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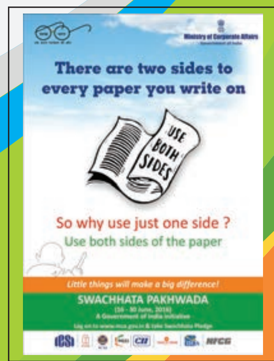
ACHIEVING BUSINESS EXCELLENCE

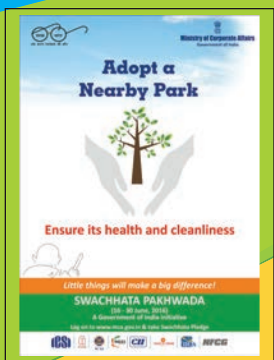
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory body under an Act of Parliament)
www.icmai.in

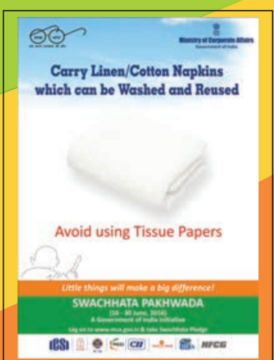
The Institute of Cost Accountants of India observed

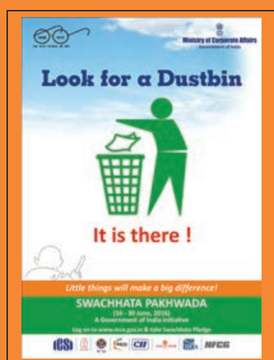
SWACHHATA PAKHWADA

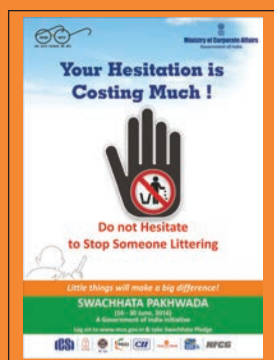
16-30 JUNE 2016











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The Institute of Cost Accountants of India

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

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

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

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

MISSION STATEMENT

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

VISION STATEMENT

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

IDEALS THE INSTITUTE STANDS FOR

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

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

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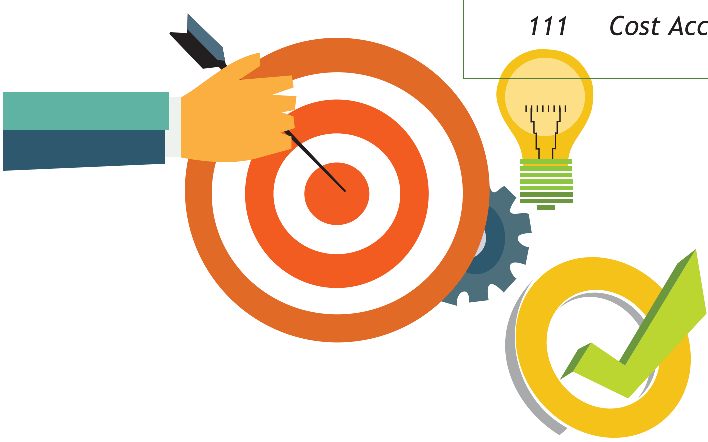

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EDITORIAL

Greetings!!!

Business Excellence is about developing and strengthening the management systems and processes of an organization to improve performance and create value for stakeholders. It is much more than having a quality system in place. Business Excellence is about achieving excellence in everything that an organization does (including leadership, strategy, customer focus, information management, people and processes) and most importantly achieving superior business results.

"Business excellence" is a broad term that is used to describe various business models that support the goal of increasing the level and consistency of performance in the operation of a company. The idea of this approach is to develop quality management principles that increase the overall efficiency of the operation, minimize waste in the production of goods and services, and help to increase employee loyalty as a means of maintaining high standards throughout the business. In addition to its applications to the business operation in general, the underlying concept of business excellence can also be used as a part of the project management process.

A number of different components go into a business excellence approach. Many of the components are focused on strengthening the internal function and communication within a business operation. This means that managers participating in the process are often trained to enhance their leadership qualities, particularly in key areas such as decision-making, management style, and in communicating effectively with others in the business organization. Along with the day to day operational tasks associated with a company, business excellence will also include mechanisms that allow for constant evaluation of current policies and procedures, making it possible to identify areas that could be more efficient and actively seek ideas to enhance the operation.

Business excellence also looks towards the cultivation of strong ties with consumers. This often includes careful attention to how the company is presented to consumers through various types of media. To go along with tailoring advertising to best advantage, the pursuit of business excellence also requires that company executives work together to develop a comprehensive customer support network that provides consumers with easy access to information, and in general to develop ongoing relationships that customers find attractive. From this perspective, the focus is to present the company as one that offers high-quality goods and services and values the contributions that consumers make to the operation.

The general concept of business excellence can be incorporated into the culture of both small and large companies. While the combination of strategies may vary based on the particular situation with a given company, the end result is often high profits, a greater degree of consumer recognition, and a loyal client base that competitors find it harder to pull away.

This issue also presents a good number of articles on the cover story theme 'Achieving Business Excellence' by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

"The Management Accountant" Journal is now available in your smart phones through an exclusive App. Readers may install "The Management Accountant" App to download and view the monthly Journal and enjoy reading it without any hassle.

CMA P. V. Bhattad
President
The Institute of Cost Accountants of India

The things you do for yourself are gone when you are gone, but the things you do for others remain as your legacy.

Kalu Ndukwe Kalu

My Dear Professional Colleagues,

Namaskar.

I am expressing my thoughts with you for the last time as my tenure as President of this prestigious Institute is going to be over on 21st July 2016. I take this opportunity to thank my colleagues in the Council, Government Nominees, Regional Councils, Chapters, Members, Students, Overseas Centres and all the stakeholders for the untiring support they extended to the President of the Institute. I am grateful to the Past Presidents of the Institute for their invaluable guidance throughout the year. I would like to thank all the officials at Ministry of Corporate Affairs and Finance Ministry for their continued support to the Institute and I hope that the same will be continued in the future also.

As President of the Institute, I have met a number of Government Officials, Ministers, Industry Captains &other dignitaries and discussed with them about the role of the Institute and its members are playing in the economic growth of the Country. It is my privilege to thank all of them for giving me an opportunity to represent the Institute and Its members on various forums.

I will be failing in my duties, if I don't mention the support given to me by my employer M/s. Western Coalfields Limited. I could successfully complete my tenure as President and also could discharge my official responsibilities as General Manager (Finance) simultaneously due to the support extended to me by the staff and officers of WCL. For this I will always be grateful to the management of WCL. Last but not the least, I would like to place on record the immense support extended by my family. With their understanding of my responsibilities I could devote my time to all the activities and fulfil my duties.

Milestones successfully achieved

Friends, with your unstinted support I have tried my best to keep the interest of the Institute and CMA profession at the highest. I am thankful to the talented team of the Institute for always putting their best foot forward and supporting President in all initiatives. In my first communique after taking over as President of this great Institute, I listed out my priorities and now when I am about to vacate the position, I have satisfaction that I could take steps in right direction. Together we have achieved something but a lot of things are yet to be achieved. We have taken a number of initiatives and it is time to take those initiatives forward by the new team so that the desired objectives are obtained. Some of the milestones successfully achieved during the year are as follows:

- Inclusion of CMA in the ensuing GST law;
- Inclusion of CMAs in Customs Brokers Licensing Regulations 2013;
- Completed the task of developing 15 Standards on Cost Auditing (SCAs)

upto31stMarch 2016 as assigned by MCA and submitted the same to Government for its approval;

- Developed two more Cost Accounting Standards and two Guidance notes on CAS 2 and CAS 12 during the year; now we have 24 CASs issued so far;
- Developed Guidance Note on CSR by CASB;
- Several technical literature on Taxation including most prominent issues like An Insight of GST in India, Guidance Note on Rules 6 & 7 of CENVAT Credit Rules,2004, Clause-wise analysis of Model GST Law 2016 were published;
- After successfully establishing CAT course in Kerala the Institute is very close to get two more States in the map of CAT Course. In Rajasthan it is at final stages;
- Organised various programs / seminars / webinars to disseminate the knowledge to students and members w.r.t. Standards on Cost Auditing across the Country;
- Organised nationwide Corporate Laws week to enhance the opportunities and skill sets for CMA professionals;
- Organised nationwide World Environment week to create awareness among the CMA professionals on sustainability and environmental issues;
- Organised nationwide Internal Audit week to create awareness among the CMA professionals on provisions of Internal Audit;
- Introduction of preplacement Industry Orientation training to give an opportunity to passed out students to get a feel of the real business environment in order to prepare them better to face the challenges of placement;
- Robust post qualification courses to improve the knowledge base of the members;
- To attract Members in general and members in the Industry in particular an initiative "Members in Industry Fortnight" was celebrated;
- Organized the second "Corporate Cost Management Week" across the country for our Members and Industry with the objective of spreading the message that Cost Management is essential in order to maintain cost competitiveness in this fiercely competing global market;
- Encourage tie ups with chambers of commerce and industry to move along with them;
- The National Cost Convention was conducted on self-sufficient basis with highest participation; NCC 2016 was successfully organised at Delhi in January 2016 which was inaugurated by Hon'ble Shri ArunJaitley, Union Finance Minister;
- Successful conduct of National events of the Institute like National CMA Practitioners Convention, National Regional Council & Chapters Meet,Annual Day and Cost & CMA Awards etc.;
- Introduction of CMA Ratna awards;
- Several representations have been made before the Revenue Authorities - both CBDT and CBEC. I am happy to note that many of our suggestions were recognized in affirmative and implemented by the Authorities. As we preach to bring about transparency and better governance, I dream a day when 'cost information' available in the 'cost records' would be effectively utilized for making fair assessment under tax laws in India.

It is time for Professionals to get themselves intellectually equipped with the new statutes - like The Companies Act, 2013, Ind - AS, Foreign Trade Policy 2015, Internal Financial Control (IFC) over Financial Reporting, Proposed Goods & Services Tax (GST) in India. We need to rise to the need of the hour through wider participation in various workshops, discussions, seminars for dissemination of knowledge. I am encouraged by the different capacity building measures taken by the Institute.

Other initiatives

I wish to inform that in accordance with the Central Government's national programs the Institute in coordination with MCA conducted several programs and taken various initiatives. Some of which are listed hereunder:

- Organized several Investor Awareness Programs all over the Country under the guidance of Ministry of Corporate Affairs.
- As one of the partners of 'Make-In-India' week initiative of the Government of India, the Institute participated in the 'Make-In-India' week celebrations at Mumbai from 13th to 19th February 2016. Several programs were also organized all over the Country during Make in India week.
- Celebrated '2nd International Yoga Day' on 21st June 2016 with members, students and employees actively experienced yoga. The Institute took lot of initiative to promote and spread the message through yoga sessions organised at Head Office, Delhi Office, Regional Offices and at various Chapters across country.
- Observed 'SwachhataPakhwada' during 16th to 30th June 2016. The members, students and employees of the Institute actively participated in this campaign and took necessary action to clean their work place and neighborhood. The Institute is committed to continue with this noble initiative.

