on sale of machinery of the said concern stands at Rs. 65,235.

Now, the question is whether the loss on sale of assets can be treated as a source of fund. It is a fact that this loss reduces the net profit of the concern which ultimately affects the tax liability and dividend obligation of the said concern. Therefore, it obviously retains fund within the business if there is sufficient profit to cover this loss. As a result, this loss can be claimed to be a source of fund.

But a large section of academicians does not share the same view on different grounds. One school of thought believes that if this loss is said to be a source of fund, all other losses then should be recognized as the sources of fund. It is, therefore, an unrealistic proposition, which cannot be relied on. Another school argues that the problem associated with scarcity of fund can, therefore, easily be solved merely by creating more losses if loss on sale of assets is considered to be a source of fund. Again, there are others who claim that fund from operations can also be ascertained by charging cash expenses against revenue earned. So, in computing fund from operations, it is not compulsory to add back loss on sale of assets to the net profit.

It may be noted that International Accounting Standard No. 7 (IAS 7), Statement of Cash Flows, states that items which are added back to arrive at cash flows from operations generally include depreciation, amortisation or gains or losses associated with the sale of a non-current assets. Again, it is not out of point to mention here that SFAS 95, Statement of Cash Flows, of FASB corroborates the same view. However, without entering into much arguments and counter-arguments, it is better to keep the loss on sale of plant or equipment outside the purview of the present study, i.e., this particular loss has not been considered as a source of fund here.

Computation of Depreciation under BOA : The computation of depreciation provisions under BOA has been made following depreciation rates specified in Rule 5 and Appendix I to the Income Tax Rules, 1962. The rate of depreciation of machinery, in the present situation, assumed to be falling under Block 5 (not covered by Block 6, 7, 8, 9, 10, 11 or 12) is 15% as it is acquired or put to use on or after April 1990. The additional depreciation shall be allowed @ 20% of actual cost of machinery purchased. This additional depreciation will be allowed in the year in which the machinery is first put to use. In the present context, additional depreciation will be charged in all the years starting from 2006-07.The computation, as shown in Table 2, is based on the hypothetical example shown above.

Table 2 shows the total of accumulated depreciation at the of the previous year 2010-11 is Rs. 347,353 which comprises of total of normal depreciation and additional depreciation of Rs. 247,353 and Rs. 100,000 respectively.

Differences between Depreciation Charges under AIR and BOA

The differences of calculation of depreciation charges between IAR and BOA have been shown in Table 3.

It may be noted there that IAR together with depreciation charges showed a balance of Rs. 388,285 while depreciation charges under BOA along with additional depreciation stood at Rs. 347,353 showing an increase of Rs. 40,932 of the former method over the latter one. It is apparent from the above table that IAR method retains surplus fund over BOA about 11.8% (40,932/347,353 × 100).

An Algebraic Approach

An algebraic approach in solving accounting problems may be cited here as an example which is found in a recent publication. The above hypothetical example may be presented here algebraically. Therefore, an endeavour has been made here to present the above hypothetical example algebraically. The notations used in this case are :

C = Balance of Machinery under IAR method at the beginning of 01.04.2006;

C_0 = Balance of Machinery under BOA method at the beginning of 01.04.2006;

C_1 to C_5 = Additional Machinery purchased at the beginning of each year for five years;

d = Annual depreciation on unit money;

p_1 to p_5 = Sale of Machine every year at the written down value;

X_1 to X_5 = Amount at which Machines sold every year;

IAR_1 to IAR_5 = Invest Allowance Reserve on unit money on machines purchased;

a = Additional depreciation on unit money

Calculation of Depreciation under IAR

1st year (31.03.2007) $= \{C\times(C-p_1)/C\times d + C_1\times d\} + IAR_1$
$= (C-p_1)\times d + C_1\times d + IAR_1$
$= (425{,}000 - 85{,}000)\times 0.15 + 100{,}000 \times 0.15 + 100{,}000\times 0.1875$
= Rs. 84,750

In this way, the results of the rest of the years may be shown as :

2nd year (31.03.2008) $= \{C-(p_1+p_2)\}\times(1-d)\times d + C_1\times(1-d)\times d + C_2\times d + IAR_2$
$= \{425{,}000 - (85{,}000+85{,}000)\}\times(1-0.15)\times 0.15 + 100{,}000\times(1-0.15)\times 0.15 + 100{,}000\times 0.15 + 100{,}000\times 0.1875$
= Rs. 79,013

3rd year (31.03.2009) $= \{C - (P_1 + p_2 + p_3)\}\times(1-d)^2\times d + C_1(1-d)^2\times d + C_2(1-d)\times d + C_3\times d + IAR_3$
$= \{425{,}000 - (85{,}000+85{,}000+85{,}000)\}\times(1-0.15)^2\times 0.15 + 100{,}000\times(1-0.15)^2\times 0.15 + 100{,}000\times(1-0.15)\times 0.15 + 100{,}000\times 0.15 + 100{,}000\times 0.1875$
= Rs. 75,762

4th year (31.03.2010) $= \{C - (p_1+p_2+p_3+p_4)\}\times(1-d)^3\times d + C_1(1-d)^3\times d + C_2(1-d)^2\times d + C_3(1-d)\times d + C_4\times d + IAR_4$
$= \{425{,}000 - (85{,}000+85{,}000+85{,}000+85{,}000)\}\times(1-0.15)^3\times 0.15 + 100{,}000\times(1-0.15)^3\times 0.15 + 100{,}000\times(1-0.15)^2\times 0.15 + 100{,}000\times(1-0.15)\times 0.15 + 100{,}000\times 0.15 + 100{,}000\times 0.1875$
= Rs. 74,380

5th year (31.03.2011)* $= C_1\times(1-d)^4\times d + C_2\times(1-d)^3\times d + C_3\times(1-d)^2\times d + C_4\times(1-d)\times d + C_5\times d + IAR_5$
$= 100{,}000\times(1-0.15)^4\times 0.15 + 100{,}000\times(1-0.15)^3\times 0.15 + 100{,}000\times(1-0.15)^2\times 0.15 + 100{,}000\times(1-0.15)\times 0.15 + 100{,}000\times 0.15 + 100{,}000\times 0.1875$
= Rs. 74,380

Rs. 84,750 + Rs. 79,013 +Rs. 75,762 + Rs. 74,380 + Rs. 74,380 = Rs. 388,285

*As $C - (p_1 + p_2 + p_3 + p_4 + p_5) = 0$

The above values exactly tally with the values of the depreciation charges and IAR shown in Table 1.

Calculation of depreciation under BOA

1st year (31.03. 2007) $= (C_0 - X_1)d + C_1(a + d)$
$= C_0\times d + C1\times d - X_1\times d + C_1\times a$
$= 325{,}000\times 0.15 + 100{,}000\times 0.15 - 50{,}000\times 0.15 + 100{,}000\times 0.20$
= Rs. 76,250

The same way the result of remaining years may be shown :

2nd year (31.03.2008) $= C_0\times d(1-d) + C_1\times d(1-a-d) + C_2\times d - X_1\times d(1-d) - X_2\times d + C_2\times a$
$= 325{,}000\times 0.15(1-0.15) + 100{,}000\times 0.15(1-0.20-0.15) + 100{,}000\times 0.15 - 50{,}000\times 0.15(1-0.15) - 50{,}000\times 0.15 + 100{,}000\times 0.20$
= Rs. 72,313

3rd year (31.03.2009) $= C_0\times d(1-d)_2 + C_1\times d(1-d)(1-a-d) + C_2\times d(1-a-d) + C_3\times d - X_1\times d(1-d)_2 - X_2\times d(1-d) - X_3\times d + C_3\times a$
$= 325{,}000\times 0.15(1-0.15)_2 + 100{,}000\times 0.15(1-0.15)\times(1-0.20-0.15) +$

$$100{,}000 \times 0.15(1 - 0.20 - 0.15) + 100{,}000 \times 0.15 - 50{,}000 \times 0.15\,(1 - 0.15)^2 - 50{,}000 \times 0.15\,(1 - 0.15) - 50{,}000 \times 0.15 + 100{,}000 \times 0.20$$

$$= \text{Rs. } 68{,}966$$

4th year (31.03.2010) $= C_0 \times d(1- d)^3 + C_1 \times d(1 - d)^2\,(1 - a - d) + C_2 \times d(1 - d)(1 - a - d) + C_3 \times d(1 - a - d) + C_4 \times d - X_1 \times d(1 - d)^3 - X_2 \times d(1 - d)^2 - X_3 \times d \times (1 - d) - X_4 \times d + C_4 \times a$

$$= 325{,}000 \times 0.15(1 - 0.15)^3 + 100{,}000 \times 0.15(1 - 0.15)^2\,(1 - 0.20 - 0.15) + 100{,}000 \times 0.15\,(1 - 0.15)\,(1 - 0.20 - 0.15) + 100{,}000 \times 0.15 \times (1 - 0.20 - 0.15) + 100{,}000 \times 0.15 - 50{,}000 \times 0.15(1 - 0.15)^3 - 50{,}000 \times 0.15(1 - 0.15)^2 - 50{,}000 \times 0.15\,(1 - 0.15) - 50{,}000 \times 0.15 + 100{,}000 \times 0.20$$

$$= \text{Rs. } 66{,}121$$

5th year (31.03.2011) $= C_0 \times d(1 - d)^4 + C_1 \times d(1 - d)^3\,(1 - a - d) + C_2 \times d(1 - d)^2\,(1 - a - d) + C_3 \times d(1 - d)(1 - a - d) + C_4 \times d(1 - a - d) + C_5 \times d - X_1 \times d(1 - d)^4 - X_2 \times d(1 - d)^3 - X_3 \times d(1 - d)^2 - X_4 \times d(1 - d) - X_5 \times d + C_5 \times a$

$$= 325{,}000 \times 0.15(1 - 0.15)^4 + 100{,}000 \times 0.15(1 - 0.15)^3\,(1 - 0.20 - 0.15) + 100{,}000 \times 0.15\,(1 - 0.15)^2\,(1 - 0.20 - 0.15) + 100{,}000 \times 0.15 \times (1 - 0.15)(1 - 0.20 - 0.15) + 100{,}000 \times 0.15\,(1 - 0.20 - 0.15) + 100{,}000 \times 0.15 - 50{,}000 \times 0.15\,(1 - 0.15)^4 - 50{,}000 \times 0.15 \times (1 - 0.15)^3 - 50{,}000 \times 0.15(1 - 0.15)^2 - 50{,}000 \times 0.15\,(1 - 0.15) - 50{,}000 \times 0.15 + 100{,}000 \times 0.20$$

$$= \text{Rs. } 63{,}703$$

Rs. 76,250 + Rs. 72,313 + Rs. 68,966 + Rs. 66,121 + Rs. 63,703 = Rs. 3,47,353

In this case also depreciation charges together with additional depreciation exactly tally with the balances shown in Table 2.

Differences of Depreciation Charges between IAR and BOA

Now, the differences between IAR and BOA calculated on above basis are shown :

1st year (31.03.2007) $= [(C - p_1)d + C_1 \times d + IAR_1] - [C_0 \times d + C_1 \times d - X_1 \times d + C_1 \times a]$

$$= C \times d - p_1 \times d + C_1 \times d + IAR_1 - C_0 \times d - C_1 \times d + X_1 \times d - C_1 \times$$

$$= (C_0 \times d \times a)/(1 - a - d) + IAR_1 - C_1 \times a - d(p_1 - X_1)$$

$[\text{As } C = C_0 \times (1 - d)/(1 - a - d)]$

$$= (325{,}000 \times 0.15 \times 0.20)/(1 - 0.20 - 0.15) + 100{,}000 \times 0.1875 - 100{,}000 \times 0.20 - 0.15\,(85{,}000 - 50{,}000)$$

$$= \text{Rs. } 8{,}500$$

The result of other years will be :

2ndyear (31.03.2008) $= \{C_0 \times d \times a(1 - d)\}/(1 - a - d) + C_1 \times d \times a + IAR_2 - C_2 \times a - d(1 - d)\,(p_1 + p_2 - X_1) + X_2 \times d$

$$= \{325{,}000 \times 0.15 \times 0.20\,(1 - 0.15)/(1 - 0.20 - 0.15) + 100{,}000 \times 0.15 \times 0.20 + 100{,}000 \times 0.1875 - 100{,}000 \times 0.20 - 0.15 \times (1 - 0.15)\,(85{,}000 + 85{,}000 - 50{,}000) + 50{,}000 \times 0.15$$

$$= \text{Rs. } 6{,}700$$

3rd year (31.03.2009) $= \{C_0 \times d \times a(1 - d)^2\}/(1 - a - d) + C_1 \times d \times a(1 - d) + C_2 \times d \times a + IAR_3 - C_3 \times a - d(1 - d)_2\,(P_1 + p_2 + p_3 - X_1) + X_2 \times d(1 - d) + X_3 \times d$

$$= \{325{,}000 \times 0.15 \times 0.20\,(1 - 0.15)^2/(1 - 0.20 - 0.15) + 100{,}000 \times 0.15 \times 0.20\,(1 - 0.15) + 100{,}000 \times 0.15 \times 0.20 + 100{,}000 \times 0.1875 - 100{,}000 \times 0.20 + 0.15\,(1 - 0.15)^2\,(85{,}000 + 85{,}000 + 85{,}000 - 50{,}000) + 50{,}000 \times 0.15\,(1 - 0.15) + 50{,}000 \times 0.15$$

$$= \text{Rs. } 6{,}797$$

4th year (31.03.2010) $= C_0 \times d \times a(1 - d)^3/(1 - a - d) + C_1 \times d \times a(1 - d)^2 + C_2 \times d \times a(1 - d) + C_3 \times d \times a + IAR_4 - C_4 \times a - d(1 - d)^3\,(p_1 + p_2 + p_3 + p_4 - X_1) + X_2 \times d(1 - d)_2 + X_3 \times d(1 - d) + X_4 \times d$

$$= 325{,}000 \times 0.15 \times 0.20\,(1 - 0.15)^3/(1 - 0.20 - 0.15) + 100{,}000 \times 0.15 \times 0.20\,(1 - 0.15)_2 + 100{,}000 \times 0.15 \times 0.20\,(1 - 0.15) + 100{,}000 \times 0.15 \times 0.20 + 100{,}000 \times 0.1875 - 100{,}000 \times 0.20 - 0.15\,(1 - 0.15)^3\,(85{,}000 + 85{,}000 + 85{,}000 + 85{,}000 - 50{,}000) + 50{,}000 \times 0.15\,(1 - 0.15)^2 + 50{,}000 \times 0.15\,(1 - 0.15) + 0{,}000 \times 0.15$$

$$= \text{Rs. } 8{,}259$$

5th year (31.03.2011) $= C_0 \times d \times a(1-d)^4/(1-a-d) + C_1 \times d \times a(1-d)^3 + C_2 \times d \times a \times (1-d)^2 + C_3 \times d \times a(1-d) + C_4 \times d \times a + IAR_5 - C_5 \times a - d(1-d)_4 \times (p_1 + p_2 + p_3 + p_4 + p_5 - X_1) + X_2 \times d(1-d)_3 + X_3 \times d(1-d)_2 + X_4 \times d(1-d) + X_5 \times d$

$= 325{,}000 \times 0.15 \times 0.20\ (1 - 0.15)^4/(1 - 0.20 - 0.15) + 100{,}000 \times 0.15 \times 0.20(1 - 0.15)^3 + 100{,}000 \times 0.15 \times 0.20(1 - 0.15)^2 + 100{,}000 \times 0.15 \times 0.20\ (1 - 0.15) + 100{,}000 \times 0.15 \times 0.20 + 100{,}000 \times 0.1875 - 1{,}00{,}000 \times 0.20 - 0.15\ (1 - 0.15)^4\ (85{,}000 + 85{,}000 + 85{,}000 + 85{,}000 + 85{,}000 - 50{,}000) + 50{,}000\ X\ 0.15 \times (1 - 0.15)^3 + 50{,}000 \times 0.15\ (1 - 0.15)^2 + 50{,}000 \times 0.15\ (1 - 0.15) + 50{,}000 \times 0.15$

= Rs.10, 677

Rs. 8,500 + Rs. 6,700 + Rs. 6,797 + Rs. 8,259 + Rs.10, 677 = Rs. 40,932

The total amount shown above remains the same with the total of Table 3.

The algebraic method presented here proves the mathematical justification of the two methods of charging depreciation, viz., IAR and BOA dealt in at the Income Tax Act, 1961. The advantage that may be claimed here is that the proposed algebraic version is flexible enough and can be adjusted with the changing situation if it is necessary at all.

Application of IAR and BOA Methods

Table 4 will show the depreciation charges of ITC Limited under both BOA and IAR methods, difference between the two methods and also percentage differences of the same and their impact on working capital for the Financial Years 2006-07 to 2010-11. In the preparation of the table shown below the assumptions that have been made here are the same as those have been taken in case of the hypothetical example shown earlier. It is also assumed that the depreciation charges of ITC Limited as shown in the Report and Accounts are based on BOA Method.

This table shows the difference between IAR and BOA methods of depreciation charges as low as 40.46 and as high as 109.95 Rs. in crores and also the percentage difference of depreciation charges between the two methods a minimum of 9.25% and a maximum of 16.76%. It is interesting to note that the excess of depreciation charges of IAR over BOA method showed the surplus percentage of retention in the working capital a minimum of 1.66% and a maximum of 96.44% over the said period.

Conclusion

It may be mentioned here that the very first year of starting the business the additional depreciation under BOA method will be higher than the IAR method by 1.25% (20% – 18.75%) assumed all assets have been purchased at the beginning of the year. But, from the subsequent years IAR method of depreciation will be higher than BOA method by 3.00%, 2.55%, 2.17% and 1.84%, respectively. The above growth IAR method over BOA method will be slightly hindered by the additions of the assets made during a year. As a matter of fact, the overall effect will be insignificant compared to the total depreciation charges which may be evidenced from Table 3.

It may not be out of point to mention here that how IAR and depreciation charges together can alleviate the problem of undercharging of depreciation particularly in times of growth of inflation had been shown in contemporary literature. However, from the foregoing discussion it is clear that IAR method will retain surplus fund of 59.52% than BOA method over a period of five years which may ultimately be utilized to meet the growing need of working capital arising for any reason.

Table 1 : Computation of Depreciation under IAR method

Year	Balance of Machinery at the beginning of the year	Purchase of Machinery	Sale of Machinery	Profit/Loss on sale of Machinery	Normal Depreciation	IAR	Total Depreciation	Balance of Machinery at the end of the year
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
31.03.2007	425,000* (85,000 × 5)	100,000	50,000	35,000	66,000	18,750	84,750	374,000
31.03.2008	374,000	100,000	50,000	22,250	60,263	18,750	79,013	341,487
31.03.2009	341,487	100,000	50,000	11,413	57,012	18,750	75,762	323,062
31.03.2010	323,062	100,000	50,000	2,201	55,630	18,750	74,380	315,231
31.03.2011	315,231	100,000	50,000	(–)5,629	55,630	18,750	74,380	325,230
Total	–	500,000	2,50,000	65,235	2,94,535	93,750	388,285	–

*Rs. 3,25,000 × 100/65 × 85/100

Table 2 : Computation of Depreciation under BOA method

Year	Balance of Machinery at the beginning of the year	Purchase of Machinery	Sale of Machinery	Normal Depreciation	Additional Depreciation	Total Depreciation	Balance of Machinery at the end of the year
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
31.03.2007	325,000 (65,000 × 5)	100,000	50,000	56,250	20,000	76,250	2,98,750
31.03.2008	2,98,750	100,000	50,000	52,313	20,000	72,313	2,76,437
31.03.2009	2,76,437	100,000	50,000	48,966	20,000	68,966	2,57,471
31.03.2010	2,57,471	100,000	50,000	46,121	20,000	66,121	2,41,350
31.03.2011	2,41,350	100,000	50,000	43,703	20,000	63,703	2,27,647
Total	–	500,000	2,50,000	2,47,353	1,00,000	3,47,353	–

Table : 3 Difference of Depreciation charges between IAR and BOA Methods

Year	IAR Depreciation	BOA Additional Depreciation & Normal Depreciation	Difference	Percentage difference based on BOA
31.03.2007	84,750	76,250	8,500	11.15%
31.03.2008	79,013	72,313	6,700	9.27%
31.03.2009	75,762	68,966	6,796	9.85%
31.03.2010	74,380	66,121	8,259	12.49%
31.03.2011	74,380	63,703	10,677	16.76%
Total	388,285	3,47,353	40,932	59.52%

Table 4 : Application of IAR and BOA Methods and its Impact in case of ITC Limited

Rs. In crores

Year	BOA Additional Depreciation & Normal Depreciation	IAR & Depreciation	Difference in Amount	Percentage Difference	Working Capital	Percentage of Increase in Working Capital
31.03.2007	362.92	403.38	40.46	11.15%	2,432.13	1.66%
31.03.2008	438.46	479.08	40.62	9.27%	2,586.97	1.57%
31.03.2009	549.41	603.55	54.14	9.85%	3,456.10	1.57%
31.03.2010	608.71	684.74	76.03	12.49%	78.84	96.44%
31.03.2011	655.99	765.94	109.95	16.76%	1,621.19	6.78%
Total	2,615.49	2,936.69	321.20	---	---	

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The Path of Holistic Decision-Making

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Introduction

The emerging corporate world is becoming a little too complex for the decision-makers. There are too many demands, pressures, needs and interests which have to be reconciled to arrive at a satisfying decision. The future decision-maker must have the ability to assess the consequences of her decisions for the totality of the stakeholder-community made of shareholder, employee, customer and the supplier and the still larger social and natural environment. In other words, she must acquire the capacity for holistic decision-making. This article presents a brief outline of the path and discipline for arriving at such a holistic decision.

The contemporary decision-maker is placed in an environment which demands a wider outlook than a narrow laser-like focus on profit and shareholder values. She has to or rather forced to take into consideration the needs, interests and demands of the employees, customers, suppliers, community and the environment. She cannot and should not ignore the factors which lead to immediate commercial success like productivity, profit, quality and customer satisfaction. But she must also take into consideration other factors which determine the long-term effectiveness or sustainability of the organization like employee motivation satisfaction or wellbeing, ethics and transparency, social responsibility, environmental preservation. We can find this recognition of the complexity of the emerging corporate scene in the ''MBA Oath'' which is a recent initiative of a grassroot movement of MBA students to restore ethical standards in management education. The first para of the oath states:

''As a manager, my purpose is to serve the greater good by bringing people and resources together to create value that no single individual can create alone. Therefore I will seek a course that enhances the value my enterprise can create for society over the long term. I recognize my decisions can have far-reaching consequences that affect the well-being of individuals inside and outside my enterprise, today and in the future. As I reconcile the interests of different constituencies, I will face choices that are not easy for me and others.''

The oath goes on to state, as the first three postulates :

''Therefore I promise :

I will act with utmost integrity and pursue my work in an ethical manner.

I will safeguard the interests of my shareholders, co-workers, customers and the society in which we operate.

I will manage my enterprise in good faith, guarding against decisions and behavior that advance my own narrow ambitions but harm the enterprise and the societies it serves.'' (1)

We have now some understanding of the complexity of the emerging corporate milieu. The new or the future manager must be able to assess the impact of her decision on the stakeholders and the totality of the larger whole of which her organization is a part or in otherwords the capacity for holistic decision-making, which has to be :

- commercially successful
- ethically sound
- socially responsible
- environmentally sustainable.
- serve customer needs
- maximize human wellbeing

The Holistic Discipline

The problem is too complex for reason to handle because it requires reconciling the conflicting demands and objectives of a multiplicity of stakeholders. It requires a higher intuition beyond reason; not an infrarational ''gut-instinct'' below reason but a suprarational insight beyond reason. This doesn't mean reason has to be set aside. Reason has an important role to play in holistic decision-making. But the final decision can be arrived only by a higher intuition greater than reason.

The next question is how to arrive at this holistic and intuitive decision? The path requires a two-fold discipline: creating a holistic consciousness and cultivating the intuitive mind.

Building the Holistic Consciousness

The holistic perspective means what is now called the ''systemic'' or ecological view that looks or perceives everything as part of a larger whole. When this perspective is not merely an idea in the upper layers of mind, but permeates the entire consciousness of the individual and becomes habitual to or established in her thought, feelings, action or even in sensations, we may call it as holistic consciousness. How to realize this holistic consciousness? We must learn to think, feel and experience things in a holistic and non-egoistic manner. We have to begin in the mind and in thought but extend it to other parts of the being through a process of imagination, visualization and other forms of inner discipline.

When we examine our thought-process carefully we will find most of our thoughts are self-centered, revolving around the self-interest of our ego. The main question we ask either consciously or unconsciously is ''what it means to me,'' or ''how it effects me.'' The first step towards holistic consciousness is to reverse this way of thinking. We must train our thinking and rational mind to think and reason in terms of larger wholes. In modern thought, systems theory and the science of ecology are based on this type of thinking. The main postulates of ecological or systems theory are :

- Life or Nature is a dynamic, interdependent and interconnected whole ''a holomovement'' organized in the form of a hierarchy of sub-holes.
- Each individual element is part of a larger whole which in turn is part of a still larger whole.
- Each whole is more than the sum of its parts.
- Each part potentially contains the whole or in other words the whole is potentially present in each part.
- The very existence or nature of each part is determined by its relationship with the other parts and the whole.

There is a school of management thought based on systems theory. An intellectual culture or way of thinking based on the systems approach is very helpful for holistic decision-making. However, for a more immediate and practical purpose we must learn to think we are part of a larger whole and try to identify with this whole. We may extend this way of thinking to include larger and larger wholes until we embrace the whole of humanity and earth. Interestingly, DuPont, in one his factories, has tried to cultivate such a holistic thinking among its employees. Carol Sanford and Pamela Marg, Consultants to Dupont, states that one of the training objectives of the company is ''being able to bring to every decision-making process a total perspective that holds within it a reflection of all the critical elements which make up the whole of business and the nested system of which it is a part.'' (2)

The other aspect of holistic thinking is the non-egoistic attitude. As we have mentioned earlier most of our normal process of thinking is self-centered and ego-centric. Most of our responses to things, events or people is in terms of whether it pleases or displeases my ego, give me gladness or pain, flatter my pride, vanity or ambition or hurt it, satisfy my desire or thwart it. If we want to have holistic perceptions, we must think in the opposite way, which means to think as if my ego is not there. The non-egoistic consciousness thinks in terms of what things are in themselves and would be if the ego is not there, what is their meaning, how they fit into the scheme of things or how they will serve the work that has to be done or the life of the world or the higher cause or ideal which has to be realized. In the modern corporate context, the holistic manager has to think in terms of how to serve the stakeholders better and better or to be more specific, how to provide a better quality of life, experience and growth opportunities for the customer, employee and the community and maximize their wellbeing.