Professional support to Ministries and Government Departments:

To enhance the scope of the CMA professionals and also to showcase the skillsets of Institute's members we are in constant touch with various ministries for conducting researches and studies. I wish to inform that discussions are in final stages with some ministriesin this regard. I hope that this important initiative will help in achieving necessary branding and visibility for the Institute and Profession.

Initiatives in pipeline or in progress

There are a number of areas where the work has been started but still a lot has to be done in order to move the CMA Profession and the Institute forward. Some of those areas are appearing hereunder:

- To amend explanation below Rule 13(1) of the Companies (Accounts) Rules, 2014 by MCA to include meaning of the term "Cost Accountant" to conduct internal audit;
- Various amendment in the Companies (Cost Records and Audit) Rules, 2014 as submitted to MCA;
- Introduction of Compliance Report to disclose compliance with relevant provisions in accordance with the Company Law Committee recommendations;
- Deletionof disclosure relating to maintenance of cost records in CARO;
- Inviting Financial Tenders by the companies to follow proper selection criteria for the appointment of cost auditors and internal auditors;
- To expand the scope of Cost Audit & Cost Compliance Mechanism to include all the strategic manufacturing and service industries;
- To follow up with various State Governments for Audit the Cooperative Societies by Cost Accountants;
- To follow up with State Governments for inclusion of Cost Audit Report as an essential document for registration of a project and verification & certification of true costs at every stage of completion of the project and of an apartment, plot or building, by a Cost Accountant in practice under the provisions of Real Estate (Regulations and Development) Act, 2016;
- To follow up with Government for significant role of Cost Accountants in Insolvency and Bankruptcy Code, 2015;
- Following up with the Government for Inclusion of Cost Accountants registered under the "Electronic Furnishing of Return of Income Scheme" as E-Return Intermediary;
- To modify the definition of "Accountant" u/s 288 (2) (iv) of the Income Tax Act 1961 so as to include the Cost Accountants in its scope;
- To engage or empanel the services of CMA Professionals in various Ministries / Departments;
- To amend General Financial Rules to allow both the Chartered Accountants & Cost Accountants to audit and certify utilization of grants-in-aid and/or loan funds released by the Central Government under Central Schemes and Central Sponsored Schemes;
- To improve the visibility and branding of the Institute;
- To play our role in development of MSMEs;
- To expand the student base;
- To expand the membership base.

I am hopeful that the new Captain of the Institute with a renewed vision and fresh energy will continue to strive and take necessary steps for keeping the interest of Institute and CMA Profession high. I assure my wholehearted support to the new team and also wish them success in all of their endeavours.

1st National Member in Industry Conclave

I urge the members to register for the 1stNational Member in Industry Conclave scheduled to be held on 8th and 9th July at Trivandrum. I wish to inform you that Shri O Rajagopal, Former Union Minister of State for Railways, current member of the Legislative Assembly of Kerala, a great visionary, thinker and seasoned leader will be the Chief Guest of the inaugural session of the conclave. Many CFOs and Directors (Finance) have confirmed their participation in the Conclave. Several eminent speakers have also confirmed their availability for the fruitful deliberations at Conclave.

I wish prosperity and happiness to members, students and their familieson the occasion of Eid ul-Fitr and JagannathYatraand wish them success in all of their endeavours.

With warm regards,

PBhattad

(CMA P.V. Bhattad)
1st July 2016

CHAIRMAN'S COMMUNIQUÉ

This month I will be completing one year as the Chairman, Research, Journal & IT Committee. First of all I would like to express my sincere thanks to the Directorate of Research and Journal of the Institute for their untiring efforts towards fulfilling the mission and vision of the Institute in particular and the society at large.

Various research activities have been initiated during last one year with effective outcomes and the monthly journal *The Management Accountant* with its modern layout as well as rich and informative contents is now highly commendable.

The Directorate is dedicated to the goal of connectivity and seeks to establish linkages with socio economic research areas, macro economic analysis and overall economic development with special emphasis on cost management.

Research and allied activities February 2016 onwards

● On February 12, 2016 the Institute was associated as the Knowledge Partner at '*5th India Heritage Tourism Conclave-Making Incredible India: Swachh, Sundar & Sanhakt Bharat*' organized by the PHDCCI at Jaipur. Knowledge Pack on '*Heritage India: Unveiling the New Phase of Indian tourism*' prepared by the Directorate was highly acclaimed.

● One Week Faculty Development Programme (FDP) had been organized for professionals and academicians on '*Business and Financial Market Analysis*' held during February 22 to February 28, 2016 at EIRC Premises, Kolkata organized by the Directorate in association with University of Calcutta-Calcutta Stock Exchange –Centre For Excellence in Financial Markets (CUCSE-CEFM).

● The Institute was associated as the Knowledge Partner in third edition of the *PHD Global Rail Convention-2016-'Indian Railways - Transforming into an Engine of Growth'* on April 13, 2016 organized by the PHDCCI at New Delhi. Knowledge Report prepared by the Directorate on the theme of the convention was highly commendable.

● The Directorate of Research & Journal of the Institute in association with National Institute of Securities Markets organized a National Seminar on '*Securities Markets in India-Unleashing Startups Potential*' on May 14, 2016 at ICAI Auditorium. Shri Prashant Saran, WTD, SEBI the Chief Guest provided a theoretical framework of Start up in the inaugural session and encouraged the audience approaching them to boost for start ups. In the two technical sessions on 'Indian Economy & Startup Potential' and 'Market Reforms for Startup and SMEs', eminent resource persons from Securities Markets and other relevant fields discussed and made the sessions highly interactive.

● The Directorate organized a discussion meet on '*Strategic Cost Management in Health Care Sector*' held on 9 June 2016 at EIRC Auditorium. Dr. Taposh Bhattacharya, Additional Regional Director, Ministry of Health and Family Welfare, Government of India, Dr. A. Selvam, Professor& Principal, Sri Ramachandra College of Management, Sri Ramachandra University, Chennai, Prof. Dr. A. Gandhi, Director, MBA Dept, Saveetha Engineering College, Chennai were the eminent dignitaries on the dais eloquently shared their experiences on the concerned theme.

● Another discussion meet on '*Cost Management Issues in Higher Education Sector*' had been organized by the Directorate on June 24, 2016 at EIRC Auditorium, Kolkata. Dr Asitava Jana (PhD, Florida State University, USA), Education Information System and Cost Consultant was the key note speaker, CMA Harijiban Banerjee, Former President of the Institute was the chief guest and Prof Dhrubajyoti Chattopadhyay, Vice Chancellor, Amity University was the moderator of the discussion meet. Cost Management Issues in higher education sector was broadly discussed and the Institute is to act as an integral part of the system to ensure strategic cost management in the arena of higher education, hence rationalizing the cost burden and creating a positive impact on Indian education system.

Publications released

● Edited Volume on '*Contemporary Issues in Companies Act 2013*' had been published by the Institute celebrating the 'Corporate Laws Week' during 18 to 24 January, 2016.

● Souvenir on '*CMA Profession-Achieving Excellence in New Horizon*' with relevant resources provided by the Directorate was released at the National CMA Practitioners' Convention 2016 organized by the Institute and EIRC on February 21, 2016 at ICAI Auditorium, Kolkata.

● Knowledge Reports on '*Contemporary Issues in Environmental Accounting and Auditing*' and '*Contemporary Issues in Sustainability Accounting & Reporting*' got released celebrating World Earth Day on April 22, 2016.

● Quarterly publication of Research Bulletin, Volume 42, No. 1 was released on May 14, 2016.

● A Souvenir on '*Benchmark-Journey towards Cost Excellence*' was released during the Annual Day Celebration and the Awards Function on May 28, 2016 at New Delhi which contains the grandeur of this Award Function since 2003.

● 'A ready reckoner on Service Tax on services provided by the Government & Local Authorities' also got released on May 28, 2016.

● Edited Volume on '*Contemporary Issues in Environmental and Sustainability Accounting*' got released by Shri D.V. Sadananda Gowda, Hon'ble Minister for Law and Justice, Government of India on May 30, 2016 to commemorate the World Environment Week from May 30 to June 5, 2016.

- Knowledge Pack on Internal Audit '*An Insight into Internal Audit*' was released by the Directorate to commemorate *All India Internal Audit Week* in order to build the capacity of members of the Institute in this important area of practice and also to generate awareness among the corporates about the role of Cost Accountants in this field.

Forthcoming Event

The Directorate of Research & Journal is going to organize a National Seminar on '*Issues in Cost Management*' in association with Indian Accounting Association Research Foundation on 9 July 2016 at ICAI Auditorium, Kolkata.

Conclusion

We are incorporating new features and relevant cover stories of national and global importance in our journal regularly. Distinguished experts and authors contribute quality and relevant articles and case studies for the journal. Research and allied activities are conducted at regular intervals to reach cross sectional people of the society.

We solicit your feedback, suggestions, and concerns for the overall development of the Research and Journal Directorate. Please send us mails at *research@icmai.in* and/or *journal@icmai.in* for issues relating to research and/or journal respectively.

With Warm Regards

A. Goswami

CMA Avijit Goswami
Chairman, Research, Journal & IT Committee

LETTER TO EDITOR

Sir,

The management accountant has travelled very very far. In the old days it used to be a nondescript also-ran, drab magazine along with many of its fellow professional magazines, with nothing to make it stand out. Today's management accountant is a far cry from the old version. Successive editors have made it the cynosure of all eyes of today. The metamorphosis has been truly phenomenal and amazing, and it is a modern day Pygmalion. It is not just the format or cover, but the contents are truly fantastic in their reach and content. Sharpening our thinking, and exploring all aspects of our specialisation, and honing our thinking. All of us wish the magazine continued grand success.

I submit that, in spite of its comprehensive nature, one thing is sadly lacking. It is humour, laughter. Even if we look at it with a magnifying glass, the magazine is too staid, dry as dust, steeped only in articles exploring the various nooks and corners of costing and management. It is as if humour and laughter are incompatible with costing and management

It is a well known adage that all work and no play make jack (The Management Accountant) a dull boy. I submit that some humour be woven into the magazine, say, filler material at the foot of each article, like, for example, reader's digest which places a tit bit at the foot of each serious article which brings out a chuckle or a smile from the reader. in our case all the articles in the m a are heavy fare, and something which draws a laugh would be relieving the tedium which is an inevitable consequence after going through an analytical article dealing with subjects of our profession. I exhort you to kindly consider this: let the management accountant not be branded as humourless.

You might raise the bogey that no professional magazine ever gives space to humour or laughter in its pages. I put it to you : can Management Accountant not beat a new path and be a pioneer? Should it be just no more than a copycat and tread only the beaten path?

CMA Ch V Suryanarayana
Secunderabad

DISCUSSION MEET ON

'STRATEGIC COST MANAGEMENT IN HEALTH CARE SECTOR'

The Directorate of Research and Journal of the Institute organized a Discussion Meet on 'Strategic Cost Management in Health Care Sector' at EIRC Auditorium on June 9, 2016. The pricing mechanism of services and procedures in the health care sector were broadly discussed in the meet.

CMA Manas Kumar Thakur, Vice President of the Institute stressed on the significance of the health care in the life of the common people and opined that proper pricing of health care services and procedures is essential for a welfare state.