However, for realizing an effective holistic consciousness we must not remain satisfied with thinking. What we think has to percolate into feelings and sensations. The faculty of Imagination can be a great help in making the abstract idea concrete to the mental sensation, which in turn, can evoke the corresponding emotions. We must learn to project, expand and widen our heart and mind into the larger whole and feel our own small self disappearing into it or feel it as a part of our own higher and larger self beyond our ego.

The other part of the holistic discipline is the practice of what we may call ''Aspiration-Rejection.'' Aspiration means conscious cultivation of all that is in harmony with the holistic consciousness in thought, feeling and action, like, for example, urge for synthesis or reconciliation of opposites and everything that unites, connects, harmonises, widens or enlarges our consciousness. Rejection means throwing off all that is contrary or hostile to holistic consciousness like, for example, things which divide people or thing or emphasizes on ''eternal'' opposites or creates unpassable boundaries.

The Spark of Light in Silence

This holistic contemplation and discipline creates a consciousness or an inner environment which is favourable to a higher holistic intuition. Sometimes the very effort or stretching of our ordinary mental consciousness to comprehend the larger whole may lead to a holistic non-rational perception or insight. However, if the mind is too much in tension and turmoil the emerging insight may get diluted or distorted and falsified by the disturbances in the mind. So a passive and relaxed silence in the mind is essential for receiving the holistic intuition. This combination of thinking and silence may appear contradictory. But there is no contradiction here. The thinking prepares the mind for receiving the intuition in silence. We must keep in mind that a narrow, selfish and egocentric mind cannot receive the holistic intuition by merely silencing the mind. To receive this higher intuition there must be a mental soil or environment similar or favourable to it. The type of holistic thinking and discipline which we have described earlier helps in creating such a mental soil and environment.

However, as we have indicated earlier, in order to arrive at the final holistic decision, the decision-maker has to sit in inner silence to receive the intuitive idea, the spark of light, which indicates precisely the right choice or course of action.

The path for opening to this higher intuition has four facets : purification, silence, introversion, and vigilance. We have already described the discipline of purification, which means rejection of all thought, feelings and impulses which are contrary or hostile to holistic consciousness. Along with this rejection we have to keep the attitude of disinterestedness and impersonality, without any eager or anxious seeking for results. The inner aspiration has to be towards truth and knowledge and not for some personal gains. This inner purification brings a certain inner calm which has to be consciously deepened into a complete silence. In this silence, consciousness has to be turned inward to the spiritual source of our being in a state of alert and receptive passivity. The decision-maker has to offer the decision-problem or the decision-situation to a higher consciousness beyond the rational mind deep within the heart or above the head, and wait in a receptive and concentrated silence for the intuitive idea to raise from within or descend from above. The fourth factor is vigilance and consciousness. When the intuition descends from above or rises from within, we must be mindful, vigilant and alert to receive and assimilate its contents.

Here are some corporate examples of intuitive decision-making :

Wayne Silby, founder of the Calvert Group is one of the first and largest socially responsible investment funds. When Calvert's competitive advantage was in the verge of being destroyed due to a new government legislation, Silby found an intuitive solution to the problem by meditating in a sensory deprivation tank. As Silby explains the inner state for receiving intuition :

''To get new ideas you need to have a space where your mind chatter and judgements in your mind about who you are and what you are doing are turned down. And you can get in touch with a deeper part of yourself that can start revealing patterns that are pretty awesome.'' (3)

Here is another example of collective decision-making

''In the thick of negotiations to purchase New Age ice cream maker Ben & Jerry's, Terry Mollner, a founder of the Calvert Social Investment Funds who is trying to buy the company, calls a time out. At this point people are ready to give up, walk out and end the discussion over a deal-breaker issue. Mollner invites to the table of tense polarized people to be silent for a few moments and suggests that everyone ask themselves, 'What is the truth here? What is the highest good for all?' He then opens the floor to anyone to speak. One by one people lean forward and restate their position in a way that accommodates the other side. The negotiations move forward. Mollner repeats the ritual three times during weeks of negotiations, each time achieving the same breakthrough.'' (4) ❐

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Multiple Attribute Grouped Inventory Control (M.A.G.I.C.)

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Any organisation which is into production, trading, sale or service of a product invariably holds stock of various physical resources to aid in its future consumption and process. Inventory is thus, one of the biggest assets of an organisation which also has a significant impact on its balance sheet. While inventory is generally considered a necessary evil of any such business, it ought to be noted that the organisations hold inventories for various reasons, which even include speculative purposes in addition to functional purposes, physical necessities etc. Owing to the technical advancements and process automations, the cost of production has reduced drastically. However, the value of inventories involved continues to rise whereby the contribution of inventory values to the overall cost of production is increasing substantially. This makes it even more sensible to control the inventory values so as to curtail the overall cost of production and remain competitive in the open market ensuring profits for the organisation.

Every organisation is an integration of various departments and each of these departments has their own inventory requirements. This makes the inventory dynamic in nature and its management a complicated exercise. Inventory management hence requires constant and careful evaluation of all the factors - both external and internal and continuous control through planning and review. Proper inventory control allows continuous delivery while manufacturing focuses on long runs. It prevents the vagaries of maintenance and quality from interrupting schedules. It accommodates the variation of incoming orders. Being such an interlinked and important function, most of the organisations have a separate department responsible for continuous monitoring, control and review of inventory and to interface with production, procurement and finance departments.

For a Finance manager, inventory is an important determinant of Return On Assets (ROA) and other measures of financial performance. Carrying stock is expensive, usually 20%-40% of the average value per year. It devours capital-- capital the business may need for growth. It requires large warehouses and valuable floor space. It increases material handling. Large stocks require massive computer systems for tracking and control. Inventory management is therefore a very important function that determines not only the health of the supply chain but also the financial health of the balance sheet. The above facts are a clear indication why every organisation constantly strives to maintain optimum inventory to be able to meet its requirements and avoid over or under inventory that can impact the financial figures.

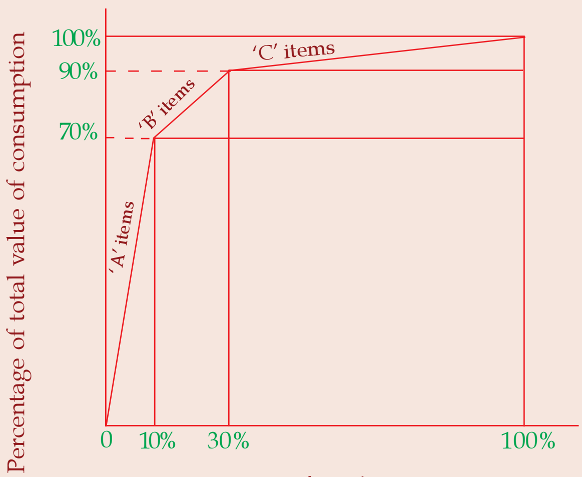
To put it in simple terms, inventory control can be said to be a planned methodology to manage inventories held in stock such that it ensures proper and smooth flow of materials needed for various activities of the organisation without hampering its performance at the same time keeping the costs involved at their minimum. From the above definition it follows that a comprehensive inventory control system works in close coordination with other planning and control activities such as planning, capital budgeting, sales forecasting, including production planning, production scheduling and control.

Various techniques have been developed over the times to manage inventories across diverse industrial setups. These techniques predominantly focus on one attribute and the items in the inventory are classified into various groups for better management and control.

Given below is a brief description of ABC Analysis —a technique developed on the lines of Activity Based Costing is considered one of the most effective inventory control techniques suitable for any type of an organisation.

Also, known as Selective Inventory Control, the ABC Analysis is one of the most popular inventory control techniques in use. Focussing on the "Annual consumption value'' as the main attribute, this analysis classifies the stocks into three categories—A, B and C wherein the handful to top high value items constitute less than 10 per cent of the total number but account for a substantial portion of about 70 per cent of total consumption value and are called the ''A'' Group items. On the other extreme of the continuum are placed the low cost ''C'' Group items that comprise over 70 per cent of the total number of items but account for only about 10 percent of the consumption value. Between these two extremes are placed the ''B'' Group items which have their consumption in numbers more or less equal to their total value, typically 20% of total number of items account for only about 20% consumption value.

The analysis can be graphically represented as below :



Percentage of total Quantity

The ABC Analysis however has some inherent drawbacks which can be enlisted as below :

- ABC analysis does not permit precise consideration of all relevant problems of inventory control. For example, a never ending problem in this inventory management technique is that of adequately handling large number of low value ''C'' Group items. Low value purchases frequently require more items and consequently reduce the time allowance and availability of purchasing personnel for value analysis and vendor investigation required for other ''A'' Group and ''B'' Group items.
- If ABC analysis is not updated or reviewed periodically, the real purpose may be defeated.
- The periodic consumption value (not the unit value) is the basis for ABC classification. Hence ABC classification can lead to overlooking the needs of the those stocks whose criticality is high but consumption value is low.
- As computerized inventory management systems are implemented, accurate and timely records can be obtained more economically on all items. In situations where computerized inventory control systems are installed for all items, the ABC classification system takes a back seat.

Other such common inventory control techniques with a single attribute focus are listed as below :

Analysis	Attributes	Determinants
VED	Functional Criticality	Vital, Essential, Desirable
FSN	Stock Movement	Fast, Slow, Nil
RAM	Stock Holding Practice	Reliability, Availability, Maintainability

With increasing complexities in all fields of life, it is now a necessity for a more comprehensive technique which rests on various attributes contributing to the holistic inventory management rather than concentrating on one factor of influence. This would be a more practical approach as inventory control cannot be considered in isolation with other departments and functionalities.

With this intention, a new inventory control technique called ''Multiple Attribute Grouped Inventory Control'' (MAGIC) is being proposed which takes care of various attributes at a single instance. The applicability of the attributes is governed by actually understanding the significance of each item in the whole inventory making the technique of stock holding more objective rather than operating on broad thumb rules.

The power of ''MAGIC'' lies in its very approach of integrating various factors as applicable to each of the items that forms part of the inventory system as a whole. The activity would initially require the involvement of various departments to work together and develop the primary calculator which would automatically take care of all future requirements.

The ''MAGIC'' (Multiple Attribute Grouped Inventory Control) aims at better inventory control by considering the following attributes as concerned with each of the item involved :

- Cost of individual item
- Annual consumption value
- Functional criticality of the item wrt overall performance of the other processes
- Movement of the item—whether fast or slow
- Handling required—whether easy or difficult
- Maintenance required at various points of inventory storage

The above attributes have to be considered in an integrated fashion and not in isolation to each other as every inventory item has the influence of all these factors at all times.

Inventory control does not just include procuring and despatch of materials. Proper maintenance is very vital as long as they are in the store to avoid any untoward losses and subsequent repercussions on the later process. Items made of glass, chemicals etc., can be stated as examples of inventory items which require higher maintenance as compared to items such as nuts and bolts. The following discussion examines how the Maintenance requirement of the item is arrived at logically:

An item which is moving fast and is easy to handle requires less maintenance at the stores level than an item which is difficult to handle whether the item is fast moving or not. A more logical interpretation of this statement can be tabulated as follows :

	MOVEMENT		
HANDLING	**LOGICAL OPERATOR "AND"**	FAST	SLOW
	EASY	LMV	HMV
	DIFFICULT	HMV	HMV

Table : I

It can be noticed from the above table that the items which are Easy to handle AND are Fast moving possess a Low Maintenance Value.

Similarly, the items possessing High Maintenance Value are those which are :

i. Easy to handle AND are Slow moving
ii. Difficult to handle AND are Fast moving
iii. Difficult to handle AND are Slow moving

''MAGIC'' comprises various attributes which unless clearly titled will lead to confusion at all levels. The nomenclatures of various attributes involved in 'MAGIC' are as under :

C – Critical

NC – Non- Critical

Both the above parameters represent the functional criticality of the item under consideration.

LMV – Low Maintenance Value

HMV – High Maintenance Value

As observed from the earlier discussion on Maintenance requirements of inventory items

LCV – Low Consumption Value

HCV – High Consumption Value

LCV is attributed to all those Inventory items with low consumption value. These are typically the ''C'' Group items as per the ABC Analysis. They form a major chunk of the total inventory but their value remains low.

HCV on the other hand is attributed to high value items. The ''A'' and ''B'' Group items as classified in ABC Analysis form this class. Their value contribution to the total inventory cost remains high always.

With the attribute nomenclature clearly stated, the list of items in the inventory is segregated into eight different cells, each of which is identified by a unique set of attributes. The segregation of items into these cells forms a critical part of ''MAGIC'' as the further analyses is completely based on this segregation and any error at this stage would make the entire analysis a futile exercise.

Items in Cell 1 possess the attributes of Criticality, High Maintenance Value and High Consumption Value. Similarly, Items in Cell 2 possess the attributes of Non-Criticality, High Maintenance Value and High Consumption Value. The items are segregated in a similar fashion into eight cells with each cell having its own unique set of attributes. Going by this method of segregation, the items in Cell 8 thus possess the attributes of Non-Criticality, Low Maintenance Value and Low Consumption Value.

The segregation into various cells can be tabulated as follows :

	HCV		**LCV**	
	C	**NC**	**C**	**NC**
HMV	1	2	5	6
LMV	3	4	7	8

Table : II

Now that the items are segregated, the next aspect is to determine the inventory holding time for assignment of Stock levels.

Every organisation that follows inventory management as a practice has a set of predetermined functions, one of which is the stock holding time. ''MAGIC'' helps to arrive at the proper stock holding time objectively. Each of the cells as segregated above as quantified by the attributes that they possess which give out the adjustment factor that determines the exact stock holding time pertaining to each of the cells.