CMA S.P. Padhi, Chairman, EIRC of the Institute eloquently shared his experience of an internal auditor in a private hospital, Kalinga Hospital Ltd., Bhubaneswar. Due to paucity of time he could not substantiate his argument that there are innumerable areas in the health care sector, especially, private hospitals where cost reduction measures can be effectively used which would have a positive impact on the pricing of services and procedures.

Dr. Taposh Bhattacharya, Additional Regional Director, Ministry of Health and Family Welfare, Government of India was the key note speaker in the Meet. In his speech, he comprehensively discussed various facets of 'health' and 'health care'. The best part of his lecture was the way he concluded. He pointed out that prevention of the disease is the best way to reduce cost of health care and therefore the ultimate strategic cost management in health care sector is 'prevention' of disease and safeguarding one's health. The deliberations of Dr A Selvam, Professor & Principal, Sri Ramachandra College of Management, Sri Ramachandra University, Chennai was the quintessence of the seminar.

He argued that the pricing mechanism in the health care sector in India is ineffective as many of the avoidable costs remains unregulated resulting in disproportionate pricing in health care sector. He resolutely pointed that health care sector is a social sector, especially in a country like India where huge population lives below poverty line. He highlighted on improper pricing of health care services and provided illustrations from his personal experiences how health care services are priced differently in villages and in towns. Further he noted that the Indian rural population which accounted a staggering seventy per cent of the total population has no or limited access to hospitals and clinics, therefore relied heavily on alternative medicine and government programmes in rural health clinics. He was definitive about the issue that privately managed hospitals should initiate strategic cost management to reduce cost of services and procedures such that the benefit of lower prices can be passed on to the consumers.

Dr. A. Gandhi, Director, MBA Dept, Saveetha Engineering College, Chennai provided some thought provoking statistics to argue that the Indian health care sector is in dismal state. He noted that in India a mere 4.2 per cent of gross domestic product is spent towards healthcare sector compared to 18 per cent in United States. He furthered his argument by stating that the out of pocket expense in Indian health care sector (due to low penetration of medical insurance) was much higher (67 per cent) than international standard (44 per cent).

He opined that exorbitant fee structure in medical studies in conjecture with reasons previously put forward resulted in dismal pricing structure in Indian health care sector.

Several argumentative observations were put forward by the participants. Most participants inquired regarding the disproportionate pricing of health care services and procedures in the state of West Bengal. Dr. Taposh Bhattacharya made an interesting observation in answering a question regarding the role of the state government in regulating prices in health care service. He pointed that though 'Health' is a state issue; the private hospitals are free to price the health care services and procedures without the interference of the state government.

In response to the questions raised by the participants regarding differences in pricing of health care services and procedure in the state of West Bengal and some other states in the southern part of India, Dr A Selvam and Dr. A. Gandhi recommended the participants to take up research projects on price discrepancy in health care services across various states in India, under the tutelage of the Institute.

In conclusion it may be stated that the discussion meet made some interesting observation. The following four issues were very specifically highlighted in the discussion meet.

- There is widespread discrepancy as regards to pricing of health care services and procedures amongst various states in India. The Institute can play a crucial role in unifying the pricing mechanism practiced in the health care sector. On the above lines the house strongly argues that the role of the Cost Accountant is crucial in health care sector, especially private hospitals.
- The house is consensus on the issue that health care is a social issue and the pricing mechanism cannot be solely dependent on demand. Rather cost driven pricing mechanism is more appropriate to ensure fair and equitable prices in health care sector.
- Insufficiency of medical insurance is reiterated by all the speakers in the seminar and is pointed to be one major reason for high cost of health care service. In this regard, Dr Selvam put forward an unpretentious but effective solution as he suggests that medical insurance premium needs to be tagged with mobile recharge expense. Thus when a consumer recharges his mobile, a portion of the amount may be contributed to his medical insurance.
- The seminar made several observations which tantamount to an appeal to set up an apex level dedicated regulatory authority to monitor health care sector in India. The Institute is to act as an integral part of the system to ensure strategic cost management in the arena of health care sector which will rationalize cost burden and have a positive impact on the price of health care services and procedure in India.

CMA Avijit Goswami, Council Member and Chairman Research, Journal & IT Committee of the Institute delivered the formal vote of thanks. He specifically acknowledged the participants for their active presence. He also expressed his heart felt gratitude towards the honoured speakers for their cordiality.

Prof. Joydip Dasgupta
Nabadwip Vidyasagar College

Observance of 2nd International Yoga Day, 2016

COVER STORY

MANAGEMENT MODELS FOR BUSINESS EXCELLENCE

Business excellence (BE) principles emerged as a result of advancement of quality drive into traditional business management. BE takes into account various management thoughts as core concepts and structures quality management in a manner that can be adapted by any enterprise. In this article, we will consider various models which have evolved for excelling in business.

CMA Debtosh Dey
Director, Ripley & Co. Ltd.
Kolkata

An enterprise enters business with some core strengths that offer competitive edge in demand-supply. Its mission comprises exploitation of such core strengths for profits, regard being had to regulatory requirements. The enterprise understands and influences customers & market, develops plant & human resources and delivers competitive product ensuring adequate returns to capital. It also discharges responsibilities to its stakeholders.

Therefore, managing an enterprise involves several tasks and the whole process draws upon various knowledge including technology, behavioral science, finance and statutes, depending on the nature and size of business. After all, business is not a blind speculation. It involves risk-bearing through vision, strategies and leadership.

We will trace developments of various management thoughts and convergence of these into models that ensures excellence, in the following sections. We will also examine elements & structure of a model and modus operandi of the same.

Management discipline : An off-shoot of socio-economic issues at macro & micro levels

As a sequel to factory system with large capital evolving after industrial revolution (1760-1820), corporate entrepreneurship emerged with separation of management from ownership. Since then, modern management practices grew with various issues coming up one after another. We will examine this under two broad heads as follows :

Competition

As mass producing factories outreached local boundaries of erstwhile handicrafts, competition had set in and in some cases, it roused unhealthy rivalries. It is mention worthy that competition per se is not harmful if fair play is enforced. Many economies including India today encourage free but fair competition. Several countries including India have opened up their economies to the world at large with fewer but reasonable restrictions on licensing, exchange and tariff. Ongoing globalization along with fast changing technologies, are making competition keener. This has compelled every enterprise to make itself increasingly competitive.

Other socio-economic issues

Labour exploitation, pollution, resource exhaustion, adulteration and misuse of public money are the other evils. Different nations address these differently. In India, we have elaborate laws for preventing such evils.

Besides statutory measures emerging globally for addressing above issues, several institutions had evolved for professionalization of accounting, administration & management. For example, Institute of Chartered Accountancy of England & Wales (ICAEW) (1880), Institute of Chartered Secretaries and Administrators (ICSA) of Britain, 1891 (re-established under Royal Charter in 1902), Institute of Certified Public Accountants, US (1896), MBA institutes (introduced first by US in 1900), Institute of Cost & Works Accountant (Britain, 1919 renamed as ICMA in 1972 and CIMA in 1986 after Royal Charter), International Association of Administrative Professionals (IAAP) of US which conducted the first Certified Professional Secretaries (CPS) examination in 1951, Chartered Institute of Public Finance & Accountancy (CIPFA) (1973).

Thus, before the dawn of 20th century, enterprises were well abreast of professional developments in the field of management. We will review different aspects of management thoughts contributing to business excellence in the next section.

Management thoughts as foundation of business excellence models

Management is "an old art and a new science". It is ever growing with pace accelerated during and after the great wars and the great depression (1914-1945). Let us consider in brief the various management thoughts that emerged since its inception as a discipline :

1. Scientific approach (Productivity & one 'best' way approach)

Works of Taylor and his followers, *Gilbreth* and *Gnatt* had laid the foundation of scientific management. Such approach explores 'best' way of doing work for improving productivity. It includes logical work division, employee training and result-based incentives. Taylor's 'Time Study' and Gilbreth's 'Motion Study' combined as 'Time & Motion Study' breaks human motion into one or more of 18 basic elements (called THERBLIG after Gilbreth). It also establishes motion-time as influenced by working conditions and various strains. These subsequently got enlarged in **'Work Study'** for improving methods and for measuring work. It is supported by **'Ergonomics'**, another science emerged for determining convenient work conditions for minimizing human fatigue. Gnatt's **time-scheduling** of activities is a widely recognized technique for project management.

*[**Notes :***

1. Fayol's 14 Principles of Management, from work division (with authority-responsibility, unity of command, etc) to fair remuneration, stability of tenure and team spirit, were considered to be pioneering work. According to Urwick, works of both Fayol and Taylor were complementary.

2. During primitive days of industrialization, difficulties in maintaining uniformity in product was an issue which was quite significant in regard to interchangeability of assembled parts. Later, it triggered quality drive including standardization of processes, inspection & testing at every stage from input receipt to output recognition, preventive maintenance of machineries, employee training, etc. Such drive gave rise to modern quality management.

3. Modern scientific approach combines work study, ergonomics, Operations Research, Information & Communication Technology, etc into a discipline called "Industrial Engineering" concerning designing of man-machine integrated systems.]

2. Humanistic approach (human motivation & learning for better ways)

Man "thinks" and behaves unlike materials and machines. Works of *Follet, Mayo, Maslow, McGregor, Herzberg,* etc stressed on human motivation & learning for continuous inventions of better ways. *Homan, Newcomb, Tuckman, Thiabant, Keley, Senge,* etc worked on group behavior of man as a "social animal". Their findings suggest goal-role clarities, inter-personal relationships and reward system as the focal points for team-building.

In today's context of fast changing technologies, it is all the more important to develop Human Resource as the ultimate controller of physical resources. As technology reduces hands (and even brains), it may be necessary to make an enterprise as lean as possible with thrust on multi-skilling and clustered tasks. But human intelligence cannot be substituted and hence, *"no system is better than the persons who design and operate it".*

"Man is the most valuable asset unrecorded in Balance-Sheet". There had been various attempts for **human resource accounting**. One method comprises cost-benefit of HR development (usually, discounted rate of earnings over learning cost during life). This explains differences in earnings with varied learning though it fails to account for inborn qualities of man, his welfare needs and his contributions to welfare. Even if it is conceded that employees performances add up to enterprise's performance, measuring effects of HRD on business results has become a difficult task.

3. Rationalistic approach (Informatics & cybernetics)

Charles Babbage (1933, known as the 'father of computing') showed the way for quantitative solution of business problems. Several scientists have since worked on it during and after the great wars and formulated the subject called **'Operations Research' (O.R.).** It comprises mathematical & statistical techniques for solving constrained objectives that are quantified, both in deterministic and probabilistic forms. O.R. models can be **simulated** according to situations, using definite steps called **'algorithm'** as in competitive (games) strategies, product-mix, project time-cost trade-off, resource allocation, minimum transportation costs & queuing time, inventory replenishment, equipment replacement, etc.

A technique similar to 'algorithm' for logical planning of information-flow in computers is called **'systems analysis'.** It standardizes documentation process including document formats. Science concerning communication known as **'cybernetics'** has also developed, understandably after the works of Claude Shannone (1948).

In 90's, online and integrated information systems emerged with widespread uses as a result of advancements in computer technology and communication networks. Two major application areas are **Enterprise Resource Planning (ERP)** systems and **e-Commerce.** By this time, interfacial electronic appliances like audio-visual devices, sensing-actuating devices (e.g. **bar coding** & decoding, **GPS, Digital Surveying, PLC**-driven machineries, **CAM**), **AutoCAD**, etc were well established. All these revolutionized **Information and Communication Technology (ICT).** Thus, 21st century is rightly called an 'information-age'.

4. Contingency approach (Risk-bearing in all situations)

Despite scientific techniques and rationalistic outlooks, it is difficult to co-relate enterprise's results (effect) to its processes (cause). This is because of large number of factors many of which are uncontrollable within an enterprise. Hence, enterprises grope in uncertainties as ever and rather more in today's fast changing situations. Therefore, an enterprise needs to learn continuously its weaknesses from results. It needs to assess its internal and external threats and adopt appropriate strategies for risk-bearing. Similar views are expressed by Peter Drucker, who while advocating Management By Objectives (MBO), suggested early mitigation of adverse exceptions. Thus, contingency approach enunciates the philosophy of preventing crisis through foresight and pro-active measures.

[Notes :

1. There are views rejecting the notion of 'uncontrollability' as it denies managerial responsibilities for innovations as major part of strategies.

2. Kaplan's Balanced Score Card (1990) using quantitative Key Indicators (KI) gives practical shape to Drucker's MBO (1954). BSC integrates interests of all stakeholders. It also makes employees accountable for definite responsibilities measurable in terms of KI.

3. Works of Demings, Crossby and Juran (Process-orientation, 1965-2008) and of Goldratt ("Theory of constraints", '90s) may also be viewed as complementing Drucker's MBO. It is not only the objectives but also processes for its realization and constraints limiting it are important considerations.

4. Some models suggest experimentation as one the basis of learning. Some others suggest long-run view instead of quick profits and use of non-financial indicators for driving financial results.]

Every thought has its own merits. There may be one 'best' way of doing a work in a given situation (Scientific approach). Rationalistic approach may also support scientific approach for predictability and repeatability of results. However, it is difficult to quantify process-result relationship. Changing situations make such exercise all the more difficult. Thus, there is no single way which can be adopted as the 'best' for all situations (Contingency approach). Hence, there is no substitute of organizational learning through people for inventing better ways (Humanistic approach).

Management theories practiced long over this period, took concrete shapes of models unifying all thoughts and integrating all functions. We will review in the next section as to how various award systems encouraged best practices documented on a definite structure or model. Such models are amenable to simulation by any enterprise and drillable down to its grassroots.

Orientation to integrated management[2]/ total systems

: A step towards excellence

"Whole is more than the sum of parts". Management practices show a qualitative change since 90's in its increasing orientation to total approach combining all functions viz. marketing, production, procurement, HR and finance. Today, the barriers of place and time are much removed for widespread use of local and global networks with integrated software. Consequently, the erstwhile difficulties in co-ordination at top management (or general management) are much reduced. It is in this backdrop that total systems are gaining prominence with determinate effects on agility, resource pooling, supply fulfillment, cost reduction, incremental value and all round performance.

Integrated approach virtually combines several processes into a single system. It may mostly mean a chain stretching from suppliers to customers. Viewed from physical flow of goods & services, it assumes a **"Supply-Chain"** (Keith Oliver, 1982). Viewed from money-flow in reverse direction, it assumes **"Value-Chain"** (Michael Porter, 1985). A system is as strong as the links in the chain are. It is worth noting that according to Goldratt's **"Theory Of Constraints"** (TOC, 1984-1999), an enterprise may be described as a system striving to achieve its goal with operations (expenditure) converting money inventory to money throughput (income). The rate of goal achievement is limited by at least one constraint. Without any constraint, there is no problem which is absurd. As a constraint is solved, new constraint creeps into. Constraint can be internal when supply is less than demand or external when demand is less than supply. Internal constraints operated for equipment, people or policy and external constraints operate for customers and competitors. TOC suggests throughput accounting taking money-flow per unit of constrained resource into consideration.

We will now consider below a few most important award systems which have given rise to structuring (modeling) of management function essentially on all round basis :

● **Malcom-Baldridge award (USA) :** It is a balanced process-result approach encouraging human partnerships & innovations for creating customers' values though visionary leadership. The process integrates interests of all stakeholders with customers as the driving factor. It encourages continuous learning from results.

● **Deming prize (Japan) :** It is also a process-result approach with thrust on process popularized as Plan-Do-Check-Act (or PDCA) cycle based on Deming's works. PDCA cycle brings continuous improvements, if problems are identified and solved at "Check" stage instead of carrying these forward to next cycle. PDCA cycle is widely adopted in different quality systems in different forms.

● **ISO certifications (Geneva) :** It envisages documented procedures for organizing people, other resources & processes in meeting objectives, periodical reviews of compliance and process for corrective & preventive actions. Most frequently used ISO standards are 'General Management' (ISO 9001), 'Environment Management System' or EMS (ISO 14001), 'Occupational Health & Safety System' or OHSAS (ISO 18001) and 'Risk Management' (ISO 31000). There are several other standards for specific areas.

● **Six-Sigma accreditation :** It is virtually an extension of PDCA cycle to different projects within an enterprise for defining, measuring, analyzing, improving and controlling factors selected in each as critical to quality and for zero-defects (almost). The methodology creates different groups of experts like "champions", "black-belters", "green-belters", etc. [The title '6-Sigma', is adapted from 3rd limit of either sides of normal distribution curve of error-probabilities].

It is worth noting that aforesaid award systems originated in quality drive transiting from **Statistical Quality Control (SQC)** to **Quality Assurance (QA)** and finally to **Total Quality Management (TQM).** TQM upholds that quality is everybody's business and it involves all employees with training and empowerment. The slogan popularized in it is "from the smile of the receptionist to the smell of the toilet, everything contributes to quality".

The wisdom of managing an enterprise is now coined in the word **"Corporate Governance" (CG)**. In its narrower meaning, it often refers to corporate ethics or corporate conscience as distinct from traditional administration and may resemble "Corporate Social Responsibility"(CSR)(1). As ethics is self-imposed, CSR may extend beyond statutory compliance. But, wider meaning of CG includes plans and processes by which a corporate is administered (or governed) for achieving its mission, with due regard to ethical values. In this wider context, CG includes everything that a company should do for all round success.

[Notes :

1. CSR in the context of Indian Companies Act, 2013 refers to obligations of certain companies for spending on prescribed activities like eradication of poverty, malnutrition, illiteracy, etc as also on certain welfare schemes.

2. Integrated management is also termed as 'holistic management' (Ref. Kotler & Keller in "Marketing Management", 14th Edn).

3. There are many other fundamental and specific systems starting from Kaizen and 5'S' and extending to 'Lean Enterprise' and Total Productive Maintenance (TPM).

4. Malcom Gladwell (2000) revealed that small but continuous improvements give rise to 'virtuous learning' that progresses faster in an organization than big & sudden onetime change. Such small but continuous improvements accumulate to a big change over a time and obviate crisis situations (See point 5 below).

5. Crisis situations such as likely bankruptcy and closure may call for drastic changes on 'clean slate' without status quo and as in Business Process Re-engineering (BPR)]

Elements & structures of excellence models

We have seen above that almost all excellence models delve into planning of process-result with incremental improvements in each cycle for avoiding crisis. There may be imperfections in conceiving process-result pointing to continuous learning, but process remains as cause and result as effect. Therefore, it goes without saying that factors of processes are the factors of plan and result.

Factors of basic process begin with customers (C) as the first cause. Output (O) comes next for satisfying customers. There is processing (P) of input (I) for achieving output. Suppliers (S) is the last driver providing the inputs. The whole process may be abbreviated as **COPIS** in the order of money-flow (value-chain) or **SIPOC** in the order of flow of goods & services (supply-chain).

Supportive process comprises plan-leadership-HRD-improvement. Sometimes, basic process explained above is referred to as "horizontal process" (unidirectional) and supportive or managerial process as "vertical process" (with twin elements of feed-forward and feed-back connecting plan and basic process). A diagrammatic view of a model explains the structure with elements or factors.

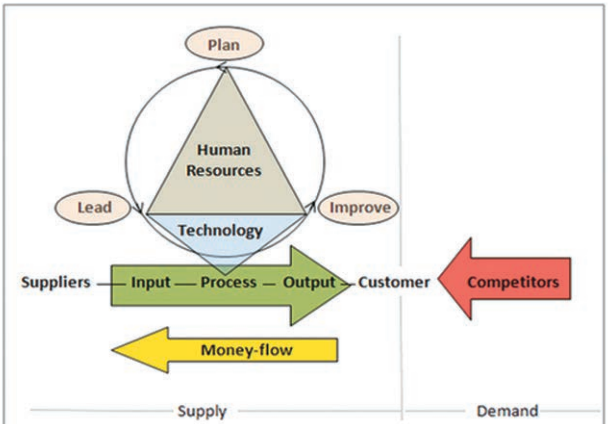

Diagram 1 illustrating business excellence model (structure with elements)

A chart containing details of Plan-Process-Result is appended at the end this article (in Diagram 2) as a checklist for initiating business excellence.

Key indicators of performance : Dovetailing result into process and plan

In hedging risks, it is necessary to learn from failures so that recurrences of such failures are prevented. There are several early indications which reflect on enterprise's weaknesses and threats. Information system should build up such indications. Some of these indications are stated below :

Dis-satisfactions of customers, employees, suppliers, shareholders and the society.

1. Superior performance of competitors.
2. Declining trends of the following –
3. Profitability (Return on capital employed, product profitability, capital turnover rate)
    - Net worth
    - Cash accruals
    - Dividend rate and earnings per share (EPS)
    - Plant utilization
4. Adverse variations from standards adopted for the following –
    - Specifications of product, materials & machineries.
    - Input-output, time-work, man-machine.
    - Financial budgets.

Failures often ascend from (4) to (1) and therefore, controlling base indicators leads to controls of others in the hierarchy.

Key indicators (KI) may include wide range of measures, from engineering standards to financial ratios and statutory compliance. Some measures may require survey for market & customer survey, employees' satisfaction survey, etc. Driving requisite KI through process and adopting these for plan ensures soundness in system.

Discussions & conclusion

An enterprise may adopt several standards, engineering or otherwise. These are exemplified below :

A fly ash bricks manufacturer would adopt standard IS 12894:1990 of Bureau of Indian Standard (BIS) for grades and mix of ingredients like fly ash, sand and lime as well as for size and compressive strengths of bricks. Accordingly, it has to install appropriate machineries and testing facilities.

Guidelines of concerned Ministry, if any [For example, safety guidelines for mines].

Standards of leading manufacturers in India or elsewhere as 'benchmarks'.

Standard Input-Output Norms (SION) under EXIM policy [Relevant for importing inputs against exports].

Equipment manufacturer's Operating Procedure & Maintenance Schedule.

ISO 9001 for general management, ISO 14001 for environmental management and so on.