The calculation of Adjustment Factor is as follows:

Each of the cells have three unique attributes as seen earlier. These attributes are assigned a value, either Positive 'POS+' or Negative 'NEG-' based on their contribution towards the overall business functioning. The explanation for selecting a positive value or negative value for each of the attributes is provided as under :

The notation 'NEG-' is assigned to 'NC' (Non-Critical). This is meant to say that since the item is non-critical the number of months for which it has to

(contd. to page 858)

Management Thoughts of Tiruvalluvar— The Tamil Saint and Poet

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The leadership vacuum

Today's world is in dire need of Leaders, more than people who just possess knowledge. In fact, these days, there is no dearth of knowledge. At the click of the computer mouse, one gets all information one wants, with the help of technology and search engines. There is information overload and information explosion all around us. We need good leaders and good managers in every sphere of life—In households, societies, organizations, nations.

Leadership qualities and Management development

Essentially, a leader exhibits effective management traits. Understanding self, developing positive personal qualities, Time management, planning for success, strategizing, decision-making, understanding men, delegation, wealth management are management-qualities that leaders must possess.

The modern world has seen many thought-leaders and management gurus, especially in the last 50 years — Peter Drucker, Alfin Toffler, Philip Kotler, C.K. Prahlad are just a few to name. Even as the world craves for effective leaders and managers, we see hundreds of management books getting published and extensive research on management being carried out.

It is amazing that the great Tamil Saint and poet Tiruvalluvar, who lived more than 2,000 years ago, spoke about effective management and good leadership, through his verses. He composed 1,330 couplets. His compendium Tirukkural contains pearls of his wisdom—touching all spheres of life. His thoughts transcend time and space. We find them relevant especially for today's complex business world.

Let us study some of his couplets (kurals) to understand Tiruvalluvar's thoughts on Management and Business.

1. Tiruvalluvar's thoughts on managing self and cultivating a positive personality :

(a) Communication skills are essential for a leader and manager. Tiruvalluvar emphasizes the importance of good communication skills through a number of his couplets.

"Pani Vudaiyan insolan aathal oruvarku

Aniyalla mattru pira" (verse 95)

"Humility and pleasant speech are the only fit ornaments for a man. All others are not (ornaments)"

(b) In another verse, Tiruvalluvar says that when a man talks in proper order and in a pleasing manner, the world will listen to him and do his bidding

"Viraindhu Thozahil ketkum Gnalam nirandirithu

Solluthal vallar perin" (verse 648)

(c) A true leader guards his character as the most precious possession. He knows that good character will bring him prosperity and a bad character will cause his downfall.

"ozhukkathin eithuvar menmai izhukkathin
Eithuvar eithaa pazhi" (verse 137)

(d) In another verse, Tiruvalluvar makes a sharp observation on the importance of "adaptability." Most people lack this vital quality of "adaptability", which is vital for success in both personal life and professional life. Those who fail to adapt to new environments, new challenges and new circumstances, fail invariably. Management teachers emphasize that organizations should adapt themselves to the changing needs of the market to survive and to prosper.

"Ulagathodu otta ozhugal palakatrum

Kallar arivilathar" (verse 140)

"Those who do not know how to act agreeably with the world and fail to adapt are ignorant (though they may be educated)"

2. Tiruvalluvar's thoughts on managing teams :

(a) Delegation is both an art and a science. A large number of Management books have been written on this management practice. A leader who does not know how to delegate effectively meets with failure often. The inability to delegate causes stress in a manager and leads to stress-related diseases. It is amazing that Tiruvalluvar gives the essence of delegation in just seven words!

''Idanai Idanal ivan mudikkum endraithdhu

Adanai avankan vidal :

''Identify a man, after due diligence, who will do a work correctly, if given the necessary infrastructure. Then, delegate the work to him, providing him the needed infrastructure," advises the great saint. The three essential requisites of delegation, as our modern Management gurus will also agree, are (a) the right person who will do (b) the right job, with the (c) right infrastructure.

(b) The concept of effective delegation is further explained by the Saint, through another verse :

''Theran Thelivum Thelindaankan Iyuravum

Theera idumbai tharum'' (verse 510)

The translation goes thus : ''Without making due diligence, a manager should not believe a person (and entrust work to him); on the other hand, once a person's antecedents are well-established, then the leader should neither view him with suspicion nor interfere in his affairs. Both (these mistakes) will lead the leader to great trouble.

Through the above verse, the great saint reminds the business leaders of the two costly mistakes that they should avoid—the error of omission and the error of commission Entrusting responsibilities with a person whose antecedents are little known is a serious error of omission (''theran thelivum''); once a person's bona fides have been established, suspecting him and repeatedly overseeing his work is an error of commission (''thelindakan aiyuravum'') : Both will result in immeasurable loss (''Theera idumbai tharum'') to the organization.

In another verse, the quality of delegation is reiterated by the saint :

''Vinaikkurimai Naadia Pindrai avanai

Adharkurian aagach cheyal'' (verse 518)

Translated, this verse says : ''Having considered what work a man is fit for, let a leader employ him in the work''.

(c) The essential leader and manager always welcomes an honest and transparent feedback, not only from the end-users of his products/services, but from his co-workers and subordinates too. Famously known as ''participative management'', successful managements practice bottoms-up communication. Tiruvalluvar says :

''Idipparai illatha emara mannan

Keduppar illanum kedum'' (verse 448)

''One who is not surrounded by people who correct him or rebuke him when he makes errors, does not require any enemy from outside (to destroy him)''.

3. Tiruvalluvar's ideas on managing businesses :

(a) Tiruvalluvar's ideas are relevant for effective management of organizations. He says :

'' Akkam karuthi mudal izahakkum seivinai

Vookkar arivudaiyar'' (verse 463)

''The wise man will not undertake a venture pursuing unreasonable profit and eventually lose his principal.''

As we are aware, many individuals and organizations have suffered irreversible loss due to unreasonable greed and lack of foresight. The 2008 sub-prime crisis is a tragic example. Financial institutions became greedy and avaricious, which led to their downfall. Tiruvalluvar cautions Managers through the above verse against such vices.

(b) The management issues of today's business, mainly revolve around HR management — recruitment, training, delegation and motivation. Tirukkural gives practical solutions to these issues

The interviewing authority should make a SWOT analysis of the personnel that they want to recruit. Ideal candidates are hardly found. Therefore, the effective Manager should study the strengths and deficiencies of the people, find out which of these qualities dominate in them and take appropriate decisions (on selecting them).

One verse says :

''Gunam Naadi Kutramum Naadi avatrul

Migainaadi mikka kolal'' (verse 504)

''One must see the virtues of a person and also the deficiencies; study which of these qualities dominate in him and take decision on him''.

(c) In another verse, the great seer and saint says that one must study the investment, the expenditure and the Return, before starting an action (enterprise)

Azhivathum aavadhum aagi vazhipayakkum

Vudhiamum soozhnthu seyal'' (verse 461)

The meaning of the verse is :

''Let a man study carefully what will be spent, what will be acquired and what will be the ultimate gain and then start the venture.'' Thiruvalluvar emphasizes, through this verse, the Return on Capital Employed (RoCE) which is an important point in today's business ventures.

(d) Peter Drucker, the great Management Guru, speaks of effectiveness and its importance for business organizations. Drucker says : "Effectiveness is not something that comes to us naturally. It is acquired through hard work and constant practice". Persistence and perseverance are the tools for effective management of organizations.

Thiruvalluvar has written 10 verses on perseverance and hard work. In one couplet, he says:

"Aakkam Atharvinaay sellum asaivilla

Vookkam vudaiyan vuzhai" (verse 594)

The couplet, when translated, says : Wealth will seek the person and be with him permanently, who has unfailing energy and perseverance." In another immortal verse, the saint and poet says :

"Vulluvathu ellam Vuyarvullal matrathu

Thallinum thallamai neerthu" (verse 596)

"When one thinks—let one ponder lofty thoughts; (let one aim high)

Misfortune shall not assail him."

Peter Drucker also talks of "aiming high." He says: "Aim for something that will make a difference rather than for something that is "safe" and easy to do".

Conclusion

When we read Thiruvalluvar's verses, we find that his thoughts have transcended Time and Space and that they are immortal. We also find the compendium – Thirukkural"—highly relevant and humanely invaluable for even today's complex business world. ❐

(contd. from page 855)

be stocked can be less. The corresponding attribute 'C' (Critical) thus is assigned 'POS+'. The attributes 'LMV' (Low Maintenance Value) and 'LCV' (Low Consumption Value) are assigned with the factor 'POS+' which means that the number of months for which they can be stocked is high as the items require low maintenance and possess low consumption value. The corresponding attributes 'HMV' (High Maintenance Value) and 'HCV' (High Consumption Value) are hence assigned 'NEG-'.

The above notation clearly demarcates the relative contribution of each of the attribute towards the total business process an helps to arrive at the applicable stock holding time.

The cells along with the attributes and applicable adjustment factors can be represented as follows :

CELL NOTATION	ATTRIBUTE	FACTOR (-/+)
1	HMV	NEG -
	HCV	NEG -
	C	POS +
2	HMV	NEG -
	HCV	NEG -
	NC	NEG -
3	LMV	POS +
	HCV	NEG -
	V	POS +
4	LMV	POS +
	HCV	NEG -
	NC	NEG -
5	HMV	NEG -
	LCV	POS +
	C	POS +

(contd.)

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CELL NOTATION	ATTRIBUTE	FACTOR (-/+)
6	HMV	NEG -
	LCV	POS +
	NC	NEG -
7	LMV	POS +
	LCV	POS +
	C	POS +
8	LMV	POS +
	LCV	POS +
	NC	NEG -

The adjustment factors are to be added to the standard holding time that the organisation has been following as per their existing practice as per the same units of measurement be it in days, weeks or months. The resultant values will now signify which all items should be stored for longer period and which ones can be stored for a lesser period.

In case there occurs a tie between two or more cells for the minimizing or enhancing factors then the tie is broken by taking into account the criticality of the cell. If criticality is not a common factor between the comparing cells, then first the consumption value and then the maintenance are considered.

Thus it can be observed that "MAGIC" is a very systematic and objective analysis of total inventory utilised in the business process considering various attributes that determine their procurement and handling at the storage and other levels.

Thus it ensures that no items are unnecessarily procured and at the same time no items run out of stock. Thus, once in place, the system can take over the complete control of which items to be ordered at what time and in what quantity thereby controlling the inventory system in a sustained manner. ❐

Legal Updates

Section reference – Income Tax Act,1961	Subject Reference	Source
Sec.12AA(1)(b) & 80G	Application U/s. 12AA/80G cannot be rejected without giving sufficient opportunity	INCOME TAX APPELLATE TRIBUNAL, DELHI ITA Nos. 4641 & 4642/Del/11 U/s 12AA(1)(b) & 80-G of the I.T. Act. Saraswati Devi Educational & Charitable Trust Vs. Commissioner of Income-tax
14A	If loan utilized for capital contribution in Partnership Firm – no disallowance can be made u/s 14	IN THE ITAT MUMBAI Assistant Commissioner of Income-tax 12(3) v. Novel Enterprises. IT APPEAL NO. 1328 (MUM.) OF 2009 [ASSESSMENT YEAR 2005-06] JUNE 13, 2012
14A	No disallowance u/s 14A if tax-free investments capable of taxable income	INCOME TAX APPELLATE TRIBUNAL, MUMBAI ITA No.5779/Mum/2006 – (Assessment Year: 2003-04). ITA No.208/ Mum/2009 - (Assessment Year: 2004-05). Avshesh Mercantile P. Ltd. (And 15 Others) Vs DCIT. Date of Pronouncement: 13.06.2012
28	Whether quota sale receipt covered U/s. Sections 28(iiia) to 28(iiie) or S. 28(iv) In the light of what have been argued and answered, the question of law is answered in negative i.e. in favour of the Revenue and against the assessee.	HIGH COURT OF DELHI + ITA NOS. 591/2008 Date of Decision: 1st June, 2012 THE COMMISSIONER OF INCOME TAX Vs. NAGESH KNITWEARS P. LTD.ITA NOS. 993/2008, 994/2008,996/2008, 1010/ 2008 &955/2009,THE COMMISSIONER OF INCOME TAX Vs. ORIENT CRAFTS LTD. ITA NOS. 832/2009. THE COMMISSIONER OF INCOME TAX Vs. VOGUE SETTERS.
40(a) (i)	No Disallowance of expense u/s 40(a)(i) for payment of expense to American Resident without deduction of Tax	IN THE INCOME TAX APPELLATE TRIBUNAL, (DELHI BENCH NEW DELHI) BEFORE SHRI I.P. BANSAL, JUDICIAL MEMBER AND SHRI T.S. KAPOOR, ACCOUNTANT MEMBER I.T.A. No.2023, 2024, 2025, 2026, 2027 & 2028 /Del/202010. Assessment year: 1997-98, 98-99, 99-00, 00-01.01-02 & 02-03. Dy. CIT,Circle-11 (1), New Delhi. (Appellant)Vs. M/s Incent Tours Pvt. Ltd., 672-Kanwaljit Sandhu Block, Asiad Village, New Delhi. (Respondent)
40A(2) (a)	Onus lies on department to prove excessive or unreasonable expense	ITAT DELHI DCIT v. Spark Hotels (P.) Ltd. IT Appeal NO. 4631 (DELHI) OF 2011. ASSESSMENT YEAR 2008-09 Date of Pronouncement–22.06.2012