It is noteworthy that some standards like that of ISI and environmental management under ISO, give advantages in marketing and in certain statutory matters like Pollution clearance, classification of goods under Customs & Excise, etc.

It is noteworthy that standards drawn from different perspectives and drilling these down from plan to performance make business excellence initiatives different from traditional business management.

DIAGRAM 2 : CHECKLIST FOR INITIATING BUSINESS EXCELLENCE

<table>
<tr><th>Sl</th><th>Elements of Model</th><th>Key Notes</th></tr>
<tr><td>1</td><td>PLAN
('Why' aspect of business)</td><td>

Plan justifies enterprise's mission. It should provide complete road map, clear directions and time-bound milestones for achieving envisioned mission with available resources.

Following points are noteworthy :

a) Plan should integrate interests of all stakeholders, balancing these with due priorities (customers ranking first).

b) Plan should consider possible roadblocks (threats or risks) and strategies for overcoming these. Such roadblocks may operate as changes in technology, market, competition, regulations as well as resource constraints and internal weaknesses. Strategies may involve innovative routes (opportunities) and corresponding strength-building process over a given span of time.

c) Plan should address twin aspects of time-horizon viz. long and short runs. These are outlined below -

(i) Long-run plan :

- CAPEX with adequate returns over lifecycles of product, machinery, etc (Product introduction/ modification, diversification, market expansion, plant modernization, etc).
- Expenditure on R&D and technical collaboration, if any.
- Stable funds like shares, convertible debentures & term-loans as well as retained earnings.

(ii) Short-run plan : It ensures capacity utilization with existing products, technology & facilities that cannot be changed immediately.

[Unchangeable long-run plan should be split up into flexible short-run plans. There may be situations in short spells of time when profit and fixed cost may not enter product price. But in the long-run, the enterprise has to earn reasonable profits justifying CAPEX].

d) Plan should address target customers & market segments, product concept/ modification, technology requirement/ replacement, availability of required materials and key suppliers.

e) Plan should identify manpower requirement, skills inventory, training needs, remuneration, incentives, career progression and responsibilities with due regard to delegation of authority.

f) Plan should ensure that the processes produce products that are competitive and value-adding.

g) Plan should provide standards for measuring performance, namely the following –

- Specifications of products, materials and machinery.
- Plant layout and ergonomic parameters.
- Input-output and time-work norms.
- Operating procedure & maintenance schedule.
- Capacity utilization.
- Other matters.

[Standards may be tailored within the enterprise by scientific studies and/ or 'brainstorming' or adapted from industries/ leading enterprises/ external bodies as 'benchmarks'].

</td></tr>
<tr><td>2</td><td>PROCESSES
('How' aspect of business)</td><td>

Processes implement plans though organized resources and produce results.

Following points are noteworthy :

a) Processes cover the following –

- Customer acquisition & retention and relationship building.
- Product designing with reference to customers' needs & preferences, usefulness, esteem (brand image), cost to customers, competitiveness & value-addition.
- Reduction of rework & warranty claims through inspection & supervision at all stages from input sourcing to output delivery, preventive maintenance of machineries, upgradation of technology, methods & systems (through collaboration, vendor partnering, R&D and employee training).
- Waste recycling and compliance of environmental laws.
- Supplier selection & performance evaluation.

b) Employee selection, training, remuneration, incentive, career progression, workplace ergonomics, team-spirit and discipline for high performance.

c) Trail of value creation should be traceable (measurable) at every stage, right from input sourcing to output delivery.

</td></tr>
</table>

Sl	Elements of Model	Key Notes
3	RESULTS ('What' aspect of business)	**Results reflect success or failure.** It is difficult to establish process-result relationship quantitatively. Therefore, there is no substitute of learning from results. Some models even suggest experimentation as the basis of learning. Some models advocate use of non-financial parameters for driving financial results. Following points are noteworthy : a) Continuous review of results enables early correction of deficiencies in plans and/ or processes and prevents failures. b) Fact (information) based plans and processes have determinate effects on results. c) Information system should track all aspects of results viz. • Market performance (market share) & customers' feedback. • Suppliers' performance : Adherence to specifications and delivery schedule. • Employee performance : Discharge of duties assigned and its timeliness; Responsibilities for adverse deviations of result (Merits for favorable deviations may be considered for rewards); Ethical behavior. • Financial performance: Return on capital employed (ROCE) with analysis of product profitability & capital turnover rate; Liquidity; Net worth, etc. • State and trend of performance : Comparative analysis of results with respect to plan, benchmarks & competitors' performance; Trends of results over past years.

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AT THE HELM

Our heartiest congratulations to CMA Prasad Joshi, a member of our Institute who during his journey of Dhaulagiri expedition successfully reached the summit of Mt. Dhaulagiri (8167m) on 19-05-2016. This is a matter of pride for our profession. Earlier he successfully made an expedition towards Mt. Everest in 2012.
Mt. Dhaulagiri is the 7th highest mountain in the world having height 8167m i.e. 26800 ft from the sea level. 'Dhaulagiri' is the Nepali word. In Sanskrit, 'Dhaval' means 'white' and 'Giri' means 'mountain'. So it means 'White Mountain'. Mt. Dhaulagiri was first climbed on May 13, 1960 by a Swiss/Austrian/ Nepali joint expedition.
We wish CMA Prasad Joshi the very best for all his future endeavours.

ACHIEVING BUSINESS EXCELLENCE THROUGH 6σ

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The customers expect from the business entities the quality oriented goods or service for their satisfaction. The company is to maintain the quality of its product besides controlling the cost. The aim of the business is to reduce cost and at the same time without fall in quality of the product. To maintain quality the business organizations adopts various technologies that are suitable to them and to handle them easily. The quality may be referred to any goods or service. The meaning for the term 'quality' may be summarized as below:

- confirming to the standards and specifications;
- zero defect or meeting specifications 100%;
- fitting for the purposes of use based on its functions;

- to meet the customer's need and expectations;
- to meet consumer satisfaction.

The major quality concepts, in the earlier period, were product focused or manufacturing focused. Later on these concepts have been shifted to user-focused, customer focused and value focused. The following are the technologies used in the improvement of quality since the earlier period-

- Inspection Quality Control (IQC) - 1910;
- Statistical Process Control (SPC) – 1930;
- Total Quality Control (TQC) – 1950;
- Companywide Quality Control (CWQC) – 1970;
- Total Quality Management (TQM) – 1985;
- Business Excellence Model (BEM) – 2000.

Total Quality Management

'Total Quality Management' is defined as a management philosophy embracing all activities through which the needs and expectations of the customers and community, and the objectives of the organization are satisfied in the most efficient and cost effective manner by maximizing the potential of all employees in a continuing driver for improvement. The effects of total quality management are-

- improvement in quality in product or service;
- increase in productivity with lesser rejects;
- lower cost of the product or service;
- higher profit accrued on the product or service;
- business growth in competitive atmosphere.

The Total Quality Management involves the following concepts-
Leadership;

- Customer Satisfaction;
- Employee involvement;
- Continuous Process Improvement;
- Supplier Partnership;
- Performance measures.

Business Excellence model

Business Excellence model is to develop and strengthen the management systems and processes of an organization to improve performance and create value for stakeholders. It is much more than having a quality system in place. It is about to achieve excellence in everything that an organization can achieve superior business results.

Business Excellence Models (BEMs) were first called Total Quality Management models. Today they are usually referred to as Business Excellence Models. Business Excellence model helps to communicate the importance of 'excellence' in all aspects of a business.

This model helps the organization in assessing their strengths and weakness in the areas of process. It helps to improve and guide them for further course of action. It provides the management with a holistic method to manage the business in taking key decisions to lead sustainable and measureable success. It serves as internal adviser of the organization. It ensures that decisions of the business contain all the needs of the stakeholders in achieving the objects of the business organization.

Research on the overall benefits of using BEMs indicates that organizations with a BE approach obtain significant operational and financial benefits. Research has shown that SMEs obtain benefits more quickly than large organizations as they can move quickly to make changes to how their business is run.

Six sigma

Sigma is the symbol for a unit of measurement in product quality variation. It is a term used in Statistics to represent standard deviation from mean value, an indicator of the degree of variation in a set of process. It is a business strategy. It is to identify defects and remove them from the process of products to improve the quality. A defect is defined as any process output that does not meet the consumer satisfaction. The term Six Sigma originated from terminology associated with statistical modeling of manufacturing processes. The maturity of a manufacturing process can be described by a sigma rating indicating its yield or the percentage of defect-free products it creates. A six sigma process is one in which 99.99966% of all opportunities to produce some feature of a part are statistically expected to be free of defects (3.4 defective features per million opportunities).

Definition of Six sigma

In 1998, Bolze defined six sigma as a formal methodology for measuring, analyzing, improving, and then controlling or locking-in processes. This statistical approach reduces the occurrence of defects from a three sigma level or less than four defects per million.

In 1999, Paul defined six sigma as a comprehensive, statistics-based methodology that aims to achieve nothing less than perfection in every single company process and product.

In 1999, Harry and Schroeder defined six sigma as a disciplined method of rigorous data gathering and robust statistical analysis to pinpoint sources of error and ways of eliminating them.

In 2002, Minitab in Goh defined six sigma as an information-driven methodology for reducing waste, increasing customer satisfaction, and improving processes, with a focus on financially measurable results

Evolution of Six sigma

It was introduced by engineer Bill Smith while working at Motorola in 1986. Sir Bill Smith is considered as the father of six sigma. Later on Jack Welch made it central to his business strategy at General Electric in 1995. Jack Welch indicated that six sigma is a quality program that, when all is said and done, improves your customer's experience, lowers yours cost and builds better leaders. Today, it is used in many industrial sectors.

Six sigma and BEM

Six Sigma is a useful problem-solving methodology. It provides a valuable measurement approach. It has a statistical base and with proper utilization of methodologies which can help to improve the quality of both product and process. Six Sigma also focuses on some vital dimension of business processes, reducing the variation around the mean value of the process. It, in general, creates a link between the effective use of quality improvement and statistical tools to deal with customer focus, measurement and continuous improvement, **which are considered as the partial requirements of the Business Excellence measurement system.** The Business Excellence measurement system provides a comprehensive and holistic approach methodology for business improvement by integrating all the stakeholders' performances.

Need for six sigma

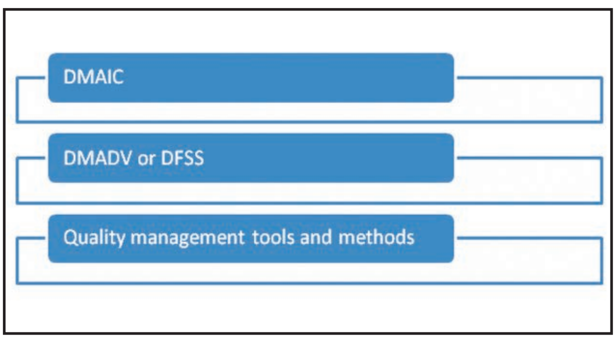
The requirement to use the technology of six sigma is needed when the processes carried out in a business organization generate a lot of negative customer feedback, whether it may be internal or external. In such a situation the components of six sigma should be considered as a tool to study the problem and rectify the same.