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Section reference – Income Tax Act,1961	Subject Reference	Source
44BB	No scope for calculations or recalculations of income declared u/s. 44BB	ITAT DELHI BENCH 'E' M-I Overseas Ltd. v. Director of Income-tax, International Taxation IT Appeal No. 2456 (Delhi) of 2011- Assessment Year 2006-07 Date of Pronouncement - 11.05.2012
44BB & 44DA	Amendments to Sec.44BB & 44DA are prospective and applies from A.Y.2011-12	ITAT DELHI Schlumberger Asia Services Ltd. v. Additional Director of Income-tax, (International Tax). IT Appeal No. 6063 (Delhi) of 2010– Assessment Year 2007-08 Date of pronouncement - 18.05.2012
45	Mere change in ownership doesn't convert a stock-in-trade into a capital asset	ITAT BANGALORE C. Ramaiah Reddy v. DCIT. IT Appeal No.122 (Bang.) of 2011[Assessment year 2006-07] MAY 25, 2012
50C	Without referring the matter to DVO, A.O. cannot compute capital gains u/s 50C	ITAT PUNE BENCH 'A' K.K. Nag Ltd. v. Additional Commissioner of Income-tax IT Appeal Nos. 1304 & 1305 (Pune) of 2010. [Assessment years 2005-06 & 2006-07] May 25, 2012
54B	No deduction u/s 54B if Assessee purchases agricultural land in his son & daughter-in-laws name	HIGH COURT OF RAJASTHAN Kalya v. Commissioner of Income-tax D.B. IT APPEAL NO. 112 OF 2012. D.B. civil misc. stay application no. 1180 of 2012 Date of Pronouncement - 19.05.2012
54EC	Exemption u/s 54EC on investment made before transfer not allowable	ITAT AHMEDABAD Smt. Dakshaben R. Patel v. ACIT IT APPEAL NO. 2803 (AHD.) OF 2011 [ASSESSMENT YEAR 2008-09] MAY 31, 2012
54EC & 64(1A)	Assessee and his minor children are each entitled to separate investment and deduction limits of Rs.50 lakhs u/s 54EC; and clubbing of LTCG u/s 64(1A) to be made after allowing deduction to each child upto Rs. 50 lakhs.	ITAT KOLKATA Deputy Commissioner of Income-tax v. Rajeev Goyal IT Appeal Nos. 951 & 963 (Kol.) of 2011 - Assessment Year 2007-08 Date of Decision - June 1, 2012
54F	House owned by wife not to be considered	ITAT CHENNAI S. Krishna Kumar v. Assistant Commissioner of Income-tax IT APPEAL NO. 837 (MDS.) OF 2012 - ASSESSMENT YEAR 2007-08 Date of Decision - MAY 4, 2012

Prepared by the Taxation Committee

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Section reference – Income Tax Act,1961	Subject Reference	Source
68	If proper source of capital & share premium not shown than addition can be made u/s. 68	INCOME TAX APPELLATE TRIBUNAL, DELHI ITA No.2653/Del./2011 -Assessment Year: 2007-08. ITO Vs. Jwalaji Propbuild Pvt. Ltd. Order pronounced in open court on 05.06.2012
80 IA	Inland Container Depots are 'Inland Ports' & eligible for profit linked incentive	HIGH COURT OF DELHI Date of Decision: 11th May, 2012. ITA NO.1411/2009 , ITA NO.967/2011 , ITA NO.968/2011. Container Corporation of India Ltd. V/s. Assistant Commissioner Of Income Tax
80 IB	Deduction allowed for manufacturing not for processing	ITAT HYDERABAD Venkateswara Feeds & Feeds v. ACIT IT Appeal NoS. 493 (Hyd.) of 2005, 1013 & 1014 (Hyd.) of 2006 and 869 & 870 (Hyd.) of 2008 [Assessment Years 2001-02 to 2005-06] APRIL 26, 2012
80IB (10)	Exemption cannot be denied if Assessee complied with conditions	HIGH COURT OF KARNATAKA CIT v. Mystic Investments, IT APPEAL NO. 854 OF 2008. FEBRUARY 29, 2012
Sec. 101	***Draft guidelines regarding implementation of General Anti Avoidance Rules (GAAR) issued by Central Board of Direct Taxes (CBDT)*** ***GAAR (General Anti Avoidance Rules) is prescribed in Chapter X-A of the Income Tax Act, 1961. GAAR is introduced to avoid counter-aggressive tax avoidance schemes. Recommendations for formulating guidelines to implement the provisions of General Anti-Avoidance Rules(GAAR) as per section 123 of the Direct Tax Code Bill, 2010***	www.incometaxindia.gov.in. Date of announcement: 28th June,2012 Public comments invited: within 15 days
115JB and 234B/234C	Companies which are liable to tax u/s. 115JB have to pay interest u/s. 234B/234C	INCOME TAX APPELLATE TRIBUNAL, MUMBAI ITA No. 6665/Mum/2010 - Assessment Year-2007-08. Govind Properties Pvt. Ltd. Vs. ACIT Date of pronouncement: 23.05.2012
194C	No TDS u/s. 194C in the absence of contract between assessee-contractor & sub-contractor	ITAT MUMBAI Ratnakar Sawant, Dinesh N. Shah & Co. v. ITO. IT Appeal No. 2941 (Mum.) of 2011. [Assessment year 2006-07]. May 11, 2012 ITAT AMRITSAR BENCH
194J	Maintenance of hospital equipments is 'professional service'	Income-tax Officer (TDS), Jammu v. Accounts Officer, Govt. Medical College, Jammu . IT Appeal NoS. 112 and 113 (Asr.) OF 2011 [Assessment years 2008-09 and 2009-10] May 7, 2012

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Section reference – Income Tax Act,1961	Subject Reference	Source
254	Prescribes time limit of 4 years from the date of order for rectification of a mistake apparent from record	HIGH COURT OF DELHI Judgment delivered on : 30.05.2012 W.P.(C) 470/2011. LAKSHMI SUGAR MILLS CO. LTD. AND ORS. Versus COMMI-SSIONER OF INCOME TAX & ANR.
Rule 8	Cess on green leaf eligible for deduction in computing composite income under Rule 8	INCOME TAX APPELLATE TRIBUNAL, KOLKATA ITA No.2049/Kol/2010 - Assessment Year: 2006-07. D.C.I.T. Vs M/s. Assambrook Ltd. Date of Pronouncement: 11.05.2012 Hon'ble High Court in the case of CIT vs AFT Industries Ltd. 270 ITR 167 (Cal)
	Negative goodwill arising on amalgamation credited to General reserve not taxable	Spencer and Company Ltd. v. ACIT (ITAT Chennai) ITA No. 440 of 2011
	In the absence of specific valuation of assets/liabilities and goodwill, depreciation on goodwill created in the books of account at the time of amalgamation not allowable	DCIT v. Toyo Engineering India Ltd. (ITAT Mumbai) - (ITA No. 3279/Mum/2008)
	Reduction of share in the firm of existing partners, on admission of new partners, not taxable as capital gains	Source–CIT v/s. P.N.Panjawani (Karnataka High Court) [ITA Nos 1316 to 1318 of 2006] dated 12 March 2012]
	Sale of development rights taxable in the year of transfer though consideration is received in subsequent years	INCOME TAX APPELLATE TRIBUNAL, MUMBAI Hillside Construction Company. Pvt. Ltd. Vs Dy. Commissioner of Income tax Date of Pronouncement : 30.5.2012
	Withdrawal of Exemption under Customs Act does not make assessee non-charitable	IN THE INCOME TAX APPELLATE TRIBUNAL DELHI BENCH "G", NEW DELHI BEFORE SHRI I.P. BANSAL, JUDICIAL MEMBER AND SHRI SHAMIM YAHYA, ACCOUN-TANT MEMBER, I.T.A. No. 913/Del/2012 A.Y.: --St. Stephen's Hospital Society, Tis Hazari,Delhi - 110 054 (Appellant) Vs. Director of Income Tax (Exemptions), Plot No. 15, 3rd floor, Aaykar Bhavan, Laxmi Nagar, District Centre, Delhi - 92. (Respondent)
	I-T - Amendments to Finance Bill, 2012 vide Finance Act, 2012 -Explanation	Supplementary Memorandum Explaining the Official Amendments moved in the Finance Bill, 2012 AS REFLECTED IN THE FINANCE ACT, 2012 Circular no. 3/2012, dated 12-6-2012

Prepared by the Taxation Committee

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Section reference – Income Tax Act,1961	Subject Reference	Source
	CIT(A) can set aside assessment not made in accordance with ITAT's direction	HIGH COURT OF RAJASTHAN CIT v. Hindustan Zinc Ltd. AND 31, 35, 70, 117 & 142 OF 2008 APRIL 27, 2012
	If DTAA caps tax rate, education cess is not payable by foreign assessee	INCOME TAX APPELLATE TRIBUNAL, KOLKATA. I.T.A. No.: 1458/Kol/2011, Assessment year: 2009-10. DIC Asia Pacific Pte Ltd Vs. Assistant Director of Income Tax Date of pronouncing the order : June 20, 2012
	Appeal not admitted for non payment of admitted tax can be admitted on tax payment	ITAT HYDERABAD Smt. Banu Begum v. DCIT IT Appeal No. 2075 (Hyd.) of 2011 [Assessment year 2008-09]. April 30, 2012
	In case of Multiple Appeal for an A.Y. tax effect of all appeals to be considered to Compute Appeal Filing Limit	HIGH COURT OF GUJARAT CIT v. Manekbaug Co-operative Housing Society Ltd. Tax Appeal Nos. 1847 & 1848 of 2010, Date of Pronouncement - May 7, 2012
	Taxability of Interest on sick loans, accrued but not recognised as per AS - 9	ITAT COCHIN BENCH Kerala State Industrial Products Trading Corpn. Ltd. v. Assistant Commissioner of Income-tax, IT Appeal NOS. 256 & 257 (COCH.) of 2009 [ASSESSMENT YEARS 2003-04 & 2004-05] JUNE 8, 2012
	Power of TPO to determine ALP of international transaction not referred to him by A.O.	ITAT DELHI Nokia India (P.) Ltd. v. Additional Commissioner of Income-tax. IT APPEAL NO. 4559 (DELHI) OF 2011. [ASSESSMENT YEAR 2007-08] MAY 18, 2012
	Acceptance of records bars AO to make addition due to non-production of books	HIGH COURT OF GUJARAT CIT v. Jay Enterprise. Tax Appeal No. 45 of 2011. Date of Pronouncement- March 20, 2012
	Assessee can't beg immunity for third person from Settlement Commission	HIGH COURT OF DELHI Gupta Perfumers (P.) Ltd. v. Income-tax Settlement Commission. WRIT PETITION (CIVIL) NO. 4368 OF 2010. MAY 18, 2012
	Involvement in a scam cannot be ground for sustaining penalty imposed u/s. 271E	HIGH COURT OF BOMBAY Commissioner of Income-tax, Central-IV v. Triumph International Finance (I) Ltd. IT APPEAL NO. 5746 OF 2010. June 12, 2012
	Limited Liability Partnership (Amendment) Rules, 2012 - Amendment in rules 8, 18, Annexure-A and substitution of Form Nos. 1 to 31	Notification [F.No. 1/1/2011-CL.V], dated 5-6-2012

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DOUBLE TAXATION AVOIDANCE AGREEMENT AND TIEA (TAX INFORMATION EXCHANGE AGREEMENT)

	Gross Amount' of royalty under Indo-USA DTAA includes tax withheld	ITAT DELHI Pizza Hut International LLC v. Deputy Director of Income-tax, Circle 2(1), International Taxation. IT Appeal NOS. 1600, 1601 & 1656 (DELHI) OF 2011 [ASSESSMENT YEARS 2003-04 & 2004-05]. JUNE 8, 2012
DTAA with Norway	Section 90 of the Income-tax Act, 1961 - Double Taxation Agreement – Agreement for Avoidance of Double Taxation and Prevention of fiscal evasion with foreign countries – Norway	Notification no. 24/2012 [F.NO. 505/3A/81-FTD-I], DATED 19-6-2012
DTAA between India & Nepal	Section 90 of the Income-tax Act, 1961 – Double Taxation Agreement – Agreement for Avoidance of Double Taxation and Prevention of Fiscal Evasion with Foreign Countries – Nepal	Notification No. 20/2012 [F.No.503/03/2005-FTD-II], dated 12-6-2012
DTAA between India & USA –	contract for repair and overhauling services of turbines – whether Fees for Technical Services	AUTHORITY FOR ADVANCE RULINGS (INCOME TAX), NEW DELHI 30th Day of May, 2012 A.A.R. No.931 of 2010
India Signs Agreement with Bahrain	For Exchange of Information with Respect to Taxes	

INTERNATIONAL TAXATION

Para 8 of Article 5 of DTAC	A subsidiary created for Indian business is PE of foreign parent	AUTHORITY FOR ADVANCE RULINGS (INCOME TAX), NEW DELHI 7th Day of June, 2012 A.A.R No.1061 of 2011
	In the absence of any violation noted by RBI regarding activities of a liaison office, it does not constitute a PE in India	Source- Metal One Corporation, Vs. Dy. Director of Income-tax (ITAT Delhi)-ITA No.5377/Del/2011 Valuation accepted for Wealth-tax Act, should also be adopted under Income-tax Act IN THE HIGH COURT OF GUJARAT AT AHMEDABAD TAX APPEAL No. 2322 of 2010 For Approval and Signature: HONOURABLE THE ACTING CHIEF JUSTICE MR.BHASKAR BHATTACHARYA HONOURABLE MR.JUSTICE J.B.PARDIWALA
	Power of TPO to determine ALP of international transaction not referred to him by A.O.	ITAT DELHI Nokia India (P.) Ltd. v. Additional Commissioner of Income-tax IT APPEAL NO. 4559 (DELHI) OF 2011 [ASSESSMENT YEAR 2007-08] MAY 18, 2012

Prepared by the Taxation Committee

CENTRAL EXCISE & SERVICE TAX

Central Excise—Industry Specific		
	Excise Duty Exemption Certificate—Formats Changed Related to Ministry of New & Renewable Energy	OM No.22/9/2009-NSM(ST) dated June 08,2012
Service Tax		
	Service portion in execution of a Works Contract—Revised Rules w.e.f.01.07.2012 Service Tax (Determination of Value) Rules,2006 amended vide notification No.11/2012-ST dated 17th March,2012, to be effective after Sec.66B comes into force.	Sec.66B comes into force w.e.f. 01.07.2012 as notified by NOTIFICATION NO.19/2012- SERVICE TAX, DATED 5-6-2012.
	Service Tax—Demat charges, stock exchange turnover charges, stamp duty, BSE charges, SEBI fees will not form part of gross value	CESTAT , NEW DELHI BENCH LSE Securities Ltd. v. Commissioner of Central Excise. Final order nos. st/a/363-366 of 2012-cus APPEAL NOS. ST/3, 90 & 363 OF 2007 and 81 OF 2008. CROSS OBJECTION NO. 145 OF 2008 MAY 7, 2012
	Small service provider exemption under Notification No. 6/2005-ST is a statutory benefit & cannot be disregarded	CESTAT, AHMEDABAD Jay Travels v. Commissioner of Service Tax. ORDER NO. A/306/WZB/AHD OF 2012. APPEAL NO. ST/323 OF 2010 MARCH 13, 2012
	Exemption on services provided to SEZ authorised operations	Notification No. 40/2012-Service Tax New Delhi, the 20th June, 2012
	Service tax Abatement Conditions & Rates WEF 01.07.2012	Notification No. 26/2012- Service Tax, New Delhi, the 20th June, 2012
	Applicability of provisions of Finance Act, 2004 and 2007 relating to education cess and secondary & higher education cess respectively.	Instruction D.O.F. No. 334/1/2012-TRU, dated 29-6-2012 Circular No. 160/11/2012-ST, dated 29-6-2012 Removal of Difficulties Order No. 2/2012 dated 29.06.2012.
	Service Tax (Removal of Difficulties) Second Order, 2012—Insertion of Explanation to section 66B of the Finance Act, 1994	ORDER NO. 2/2012, dated 29-6-2012
	Exhibit A1—List of services specified in the negative list (including 14 new services) **Exhibit A2 - Place of Provision of Service Rules, 2012.** **Exhibit A3- List of exemptions in mega notification**	**"TAXATION OF SERVICES—AN EDUCATION GUIDE", PRESS RELEASE, DATED 20-6-2012 released by CBE&C, Department of Revenue, Ministry of Finance, Government of India**

Prepared by the Taxation Committee

CUSTOMS

	Anti dumping duty on import of Plain Gypsum Plaster Boards originating in or exported from China PR, Indonesia, Thailand & UAE	Notification No.32/3012–Customs (ADD) New Delhi, 7th June,2012
	Amendment to Notification No.12/2012- Customs, dated 17th March,2012, which was published in the official Gazette of India, Extraordinary, vide G.S.R. 185(E), dated 17th March, 2012	Notification No.39/2012–Customs dated 12th June, 2012
	Change in Tariff Value of Gold Notified	Notification No.48/2012–Customs (N.T.) New Delhi, 7th June, 2012
	For Tariff item 1302 in the schedule of Chapter 13 and entries relating thereto, substitution in tariff items and entries prescribed	Notification No.51/2012–Customs (N.T.) New Delhi, 15th June, 2012
	Rate of Exchange of conversion of each of foreign currency w.e.f.22nd June,2012	Notification No.52/2012–Customs (N.T.) New Delhi, 21st June, 2012
	Substitutions suggested in notification Nos. 44/2011- Customs (N.T.) dated 6th July, 2011 [vide number S.O. 1541 (E) dated the 6th July, 2011 And 40/2012 - Customs (N.T.) dated 2nd May, 2012 [vide number S.O. 993(E), dated the 2nd May, 2012	Notification No.53/2012–Customs (N.T.) New Delhi, 21st June, 2012
	Amendment suggested to Notification No.14/2002 - Customs (N.T.) dated 7th March,2002 published in the Gazette of India vide G.S.R. 170(E), dated the 7th March, 2002	Notification No.54/2012–Customs (N.T.) New Delhi, 29th June, 2012

RESERVE BANK OF INDIA

27th June,2012	The Reserve Bank of India, today released on its website, the draft Payment System Vision Document 2012-15 for public consultation. Comments on the Vision Document are invited from members of the public, academia, industry and other stakeholders	Comments can be sent by email by 31 July, 2012.
	RBI Mid-Quarter Monetary Policy Review - June 2012, No Change in Key rates	Monetary and Liquidity Measures On the basis of an assessment of the current macroeconomic situation, it has been decided to : ● keep the cash reserve ratio (CRR) of scheduled banks unchanged at 4.75 per cent of their net demand and time liabilities; and ● keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 per cent. Consequently, the reverse repo rate under the LAF will remain unchanged at 7.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 9.0 per cent.
	Volatility transmission in exchange rate of Indian rupee	Working paper No.8 written by Shri Satyanand Sahoo Source: RBI website
	Reporting platform for OTC Foreign Exchange & Interest Rate Derivatives	RBI/2011-12/616 FMD.MSRG.No.69/02.05.002/2011-12 Dated June 22, 2012

Prepared by the Taxation Committee

FORM 23C

[Pursuant to Section 233B (2) of Companies Act, 1956]

Form of application to the Central Government for appointment of cost auditor

Form Language ◉ English ○ हिन्दी

Note— All fields marked in * are to be mandatorily filled.

1.(a) *Corporate identify number (CIN) or foreign company registration number (FCRN) of the company [ ] **Pre-fill**

(b) Global location number (GLN) of company [ ]

2. (a) Name of the Company [ ]

(b) Address of the registered office or of the principal place of business in India of the company [ ]

(c) *e-mail ID of the company [ ]

(d) *Phone [ ]

3. (a) *Category of cost audit order ○ Company-specific order ○ Industry-wise general order

(b) *Number of industries for which the form is being filed [ ]

I (i) *Number of the Central Government's order directing cost audit 52/[ ] /CAB/[ ] **Pre-fill**

(ii) *Date of the Central Government's order directing cost audit [ ] (DD/MM/YYYY)

(iii) Name of Industry to which cost audit order relates [ ]

4. **Details of the cost auditor proposed to be appointed**

(a) *Category of cost auditor ○ Individual ○ Cost auditor's firm

(b) *Income-tax permanent account number of cost auditor or cost auditor's firm [ ]

(c) *Name of the cost auditor or cost auditor's firm proposed to be appointed as cost auditor as per Board resolution

[ ]

(d) *Membership number of cost auditor or cost auditor's firm's registration number [ ]

(e) Address of the cost auditor or cost auditor's firm

(i) *Line I [ ]

Line II [ ]

(ii) *City [ ]

(iii) *State [ ]

(iv) Country [ ]

(v) *Pin code [ ]

(f) *e-mail ID of the cost auditor or cost auditor's firm

[ ]

Page 1 of 3

(g) *Whether the cost auditor is subject to any disqualification under Section 233B(5) of the Companies Act, 1956

◯ Yes ◯ No

(h) Whether appointment of auditor is within the limits specified in sub-section 1B of section 224 (applicable in case of appointment in public company) ◯ Yes ◯ No

(i) *Scope of audit for the proposed cost auditor as per the Board's resolution

5. *Proposed remuneration of the cost auditor (in Rs.)

6. Financial year to be covered by the cost auditor

(a) *From (DD/MM/YYYY)

(b) *To (DD/MM/YYYY)

7. *Date of meeting of Board of directors proposing the name of the cost auditor (DD/MM/YYYY)

8. (a) *Is there any change in the cost auditor ◯ Yes ◯ No

(b) If yes, name and address of previous auditor

(c) Reasons for change in the auditor

(d) Whether the previous cost auditor has been informed of the change ◯ Yes ◯ No

Attachments

1. *Copy of the Board resolution of the company sanctioning the proposal for which the Central Government approval has been sought **Attach**
2. *Copy of the certificate obtained from cost auditor regarding compliance of Section 224(1B) of the Companies Act, 1956 **Attach**
3. Optional attachment(s) – if any **Attach**

List of attachments

Remove attachment

Page 2 of 3

Verification

To the best of my knowledge and belief, the information given in this application and its attachments are correct and complete.

☐ I have been authorised by the Board of directors' resolution number ☐ dated ☐ (DD/MM/YYYY) to sign and submit this application.

☐ I am authorised to sign and submit this application.

To be digitally signed by

Managing Director or director or manager or secretary of the company (in case of Indian company) or authorised representative (in case of a foreign company) ☐

*Designation ☐

*Director identification number of the director or Managing Director, or Income-tax PAN of the manager or authorised representative; or Membership number, if applicable or Income-tax PAN of the Secretary (Secretary of a company who is not a member of ICSI, may qoute his/her income-tax PAN) ☐

Modify **Check Form** **Prescrutiny** **Submit**

This eForm has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the company

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Cancellation of Registration Under Regulation 25(1) of CWA Act, 1959
Registration Numbers Cancelled for December-2012 Examination

Upto

ERS/004507

NRS/007234 (except 6542-6800, 6805-6807, 6809, 7017-7100)

SRS/014025, WRS/009869, RSW/079278, RAF/005871

Re-Registration

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 30th June 2005) as above but desire to take the Institute's Examination in December-2012 must apply for **DE-NOVO** Registration and on being Registered DE-NOVO, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

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

Date : 19th June, 2012

R. N. Pal
Sr. Director of Studies

FORM 23D

[Pursuant to Section 233B of Companies Act, 1956]

Information by cost auditor to Central Government

Note – All fields marked in * are to be mandatorily filled.

1.(a) *Corporate identify number (CIN) or foreign company registration number (FCRN) of the company [ ] Pre-fill

(b) Global location number (GLN) of company [ ]

2. (a) Name of the Company [ ]

(b) Address of the registered office or of the principal place of business in India of the company [ ]

3. (a) *Service Request Number (SRN) of Form 23C [ ] Pre-fill

(Application to the Central Government for appointment of cost auditor by the company)

3. (a) *Category of cost audit order ○ Company-specific order ○ Industry-wise general order

(b) *Number of industries for which the form is being filed [ ]

I (i) *Number of the Central Government's order directing cost audit 52/[ ] /CAB/[ ]

(ii) *Date of the Central Government's order directing cost audit [ ] (DD/MM/YYYY)

(iii) Name of Industry to which cost audit order relates [ ]

4. **Details of the cost auditor**

(a) *Category of cost auditor ○ Individual ○ Cost auditor's firm

(b) *Income-tax permanent account number of cost auditor or cost auditor's firm [ ]

(c) *Name of the cost auditor or cost auditor's firm proposed as cost auditor

[ ]

(d) *Membership number of cost auditor or cost auditor's firm's registration number [ ]

(e) Address of the cost auditor or cost auditor's firm

(i) *Line I [ ]

Line II [ ]

(ii) *City [ ]

(iii) *State [ ]

(iv) Country [ ]

(v) *Pin code [ ]

(f) *e-mail ID of the cost auditor or cost auditor's firm

[ ]

Page 1 of 2

(g) *Whether the cost auditor is subject to any disqualification under Section 233B(5) of the Companies Act, 1956
◯ Yes ◯ No

(h) Whether appointment of auditor is within the limits specified in sub-section 1B of Section 224 (applicable in case of appointment in public company) ◯ Yes ◯ No

(i) *Scope of audit for the cost auditor as per the appointment letter

5. *Proposed year to be covered by the cost auditor

(a) *From (DD/MM/YYYY)

(b) *To (DD/MM/YYYY)

6. Date of filing Form 23C for appointment of cost auditor by the company (DD/MM/YYYY)

7. *Date of receipt of intimation of appointment by the cost auditor (DD/MM/YYYY)

8. *Whether appointment was accepted ◯ Yes ◯ No

Attachments

1. *Copy of the intimation received from the company **Attach**
2. Optional attachment(s) – if any **Attach**

List of attachments

Remove attachment

Verification

I hereby confirm that the information given in this form and its attachments is correct and complete.
I am duly authorised to sign and submit this form.