Concepts of six sigma

- ✯ Six sigma have the following concepts-
- ✯ Critical to quality;
- ✯ Defect;
- ✯ Process capability;
- ✯ Variation;
- ✯ Stable operations;
- ✯ Design for six sigma.

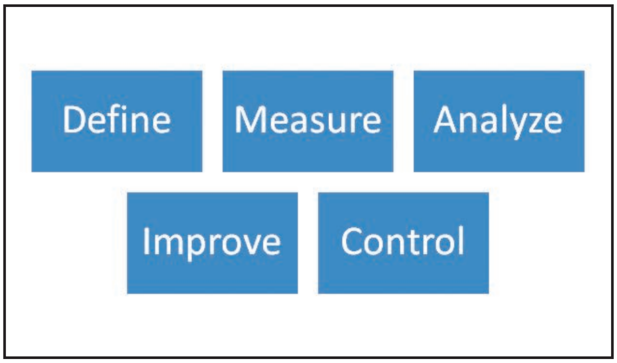
Implementation of six sigma

There are three methodologies for the implementation of six sigma, which are DMAIC, DMADV or DFSS and Quality management tools and methods.



DMAIC

'DMAIC' represents define, measure, analyze, improve and control.



In this method the following procedure is adopted-

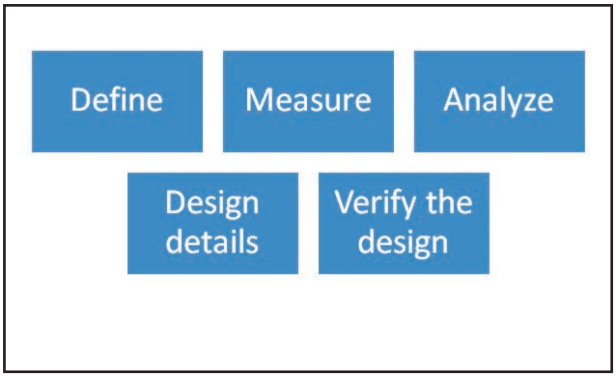
- ✯ The business entity identifies the customers and their desires for the type of the product. This may be analyzed by using flow cause, effect diagrams, check sheets etc.,
- ✯ Then the business entity collects the data required in order to determine what the status of the process is and compares it with the required need of the customs. The business entity then sees the critical to quality characters and finds out the current sigma level according to the identified characteristics which are highly important to the customers;
- ✯ Then the business entity analyzes with the statistical tools such as mean, mode, median etc.,
- ✯ The business entity then implements the suggested improvement. Tests are made to obtain possible solutions to the process problem. Data is collected from all the possible solutions. Then the same is tested on a small scale and run a cost/benefit analysis of implementing the solution. The best solution is identified and then the business entity creates a plan for implementing the solution.
- ✯ Then the business entity takes measures for the improvements of the process. The statistical process control is used to monitor the same to ensure that the process is in the control limits.

DMADV

'DMADV' represents define, measure, analyze, design details and verify the design.

'DMDAV' is also called as DFSS which stands for design for six sigma. In this method the following procedure is adopted-

- ✯ The goals which are consistent with the demands of the customers and the strategy of the enterprise are designed;



- Then characteristics that are critical to quality are identified and measured and also the product capabilities, production process capability and risks involved;
- Alternatives designs are developed and among them a high level design is created and design capability is evaluated to select the best design;
- The design details are prepared. The plan is made for optimizing the design and design verification. This phase is required simulations;
- The last stage is verifying the design. In this method pilot runs are set up, implementing the product and process. The same is handed over to the process owners.

Quality management tools and methods

Six Sigma utilizes many established quality-management tools that are also used outside Six Sigma. The following shows an overview of the main methods used-

- Statistical and fitting tools
  - Analysis of variance;
  - General linear model;
  - 'ANOVA guage R&R;
  - Regression analysis;
  - Correlation;
  - Scatter diagram;
  - Chi-squared test.
- Axiomatic design;
- Business process mapping;
- Cause effects diagram;
- Control charts;
- Cost benefit analysis;
- CTQ Tree (Critical to Quality tree);
- Stratification;
- Histograms/Pareto analysis/Pareto chart;
- Pick chart/process capability/Rolled throughput yield;
- Quality Function Deployment;
- Quantitative Marketing Research;
- Root cause analysis;
- SIPOC analysis (Suppliers, Inputs, Process, Outputs, Customers)
- COPIS Analysis (Customer Centric Version/perspective of SIPOC)
- Taguchi methods;
- Value stream mapping.

Implementation roles

The following roles are included in the implementation program of six sigma-

- Executive leadership;
- Champions;
- Master black belts;
- Black belts;
- Green belts;

Chief Executive Officer and other top level managers constitute the Executive leadership. They are responsible to implement the six sigma programs in an efficient way. They are also responsible to select project members and to delegate them appropriately. The executive team is required to be committed to the vision of six sigma so as to implement the same in a successful way.

The champions are mostly the members of upper management. They are responsible to understand the principles of six sigma and implement the same in their organization. They should guide the team of members coming under their control and train them for the better implementation.

Master Black belts are chosen by champions. They are to give their full effort to six sigma and to help the champions and they are responsible to guide the black belts and green belts. They are entrusted with the responsibility to maintain the momentum of the implementation and also to keep costs down and maintain the focus of the group's efforts on the customer throughout the entire process.

Black belts are belonging to the middle management of the organization. They are well trained in statistical methods and tools. They are working under the master black belts and are applying six sigma to specific projects.

Green belts are working under the black belts. They are responsible for helping the black belts to execute projects. They have to incorporate six sigma qualities in their daily operation.

In the implementation program six sigma requires very determined leadership. It must set the framework for the management system of the organization. The said system should be build around the principles of six sigma. Besides the improvement of the process should also be undertaken using the appropriate six sigma methodology. Six sigma provides the way and highlights another link to the model – people involvement.

The people involved in the implementation shall be trained very well and they have to support to make process improvements. Resources should be invested in this methodology and approach. The whole approach looks to ensure excellence in results. Six Sigma can be successfully achieved only when there is genuine leadership and management commitment that is evidenced by them 'walking the talk'. Measurement and management by fact are at the heart of Six Sigma process improvement activity.

Six Sigma demands continuous improvement, innovation and learning. Without it, the ambitions of defect free products and services cannot be achieved.

Calculation of the process sigma

The following steps are involved to calculate process sigma-

- To identify the opportunities in the organization;
- To define the defects in the products;
- To measure the opportunities and defects;
- To calculate the yield;
- To look up process sigma

Criticism

Any technology will have its own merits and demerits. Six sigma is not an exception to this. Criticisms are there against this methodology. The following are some of the criticisms offered against this technology-

- Nothing is new in this technology;
- It only proves defects and defective counts offers tangible, measurable results;
- It is a correct system than taking a preventive and proactive approach;
- It is an appraisal system which may not be useful;
- It did not bring quality improvement in all organizations and it depends upon the tools and authorizations.

Latest trend

In recent years, some practitioners have combined Six Sigma ideas with lean manufacturing to create a methodology named Lean. The Lean Six Sigma methodology views lean manufacturing, which addresses process flow and waste issues, and Six Sigma, with its focus on variation and design, as complementary disciplines aimed at promoting "business and operational excellence". Companies such as GE, Verizon, GENPACT, and IBM use Lean Six Sigma to focus transformation efforts not just on efficiency but also on growth. It serves as a foundation for innovation throughout the organization, from manufacturing and software development to sales and service delivery functions.

Conclusion

Six Sigma recognizes the need to work with customers and suppliers in order to develop the potential for mutually beneficial relationships. Joint improvement activity is a common feature of mature Six Sigma organizations. Six Sigma organizations recognize their responsibilities here, too. Defect free processes, products and services have their own beneficial impact on the community, not least through the creation of jobs, as market share rises on the successful achievement of such performance. MA

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Business Excellence in Higher Education

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Education and Business

Amidst recent hot discussion on issues like nationalism at University campuses, this one discussing the business of education and business excellence in education is something different. For a country that has around 40% of its 1.25 billion plus population less than 20 years old, business excellence in education is of paramount importance. It is really up to us to decide whether we will continue to harp on issues like nationalism, freedom etc or seriously think about the systems of our education. The latter has huge repercussions on the quality of workforce that we will have in the next decade or so. Already reports are highly discouraging. The Associated Chambers of Commerce & Industry of India (ASSOCHAM) has noted (2016) that only 7% of the MBAs are employable except for those who are from IIMs. Hence this article tries to review the status of quality in the field of higher education and brings out a case for business excellence in higher education.

But first up let us answer one basic question. Is education a business? Answer is - yes and no. Yes, obviously because of the tremendous growth in the number of private sector educational institutions. Results of All India Survey on Higher Education (AISHE) (2015), reveal some interesting facts about the growth in the role played by the private sector – Out of a total 29506 colleges that have responded to the AISHE survey, 76% Colleges are privately managed; 61% Private-

Unaided and 15% Private Aided. Private sector is generally bound to venture into business opportunities that are profitable and as we see their participation growing rapidly, there is no doubt that education is a business. Education is not a business at the same time. Most of the educational institutions in the private sector are run by Trusts that are basically established with the "charitable" objective of rendering education. Thus, in terms of formality education is not a business; in terms of reality education is a big business!

Education is a business from another point of view. There is huge competition amongst the various private educational institutions to attract students. The ASSOCHAM report (2016), states that number of B-schools has tripled in the last 5 years with the number of seats offered in 2015/16 rising to 5.20 lacs up from 3.60 lacs in 2011/12. This has created a challenge for the educational institutions to attract students. JayitaEkka (2015) reported that in 2015 more than 50% of the seats in Engineering and MBA colleges in Maharashtra were vacant. Further it was stated that this was not an isolated case in Maharashtra. Too many colleges (in the private sector) competing stiffly with each other for admissions is a reality. In the light of this development obviously those who manage education as a business will only survive.

Importance of Education Sector

Before getting into the discussion in business excellence in education, it would be worthwhile to understand and appreciate the role of education and the education sector. Education deals with the most powerful thing in this universe and that is, knowledge. Education is the most important human activity that is concerned with all facets of life. And for a developing nation like India education without an iota of doubt is of paramount significance. As reported by SubodhVerma(2016) based on 2011 census the share of youth population less than 20 years old is as high as 41%. Given this kind of demographic profile of the country, education holds the key to a number of things. It can help in leveraging what is called as demographic dividend. Alternatively if the youth remain uneducated a major part of the population can be a huge burden on the society. Thus, India is at a very crucial juncture and a field like education needs delicate and responsible handling. It can either make or mar the prospect of the entire nation.

This article aims at doing a ground level assessment of the various practices followed by the higher educational institutions in India in the light of achieving quality standards and argues for the need for business excellence in higher education.

Types of Higher Educational Institutions in India

Institutions imparting higher education in our country fall under the Government and the private sector. Two prominent categories of private educational institutions are aided and un-aided. Aided institutions are those that receive funding from the Government whereas un-aided are those that don't receive funding from the Government. There are some Trusts that run higher educational institutions that fetch Government grants. However, of late most of the Trusts manage educational institutions that are permanently unaided types. There is another category in the type of private educational institution – fully autonomous. Most of the private un-aided institutes in India are affiliated to some or other Government universities or agency. However there are some institutions that are absolutely autonomous and have no recognition from the Government.An important observation about this structure is that Corporate form of business organization is all together missing (There might be a very few exceptions).