To be digitally signed by

Cost Auditor

*Whether associate or fellow ◯ Associate ◯ Fellow

*Membership number

Modify **Check Form** **Prescrutiny** **Submit**

This eForm has been taken on file maintained by the Central Government through electronic mode and on the basis of statement of correctness given by the auditor

Page 2 of 2

Guidance Note on Maintenance of Cost Accounting Records

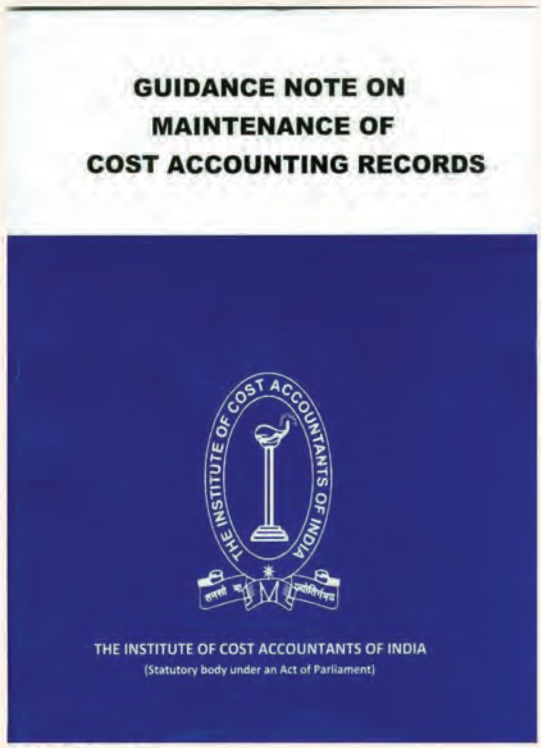
Highlights of Guidance Note

- Thorough and comprehensive after the series of notifications and circulars issued by the Ministry of Corporate Affairs in the last one year.
- Provides guidance on Accounting and treatment of all elements of Costs in accordance with GACAP & CAS issued by the Institute.
- Provides Illustrative list of cost records to be maintained by the companies.
- Provides practical approach towards cost build-up for a Production/ Manufacturing Industry.
- Appendices to the Guidance Note contain the Notifications, Master Circulars, and General Circulars related to the Cost Accounting Records Rules, issued by the Ministry of Corporate Affairs till 4th June 2012.

Issued By

The Professional Development Committee of
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
Headquarters
CMA Bhawan
12 Sudder Street, Kolkata 700 016
Website: www.icwai/org

Delhi Office
CMA Bhawan, 3 Institutional Area, Lodhi Road,
New Delhi 110 003



Price Rs. 250/-

FOR PURCHASE

The publication can be purchased directly from the Institute's Headquarters/Delhi Office or Regional Councils.
To order by post :
Please send a demand draft of Rs. 300/- (Cost of publication + Rs. 50/- towards courier charges) to CMA, J. K. Budhiraja, Director (Professional Development), email : pd.budhiraja@gmail.com in favour of "The Institute of Cost Accountants of India", payable at New Delhi or through ECS payment :

Details of ECS Payment : State Bank of India, Lodhi Road Branch, New Delhi 110 003

Current Account No. : 306/8404793
MICR Code : 110002493, IFSC Code : SBIN0060321

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

MANAGEMENT DEVELOPMENT PROGRAMMES 2012-13

DURATION	TOPIC	VENUE	FEE (RS.) NON – RESIDENTIAL	FEE (RS.) RESIDENTIAL SINGLE ROOM BASIS
JULY, 2012				
11-13	Project - Appraisal, Financing and Management	Delhi	15000*	-
18-22	Certificate Course on IFRS and Converged Indian Accounting Standards	Kolkata	25000*	-
24-27	Issues in Corporate Taxation– Planning, Compliance and Management	Udaipur		35000*
24-27	Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI	Udaipur	-	35000*
26-28	Workshop on Accounting for Financial Instruments	Delhi	15000*	-
AUGUST, 2012				
06-09	Contracts and their Management	Portblair	-	38000*
06-09	Emerging Issues in Direct and Indirect Taxation	Portblair	-	38000*
22-26	Certificate Course on IFRS and Converged Indian Accounting Standards	Hyderabad	25000*	
28-31	Basic Financial Skills for Non Finance Executives and Engineers	Hyderabad		35000*
28-29	Performance reporting- A Way forward in Corporate Governance	Hyderabad	8000*	
SEPTEMBER, 2012				
11-14	Risk Based Internal Audit and corporate Governance	Pondicherry	-	35000*
11-14	Issues in Direct Taxation- Advance Tax, TDS and Tax Planning	Pondicherry		35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	New Delhi	25000*	
OCTOBER, 2012				
09-12	Recent Trends in Corporate Reporting and corporate Finance including IFRS	Vayalar, (Backwater) Kerala	-	38000*
15-18	Emerging Issues in Management of Taxation	Goa	-	35000*
15-18	Activity Based Costing and Management	Goa	-	35000*
NOVEMBER, 2012				
20-23	Basic Financial Skills for Non Finance Executives and Engineers	Mysore		35000*
29 Nov. – Dec.8	International Programme on `Strategic Financial Management'	Singapore, Kualalumpur & Bangkok	-	250000*
DECEMBER, 2012				
11-14	Recent Trends in Financial Management	Amritsar		35000*
18-21	Contracts and their Management	Shirdi	-	35000*
18-21	Emerging Issues in Direct and Indirect Taxation	Shirdi	-	35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	Mumbai	25000*	-
JANUARY, 2013				
02-04	Costing for Engineers	Chennai	15000*	40000*
08-12	Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI	Hyderabad	-	35000*
08-12	Advance Tax, TDS and Tax Planning	Hyderabad	-	35000*

FEBRUARY, 2013

19-22	Risk Based Internal Audit for Effective Management Control	Puri	-	35000*
19-22	Emerging Issues in Management of Taxation	Puri	-	35000*

Note :- *Plus 12.36% Service Tax.

For Non-Residential Programmes - Fee includes course fee, course material, lunch, tea/coffee etc.

For Residential Programmes - Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.

CEP Credit Hours - (For 1 Day Prog. - 4 Hours) (For 2 Days Prpg. - 6 Hours) (For 3 Days & more Prog.-10 Hours)

For Kind Information:

For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programmes without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programmes, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.

For residential programmes normally the first day check-in is at 12.00 noon and last day check-out is at 12.00noon

The Payment of the Fee is to be made by Cheque/DD in favour of 'The Institute of Cost Accountants of India' payable at New Delhi.

Details for ECS Payment: State Bank of India (60321), Andhra Association Building, 24-25 Institutional Area, Lodhi Road, New Delhi- 110003 Current A/c No. 30678404793 MICR Code : 110002493 IFCS Code : SBIN0060321

The Institute of Cost Accountants of India
12, Sudder Street, Kolkata - 700 016

28th May, 2012

For Attention of Members
Election Reforms Committee

The members of the Institute are kindly aware that the Election to the 18th Council of the Institute of Cost Accountants of India were held in 2011 in accordance with the Cost and Works Accountants (Election to the Council) Rules, 2006 read with the Cost and Works Accountants Act, 1959 and the Cost and Works Accountants Regulations, 1959.

During the course of Elections, it was noted that the provisions of the Cost and Works Accountants (Election to the Council) Rules, 2006 are needed to be examined for reforms in the Election process.

Accordingly, the Council of the Institute at its 272nd Meeting held on 22nd January, 2012 considered the matter and constituted the Elections Reforms Committee comprising of the following members for the purpose of streamlining the process of conduct of Council elections and matters arising thereform :

1. Shri P. V. Bhattad, Chairman
2. Dr. P.V.S. Jagan Mohan Rao, Member
3. Shri T.C.A. Srinivasa Prasad, Member
4. Shri Sanjay Gupta, Member

Shri Kaushik Banerjee (Director & Joint Secretary) — Secretary

It was further decided that the Committee will invite suggestions from members of the Institute for proposing amendments to the Cost and Works Accountants (Election to the Council) Rules, 2006 (uploaded on our website www.icwai.org), fixing a time limit of six months. After receipt of the suggestions, the Committee will ascertain the various amendments that are needed to be made in the Election Rules for smooth conduct of Institute's Elections and place the same before the Council for recommending the amendments to the Central Government.

Accordingly, you are requested to send your valuable suggestions/comments on the Cost and Works Accountants (Election to the Council) Rules, 2006 for consideration of the Committee on or before 27th **November, 2012** :

(i) by post addressed to Shri Kaushik Banerjee, Secretary, Election Reforms Committee, The Institute of Cost Accountants of India, 12 Sudder Street, Kolkata - 700 016 superscribing on the envelope "SUGGESTIONS FOR ELECTION REFORMS" and/or

(ii) on e-mail id of Shri Kaushik Banerjee, Secretary, Election Reforms Committee, The Institute of Cost Accountants of India : membership.kb@icwai.org with subject "SUGGESTIONS FOR ELECTION REFORMS".

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

SEMINAR ON
COST ACCOUNTING RECORD RULES (CARR) AND COST AUDIT REPORT RULES (CAR)

July 2012

- Delhi 13 July, 2012
- Chennai 03 August, 2012

August 2012

- Hyderabad 17 August, 2012
- Mumbai 31 August, 2012

September 2012

- Bhubaneswar 14 September, 2012
- Kolkata 28 September, 2012

OBJECTIVE

Recent changes made in the structure of cost accounting records rules and cost audit report rules through promulgation of revised cost accounting records rules & report rules in June 2011 and issued number of orders & circulars by the Ministry of Corporate Affairs bringing a paradigm shift in the framework of cost accounting records rules and cost audit report rules in the corporate sector. This shift is a result of the recommendations made by the Expert Group constituted by the Government in 2008. In order to ensure smooth implementation of these rules/orders and to draw full benefits thereof, it is imperative that the provisions contained therein and the objectives behind this paradigm shift are correctly understood by the companies and professional cost accountants.

For smooth implementation of above rules and circulars/notifications, the Institute has formed a National Task Force (NTF). Technical Cell of the NTF has been assigned the responsibility to issue proper interpretations of various rules/orders/circulars notified by the MCA. In this regard, series of Frequently Asked Questions [FAQs] have been issued by the Institute interpreting rules/circulars/ notifications as above.

The objective of this Seminar is to debate and discuss the new rules/orders/circulars notified by the MCA with the executives in industry, members in practice and in employment so as to get their proper perspectives.

For their benefit, the participants of the Seminar will get common background material containing various notifications, orders & circulars issued by the MCA and clarifications issued by the Institute in the form of FAQs.

SEMINAR COVERAGE

- Companies (Cost Accounting Records) Rules, 2011
- Cost Accounting Records (Telecommunication Industry) Rules 2011
- Cost Accounting Records (Petroleum Industry) Rules 2011
- Cost Accounting Records (Electricity Industry) Rules 2011
- Cost Accounting Records (Sugar Industry) Rules 2011
- Cost Accounting Records (Fertilizer Industry) Rules 2011
- Cost Accounting Records (Pharmaceutical Industry) Rules 2011
- Companies (Cost Audit Report) Rules, 2011
- Cost Audit Orders dated 2nd May 2011, 3rd May 2011, 30th June 2011 and 24th January 2012
- Master Circular no. 2/2011, & General Circular No. 15/2011, 67/2011, 68/2011 and 11/2012
- Clarification dated 25th May 2012 for applicability of cost accounting records rules to the construction industry
- Deviations from the previous (repealed) 44 Cost Accounting Records Rules and Cost Audit Report Rules, 2001
- Distinctive features of the -
  - Product Group concept
  - Revised Cost Audit Report
  - Compliance Report
- Distinctive features of the -
  - Generally Accepted Cost Accounting Principles

- ❖ Cost Accounting Standards
- ❖ Cost Audit and assurance Standards

- ❒ Performance Appraisal Report – its significance/purpose, structure, coverage and benefits to the company
- ❒ XBRL taxonomy for Cost Audit Report and Compliance Report

METHODOLOGY

The programme will be developed through lectures, discussions and case studies using audio-visual equipments

FOR WHOM

Senior and Middle level executives of Public and Private sector companies, Government Departments, Regulatory Bodies, Banks, Financial Institutions, Cost Accountants, Chartered Accountants and Company Secretaries

VENUE DATES

VENUE	Delhi	Chennai	Hyderabad	Mumbai	Bhubaneswar	Kolkata
DATES	13 July, 2012	20 July, 2012	17 August, 2012	31 August, 2012	14 Sept, 2012	28 Sept, 2012

HONORARY COURSE DIRECTOR

Mr. B.B.Goyal, Adviser (Cost), Cost Audit Branch, Ministry of Corporate Affairs, Government of India

PARTICIPATION FEE

Rs.4000/- (Rupees four thousand only) plus 12.36% service tax per person. The fee includes Course kit including course material, course fee, lunch, tea/coffee etc.

The cheque/DD to be sent along with the nominations in favour of **The Institute of Cost Accountants of India** payable at New Delhi.

Details of ECS payment:

State Bank of India (60321), Andhra Association Building, Institutional Area, Lodhi Road, New Delhi – 110 003

Current Account No. 30678404793
MICR Code: 110002493
IFSC Code: SBIN0060321

REGISTRATION

For further details and Registration, Please contact:

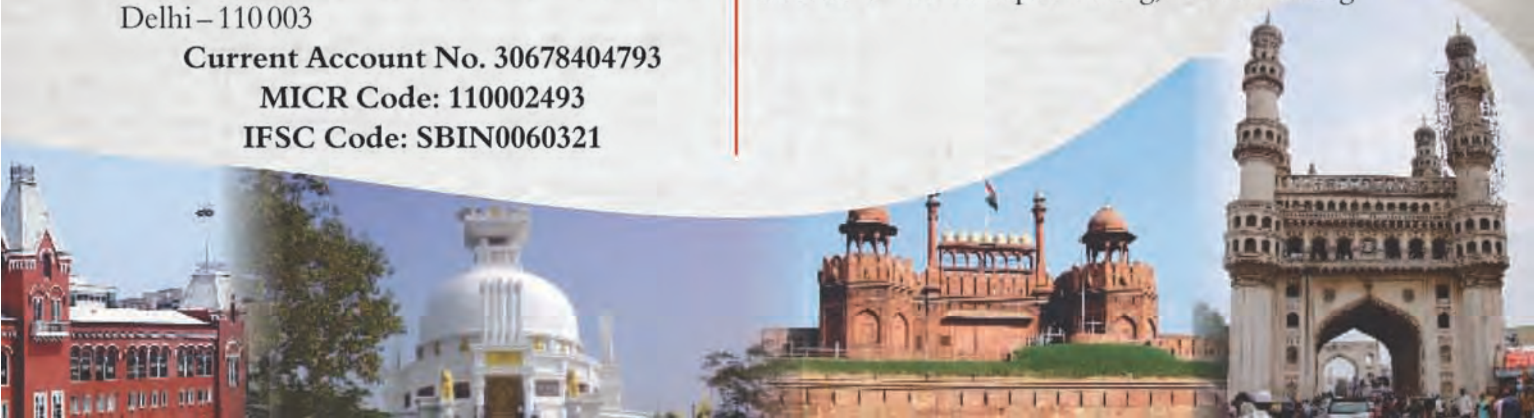
CMA D. Chandru, Director (CEP), The Institute of Cost Accountants of India, CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi – 110 003

Phone : (Direct) 011-24643273, 24622156-57-58, 24618645 (M) – 09818601200

Tele-Fax : 011-43683642/24622156/24618645

E-mail : mdp@icwai.org, cep.chandru@icwai.org

Website : www.mdp.icwai.org, www.icwai.org



ABOUT THE INSTITUTE

The Institute of Cost Accountants of India was established by the Government of India as an autonomous professional Institute in 1959 to provide training, education and research facilities in cost and management accounting. The Institute is a member of the International Federation of Accountants (IFAC), the Confederation of Asian & Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA).