Business Excellence and Quality Assurance

An interesting comment was made by the former Director of NAAC, Prof.HARanganath in an interview published in the Indian Express on 17.06.2013. Countering the contradiction that many NAAC graded institutions do not find place in the global higher education institutional rankings reflecting poorly on the performance of NAAC, he stated – "The intention of NAAC is to ensure the institution has minimum requirements to deliver quality education. We don't measure excellence. On the other hand, rankings are not bothered about this. They look at an international mix of faculty and students, research publications, grants generated from research among other criteria."

Obviously quality assurance and business excellence are related to each other and are not distinctly different. Yet they are also not exactly the same thing. When one talks of quality assurance, one is concerned more about ensuring minimum standards of performance as is evident from the opinion of Prof.HARanganath stated earlier. Excellence on the other hand goes beyond minimum standards. The Indian higher education institutions – a vast majority of them, as of now are becoming aware and conscious about the 1st step in business excellence, that is, quality assurance. This perhaps could have happened some 20 years back so that by now the focus would have been on moving to the level of business excellence.

Existing Quality Assurance Framework

There are two prominent national level quality assurance agencies that are currently operating in the country – National Board of Accreditation (NBA) and National Assessment and Accreditation Council (NAAC). NAAC was established in 1994 and has its headquarters at Bangalore. NBA too was set up in 1994 and has its headquarters at Delhi. NBA was established under the AICTE Act and caters to accreditation of technical education programs – Engineering (Diploma and Degree), MBA, MCA and Pharmacy. NAAC on the other hand was established by the UGC and caters to accreditation of all types of higher educational institutes. According to Dr.M M Gandhi (2013), "Accreditation is a formal recognition by an authorized agency of an institution having achieved agreed standards. It is based on, and follows, quality assessment."There are various institutional ranking systems also in place but these are not managed and controlled by the Government. A comparative analysis ofsuch ranking done by 7 such surveys (Times, India Today, Dataquest, Outlook etc.) of engineering colleges done in 2015 is available on the Wikipedia website. Ministry of HRD in 2015 has taken up this ranking initiative by setting-up a National Institutional Ranking Framework (NIRF). So far the NIRF has been able to rank only a few "A" category institutes and plans to do ranking of the other institutes in the current academic year. The entire set up can be summarized by way of Figure 1 –

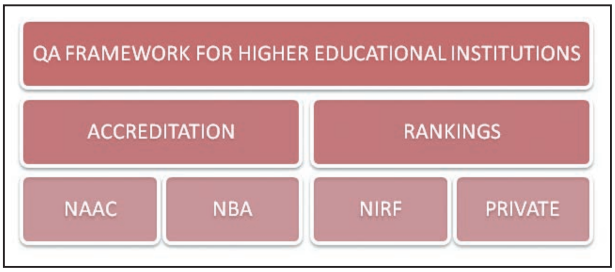

Figure 1 – QA Framework for Higher Educational Institutions

Position of Accreditation

As per data available from the website of NAAC as on 29.03.2016, a total of 4041 colleges (3847) and universities (194) across the country have been graded by NAAC. 4041 accredited institutes are less than 10% of the total higher educational institutions in India which according to statistics available on the website of Ministry of HRD for the year 2013/14 are 48828 (712 universities, 36671 colleges and 11445 stand alone institutions). Thus, for more than 90% of the higher educational institutions one cannot be really sure that these are offering minimum quality assurance standards of education. The state-wise position of the 4041 institutions accredited by NAAC is as under–

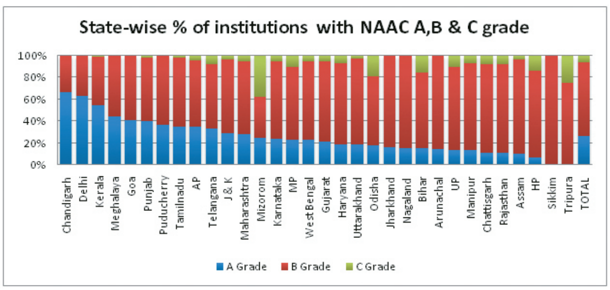

Figure 2 – State-wise position of NAAC grades for Higher Educational Institutions

27% (1079 institutes) have got "A" grade, 68% (2729 institutes) have got "B" grade and 6% (233 institutes) have got "C" grade. Again it would be worthwhile noting that very few institutions could secure "A" grade in the 1st cycle of accreditation. Most of the Institutes who have secured "A" grade are the one who have done it in the second or third cycle, that is, only after 5 or 10 years of being accredited. If this is the current status of quality assurance of the countries higher educational institutes in 2016, one definitely is left clueless as to whenand how business excellence will emerge?

Sir John Daniels Iron Triangle

Sir John Daniels et al (2009) have stated a Higher Education Triangle (Iron Triangle) having Access, Cost and Quality as its three dimensions.

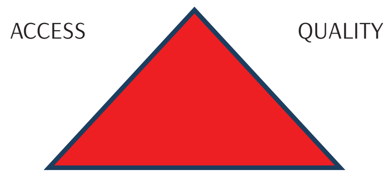

Figure -3 – The Iron Triangle of Higher Education

They have highlighted the fact that these 3 issues are tricky in the sense that moment you go for quality, access and costs will suffer or if one goes for access through low cost, quality will have to be compromised. At the same time they have also drawn a parallel with "software" product whose quality doesn't mean limited access (or exclusivity), rather it is defined by capability and reliability. The authors have made a strong case for Open and Distance Learning (ODL) as an effective solution for solving the triangle tangle.

Indian Scenario

That Indian higher education system lacks quality is something known to everyone. And lack of quality alone is not the problem. Other issues like uneven growth and access to education, low GER (gross enrolment ratio) also are some of the teething problems. British Council in its report (2014) on future of Indian higher education has identified 4 broad challenges - the low quality of teaching and learning; the supply-demand gap; uneven growth and access to opportunity; and constraints on research capacity and innovation. Ernst & Youngin its report titled"Higher education in India: Moving towards global relevance and competitiveness(2014)" have identified four gaps leading to lack of global relevance and competitiveness – low employability of graduates, low impact research output and patents filed, limited focus on entrepreneurship, complex regulatory requirements and hurdles. Quantity has been an overwhelming factor driving the Government and other institutions to churn out more and more number of graduates and postgraduates. We can analyze the Indian scenario of Higher Education with respect to the Iron Triangle as under –

Category of Institutes	Quality	Cost	Access
Tier I or A Category institutes like IITs, IIMs, Government Colleges	High	Low (Thanks to Government financing)	Hardly any (as compared to the size of our population) due to tough entry norms
Tier I or Category A fully private institutions	High	High	Low - Select few rich people
Tier II/III or B/C Category private institutions	Low	High (Financed by the student or the Government for special category students)	Significantly higher than Tier I of A types

Table – 1 – Categorization of Indian HE Institutions w.r.t The Iron Triangle

The problem with the Tier-II/III types of institutions is obviously the poor quality (as evidenced from the recent ASSOCHAM report - "B & C category B-schools producing un-employable pass-outs" – dated 27.4.2016). Interestingly significant funding for the Tier-II/III types of institutions, though these are private, comes from the Government by way of scholarships for the various categories of students like SC, ST, OBC, EBC etc. In an essay, Puja Mondal (2015) states that reservations of all types effectively account for almost 50% of the total seats. To get a feel of the amount that the Government is spending on the scholarships we can consider one state of ours as a referral. Figures accessed from the website of the Social Welfare Department of Maharashtra reveal that during the last 5 years, the Government has disbursed scholarships to the tune of Rs.11,524crores. The point is why despite so much of spending by the Government on the education sector, the quality levels are so low?

Thinking of Business Excellence in Education

In the backdrop of the discussion carried earlier, one realizes that achieving this multiple objective of quality education at a reasonable cost to be delivered to millions of students is a big challenge. To quote Sir John Daniel, Past President, Commonwealth of Learning, from a presentation by Prof. Mark Brown (2015)- "It will not be possible to satisfy the rising demand for Higher Education, especially in developing countries, by relying on traditional approaches." Government, educationists, intellectuals, corporate, students, teachers, socialists and all of us need to address this strategic issue immediately. It is strongly felt that the only way out is to think in terms of business excellence in education. To quote Dr.Robin Mann et al - "BE is a belief in a set of core values and concepts that overtime have delivered success for many organizations. So, whether it is a large corporation, a university, hospital or a small and medium enterprise, BE can be applied to boost organizational performance." Discussion from a business excellence perspective in the field of Indian higher education is spelt out in the following paragraphs.

Structural Reforms for achieving Business Excellence

a. Rationalization of existing structure

Around 20% of the institutions are owned and operated by the Government while around 5% are fully private. The major chunk of around 75% of the institutions are managed privately by institutions in the form of Trusts. Snapshot of the existing structure is as under -

Govt. (20%)	Government funded Private (through scholarships)(75%)		Pvt.(5%)
100% Government funding	Around 30-35% Government scholarship funding	Private funding / Open category students	Private Funding

Table 2 – Existing Indian HE structure

Let us focus on the middle part of the structure. One wonders as to what exactly the Government is achieving by funding (through scholarships) these vast majority of B category of private institutions? Just increasing the number of sub-standard graduates and post-graduates! It is high time that the Government should do away with the hybrid form of educational institutions which on paper are Public Charitable Trusts, are established as permanently non-aided institutions and hence charge high fees, deliver sub-standard quality education and on top of it the Government substantially funds them indirectly through various scholarships like SC/ST/OBC/EBC etc. Business excellence in the first place demands clear and simple structures that have absolutely clear linkage with the strategic objectives. The hybrid structure has failed miserably in delivering quality. That these type of institutions have improved the access is only partially true because under the name of scholarships it is the government that is basically funding the vast number of category students studying in these institutes. Instead the following clear and rationalized structure should be adopted -

Fully Govt. (50%)	Fully Private (50%)
100% Government funding for students admitted on a. merit and b. on basis of special category	No Government funding at all. To be managed on pure business principles with profit objective. (No Trusts / No subsidization / Clean competition)

Table 3 – Suggested Indian HE structure

Cost of education of the category students any way is being financed at present by the Government. Instead of giving this money to the so called private un-aided institutions what is the problem for the government to extend its own network of colleges and take care of the category students under its direct control? The obvious problem that would be mentioned is that of the CAPEX required to set-up a college. One solution is that the Government should take over the good number of private un-aided colleges that are being closed for want of students. In most of the cases the land would already of the Government itself. Secondly in the fee reimbursement that the Government is doing by way of scholarships, it is already paying for thing like depreciation of fixed assets and development fees that are basically elements of infrastructure costs. Study of the fee fixation norms of states like Maharashtra, Andhra Pradesh, Gujarat, Madhya Pradesh make it clear that the Government through the reimbursement of fees by way of scholarships is sharing the burden of the infrastructure costs (in addition to normal expenditure of salaries and other expenses.) In a study of fees fixed for AY 13/14 for around 1200 private un-aided Engineering and MBA Colleges (around 600 each) of the states of Maharashtra, Gujarat and Madhya Pradesh, Prof.S S Raibagkar (2014) had found out that there are significant variations in fees fixed. Median fees of Maharashtra, Gujarat and Madhya Pradesh for the courses of Engineering and MBA were as under –