THE OBJECTIVES

- To promote the knowledge of Cost and Management accountancy, to provide educational facilities for training of young men and women for building careers in management accounting.
- To improve the decision making skills and administrative competence relevant to management accounting and corporate management in general.
- To create knowledge through research both applied and conceptual relevant to management on cost accounting and its undenying disciplines so as to disseminate such knowledge through publications.

THE TRAINING PROGRAMMES

The Institute's efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

Broadly the programmes are classified as :

- Training programmes for practicing managers of both public and private sectors, Banks, Financial Institutions, Multinationals Insurance Companies and Government Departments.
- Programmes for its own professional members, and
- Tailor-made in-house training programmes for industry, government departments and public services. It also offers specific programmes for agriculture, defence, railways, telecom and public utility services.

President

CMA M. Gopalakrishnan

Vice President

CMA Rakesh Singh

Chairman, Continuing Education Programme Committee

CMA Hari Krishan Goel

REGIONS & CHAPTERS NEWS

WIRC

Goa Chapter of Cost Accountants (GCCA)

GCCA in association with Institute of Public Enterprise, Hyderabad, organized two days National Conference on "Cost and Risk Management" on 28th and 29th May, 2012 at Hotel Mandovi, Panaji, Goa.

The conference was inaugurated by Prof. Dileep Deobagkar, Vice-Chancellor of Goa University. Shri P. K. Mukherjee, Managing Director of Sesa Goa was the Guest of Honour. CMA A. N. Raman, former President of SAFA was the key note speaker. CMA Sanjay Bhargave Council Member, CMA Vijay Joshi, Chairman WIRC, CMA Shrenik Shah Vice-Chairman, WIRC and CMA Ashish Thatte, Secretary, WIRC also graced the occasion. Senior Executives of Public and private undertakings from different parts of India attended this conference. The participants expressed great satisfaction with the content of the programme and the quality of the faculty.

Shri Manguirish Pai Raikar, President, Goa Chamber of Commerce and Industry was the Chief Guest of the Valedictory function.

SIRC

Trivandrum Chapter of Cost Accountants (TCCA)

The 71st session of oral coaching classes was inaugurated at Mascot Hotel, Trivandrum on 4th May 2012. CMA H. Padmanabhan, Treasurer, SIRC welcomed the students, their parents, and other invitees. CMA B.R. Prabhakar, Chairman, SIRC inaugurated the oral coaching session by lighting the sacred lamp. In his inaugural speech, CMA B.R. Prabhakar informed the students that the Cost Accountancy course of our Institute would help them to have a promising future citing examples that many of our members were occupying top positions in public and private sector organizations. CMA P. Raju Iyer, Secretary SIRC discussed about the opportunities and advantages of the Cost Accountancy profession. CMA Hariharasubramanian, Chairman of the Chapter congratulated the new students for taking their decision in choosing the right course and advised that passing the Institute examination required systematic study with hard work.

CMA S.S. Thanu, Secretary of the Chapter thanked the guests, members, students, and all those present.

EIRC

Cuttack—Bhubaneswar Chapter of Cost Accountants (CBCCA)

The CBCCA organized one day workshop on "Presentation and Disclosures of Financial Statements—As per the Revised Schedule VI to The Companies Act 1956" at its conference hall on 16th May 2012. Dr. T.P. Ghosh, prolific writer, and an extremely renowned faculty with vast international exposure and lots of published work in the areas of Finance/Accounting was the resource person. Dr. Ghosh highlighted the recent changes in the revised schedule VI to the participants representing various well known companies.

CMA N. Sahoo, Chairman of the Chapter delivered the welcome and the key note address and CMA M. R. Lenka, Vice Chairman of the Chapter extended vote of thanks.

NIRC

Lucknow Chapter of Cost Accountants (LCCA)

LCCA organized a seminar on "Practical Issues in Cost Audit and Cost Accounting Record Rules" at CMA Bhawan, Lucknow on 24th June 2012. The seminar commenced with the welcome of dignitaries on the dais by CMA Anjana Chaddha. The lighting of the lamp was performed by Chief Guest, Shri Ajai Kumar, CMD, Scooters India Ltd and Guest of Honour CMA K L Prabhakar, founder member of the Chapter, followed by CMA Sunil Singh, Chairman, CMA Vikas Srivastava, Secretary, CMA Shad Khan, Programme Convenor, CMA Seema Singh, Vice Chairperson, CMA Pawan Tiwary, Jt.Secretary and CMA Anjana Chhadha, Treasurer

Chief Guest, Shri Ajai Kumar, CMD, Scooters India Ltd in his key note address stated that the Cost and Management Accountants today have amplified their role from the level of Accountants as they are the genuine professionals in the field of Cost & Management accountancy to lead the nation in controlling cost and inflation and in their contribution towards enhancing the overall economy of the nation.

The first Technical Session was by Speaker CMA Anwar Hasan, Sr. Practicing Member who said that with the recent changes in CARR, 2011, it was necessary for the Institute to explain the extent, scope and methodology of preparation and maintenance of requisite cost accounting records by the companies and for the proper applicability and uniformity, the Institute has brought out Guidance Note on Maintenance of Cost Accounting Records. After the end of first technical session the Chief Guest was honoured by the Chairman CMA Sunil Singh and CMA Mohd. Shad Khan with memento and shawl.

The speaker for the second Technical Session was CMA Ashok Agarwal who dwelled upon the salient features of CARR 2011. A question answer session was organized at the end to clarify the doubts/queries of members.

The vote of thanks was given by the CMA Mohd. Shad Khan.

Financial Accounting Vol. II

By S. K. Paul & Chandrani Paul
Publisher :
New Central Book Agency (P) Ltd.
8/1, Chintamoni Das Lane,
Kolkata -700 009
First Edition : 2011,
Price : Rs. 315.00

Designed primarily to comprehensively cover the syllabus prescribed by the University of Calcutta for the students of BCom (Hons) Part II, the book under review deals with areas of accountancy that has relevance for Cost & Management Accountancy course.

The entire contents of the book are divided into two modules. Module I takes up partnership accounts - particularly insolvency of partners and dissolution of firms, branch accounting, hire purchases and department accounting. Of interest to the students should be the chapter on preparation of missing balance sheet. The chapter on introduction to Accounting Standards though not exhaustive and updated provides an insight to International Financial Reporting Standards (IFRS) and Indian Accounting Standards (IAS). To fall in line with IFRS, technical preparation is required - both from the industry and the professionals. There should not be any conceptual differences. In such a scenario, understanding the need and background for introduction of various accounting standards, is all the more necessary for a harmonious implementation of accounting policies.

Module II deals with Company Accounts - introduction to and accounting for shares and debentures. Preference shares - their buy-back and redemption, Debentures and their treatment. Starting with the fundamentals, the authors have exhaustively covered various aspects of issue of shares, the statutory requirements, procedural formalities and accounting treatment of various types of transactions. SEBI guidelines have also been touched upon.

While dealing with the Memorandum Clause, the procedure for change of name and objects clause is given. It would have been better, if the formalities for change in Registered Office under various situations like within the same city, from one city to another or from one State to another had been spelt out. Similarly for the change in Capital Clause procedural formalities would have been welcome.

Few incomplete sentences or the printer's devil if one may call them do occur in the book. To cite one example, on page 5.6 dealing with the introduction to accounting standards, the first point on disadvantages of IFRS is complete. The reading pleasure is hampered in an otherwise informative book.

On the subject of shares and share transfers, the focus should have been more on demat shares. While the requirements for transfer of physical shares are given, it would have been more useful if the regulatory guidelines for transfer of shares held in electronic mode were given. A brief mention of the procedures for conversion from physical to demat mode and vice-versa could have been given.

Besides the liberal dose of solved problems with notes for questions taken from various professional examinations, every chapter has assignment materials to cover both theoretical and practical aspects, for the readers to test their understanding of the subject covered.

As envisaged by the authors this book certainly will be useful to the students of Accountancy. It will also serve as a handy reference guide to teachers and professionals alike.

M.S. Vaidyanathan
ACMA ACS
Senior Manager, Indian Bank, Chennai

Financial Accounting

By S. John Gabriel
Published by : Tata McGraw-Hill Education on Private Limited,
Price : 225.00

This book has been written to cater to the needs of the undergraduate students, Professionals and those who are in the field of Financial Accounting. It presents, in a simple and friendly manner, the principles and practices of financial accounting. It covers the syllabi of major Universities of India.

This book incorporates the latest developments in the field of accounting like Human Resource Accounting, Social Responsibility Accounting, Environmental Accounting, Insolvency of Individual and Partnership firm, Accounting for sale or return, Investment Accounts and Voyage Accounts, Inflation Accounting, Partnership Accounts, Admission, Retirement and Death of a Partner, Dissolution, Insolvency of firm, Piecemeal Distribution, Amalgamation of firms and Insurance claims etc.

This book also gives a clear picture of Depreciation Accounting, Bank Reconciliation Statement, Departmental Accounts, Consignment Account, Joint Venture Account, Branch Accounts etc.

Therefore, it is a comprehensive book which explains all the aspects of financial accounting to meet the requirements of undergraduate, postgraduate students of commerce and enable them to understand theoretical and practical concepts of accounting to work out the problems in financial accounting.

This unique book is written in simple and lucid language and has ample illustrations with more than 300 exercise problems etc. along with the objective type, short and long answer questions.

This book forms a bridge between the professionals, faculty and students. The objective type syllabus enables the examinees to glance through all the expected questions within a short span of time.

This book starts each chapter with "learning objective" in the Beginning "Index for Illustrations" in the Middle and "Points to Remember" at the end of each chapter which gives this book a unique identity in the arena of financial accounting.

Chandrani Dutta
B. Sc (Hons), ACS

Shri M. Gopalakrishnan, President of the Institute releasing the Book of Dr. T.P. Ghosh, Professor, IMT Dubai on `Illustrated Guide to Revised Schedule VI' 4th Edition at Srinagar on 12.06.12. Also seen are Shri. A Om Prakash, Council Member and Dr. Mohi-ud-Din Sangmi, Prof. Kashmir University.

Shri S.K. Das, Chief Commissioner, Central Excise, lighting the sacred lamp at the workshop on Indirect Taxation for CMAs held at Kolkata on 2.06.12. Also seen Mr. Khan, Addl. Commissioner, Service Tax and Dr. Sanjiban Bandyopadhyaya, Council Member.

A view of committee members and faculty along with Swami Shitikanthanandaji Maharaj from Ramakrishna Mutt on the occasion of inauguration of oral coaching classes at CMA Bhawan, Hyderabad on 10.5.12 . Seen Dr. PVS Jagan Mohan Rao, Council Member and other officials.

Seminar on 'IFRS & Revised Schedule VI' held at Guwahati. Shri M. Acharjee, AGM (Audit & Taxation), Balmer Lawrie Co. Ltd. seen with Guwahati Chapter officials.

Workshop on Indirect Taxation for CMAs held at Kolkata on 2.06.12. Seen (from L-R) are Shri Manas Kumar Thakur, Council Member, Mr. Khan, Addl. Commissioner, Service Tax, Shri S.K. Das, Chief Commissioner, Central Excise and Dr. Sanjiban Bandyopadhyaya, Council Member.

Chief Guest, Shri Ajai Kumar, CMD, Scooters India Ltd at a programme on 'Cost Audit & Cost Accounting Record Rules' at Lucknow on 24.06.12. Also seen Shri Sunil Singh, Chairman, LCCA and other members.

Shri K K Rao, Vice-Chairman, HCCA addressing the audience at a seminar on "Cost Accounting Standards" on 12.05.2012 at Hyderabad Centre of Excellence, Hyderabad. Speaker Shri Murali Prasad, Director, M/s. Sam Consultancy Services (P) Ltd, Shri A.S. Durga Prasad, Council Member and Chief Guest Shri M. Narayanappa, Regional Provident Fund Commissioner are also seen on the dais.

Shri P.K.Mukherjee, MD, Sesa Goa, addressing the participants at the conference. Seen on the dais (from L to R) Shri Rammohan Menon, Chairman, Goa Chapter, Shri A. N. Raman, Shri K. R. S. Sastry, Past President, SAFA, Prof. Dileep Deobagkar, Vice-Chancellor, Goa University, Shri Ananthasayanam, Director (F), Goa Shipyard Ltd., Shri Vijay Joshi, Chairman, WIRC and Dr. Sreenivas Murthy (Prof. IPE).

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