Course	Maharashtra	Gujarat	MP
Engineering	70885	56000	48600
MBA	80000	54000	45600

Table – 4- Comparative fees for Engineering & MBA courses

A strong point that is being made here is that the Government is already significantly funding cost of education (including cost of infrastructure) of the category students that are studying in the vast majority of the B class hybrid institutions but is quietly settling down with mediocre quality that too at a high cost. Thus, there is a clear cut case for the Government to step in and take the entire lot of category students under its own fold.

b. Promoting private sector

As already stated private unaided institutions are a major player in the Indian Higher Education system. However, very few institutions are fully private. Rest of them are private only partially in the sense that they enjoy substantial government support be it in the form of provision of land or reimbursement of scholarships to category students studying at these institutions. What is being proposed is a full-fledged and clear role of the private sector. Let us give up this age-old hypocrisyof calling education as a noble and charitable activity on one hand and minting money on the other that too in the form of black money. Instead of continuing with this double standard what is the problem for the Government to show the courage in classifying education as a clear business activity? What is wrong if the private sector earns profits, even abnormal profits by providing good quality education? The former is by the way already happening but not the latter. The hybrid form of institutions as stated earlier actually are largely misusing the support of the Government and are producing mediocre results. Instead there is a clear cut case for business and business excellence in education and hence full and clear privatization. It is high time for the Government to provide an opportunity to the private sector to earn profit in education just like any other business. This will attract good entrepreneurs, will create competition, will promote quality and will eventually benefit the students at large. Insurance, Banking and Telecom are a few but strong examples of how privatization and business excellence have fostered competition and have enhanced quality levels of widely consumed services. Fears that prices will shoot up due to profit motive have been proven to be baseless. On the other hand profit objective and business excellence gets rid of number of cost inefficiencies thereby bringing down the prices. Professional business houses with proven track record of business excellence will definitely be able to bring about radical changes in different dimensions of higher education –design of the courses, deliverymodels of the education, duration of the teaching-learning activity etc. All this will improve access, quality & bring down cost.

Conclusion

With around 40% of the 1.25 billion population in the age group less than 20 years India is really poised for a tremendous all round growth through demographic dividend. But for this to happen quality higher education at a fair cost holds the key. On the other hand the higher education that is being provided through the current system can lead to serious troubles as the number of unemployable graduates and post graduates goes on rising. Time has come for all the stakeholders to seriously look at education as a profitable business and strive for business excellence. It is only business excellence that can improve quality and access to education at reasonable costs. It is high time for the Government to adopt a rationalized structure in line with business excellence. This has to happen fast. Unless each institution, government or private, imparting higher education quickly and strictly adopts business excellence, our system will continue to produce millions of sub-standard graduates and post graduates who instead of proving to be a demographic dividend will prove to be a demographic burden. MA

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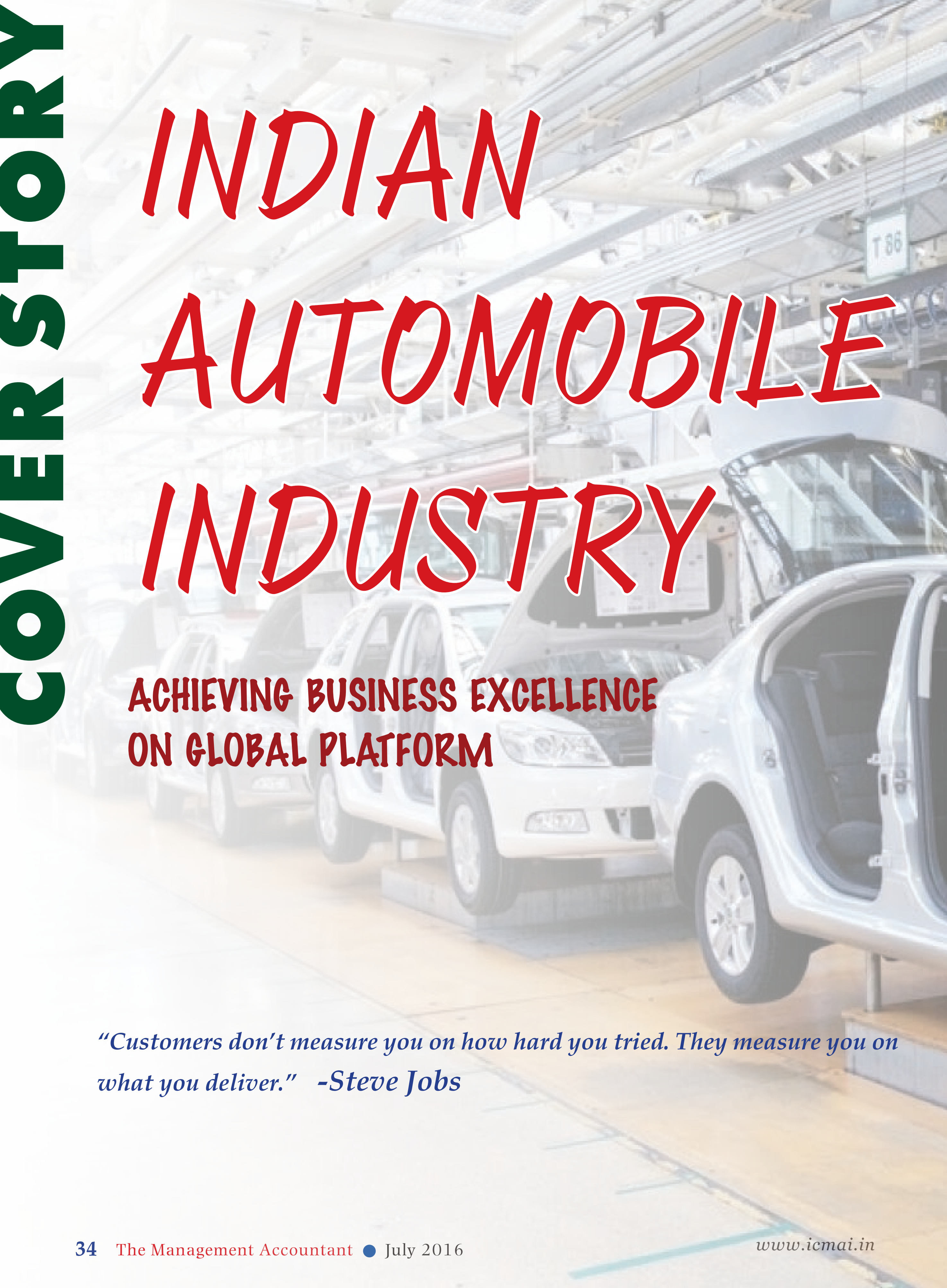


INDIAN AUTOMOBILE INDUSTRY

ACHIEVING BUSINESS EXCELLENCE ON GLOBAL PLATFORM

"Customers don't measure you on how hard you tried. They measure you on what you deliver." *-Steve Jobs*

CMA Kalyani Karna
Kalyani & Co
Practicing Cost Accountant
Delhi

Purpose

To provide the reader an insight of methods of achieving quality excellence in the Indian automobile sector.

Automobile industry constitutes a major part of manufacturing industry which indeed is a backbone of Indian economy. The Automotive Mission Plan (AMP) 2016-26 of Ministry of Heavy Industries and Public enterprises aims the automotive sector to contribute more than 12% of GDP and creating additional employment of 65 million people with an output of \$260-\$302 billion leading the industry to shine on global platform. Let us have a glance of contribution of automobile industry in the economic development of India.

Position of automobile industry at global landscape:

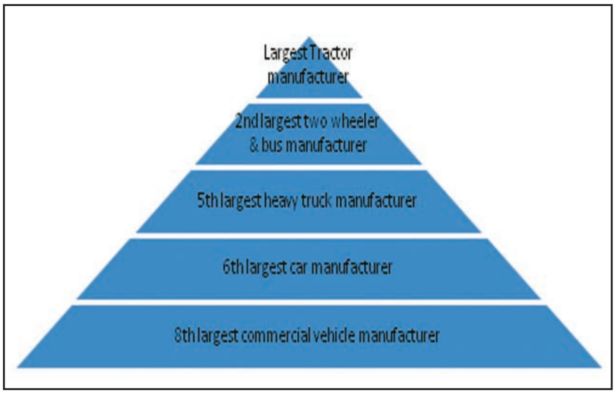


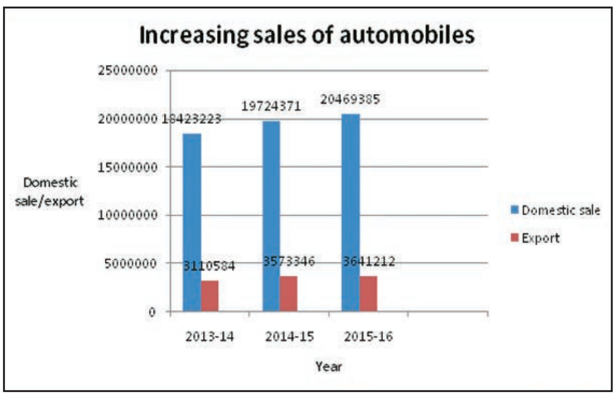
Figure 1.1 [Source: Automotive Component Manufacturers Association of India]

Increasing trend of domestic and export sales of automobiles:

The domestic sales and export turnover of automobile industry during previous three years can be seen from the table shown below:

Year	Domestic sales	Export
2013-14	1,84,23,223	31,10,584
2014-15	1,97,24,371	35,73,346
2015-16	2,04,69,385	36,41,212

Figure 1.2[Source: Society of Indian Automobile Manufacturers]



Design/methodology/approach adopted by automobile industry in India

Lean manufacturing, Total Quality Management, Six Sigma, Digitalization, Total Productive Maintenance

Lean manufacturing

Toyota Motors is regarded as a leader of lean manufacturing and it started using this technique since 1950s. Tata Nano is another example of lean manufacturing which helped to reduce the cost of manufacturing. One of the country's largest auto component manufacturers, Sundaram-Clayton Limited, adopted lean manufacturing to reduce cost by 2.5–5 per cent. Other automotive manufacturers using lean manufacturing techniques are Ford Motor, General Electric, Chrysler, and Porsche.

What is lean manufacturing?

According to Womack and Jones, "lean" connotes the utilization of all inputs in lesser quantities. Lean manufacturing refers to the reduction or ***elimination of waste*** (known as muda in Japan) or any activity which is supposed to be waste or not adding any value to the process with the help of lean manufacturing tools and techniques. Before removing the wastes it should be identified and analysed. So, the process of lean manufacturing will be in this way:

Figure 2.1: Process of lean manufacturing

Wastes do not add any value to the product but inflate the cost of production which will either increase the selling price of the product or will reduce the profit of the company. Now the question arises, how to recognize waste and reduce it. Seven types of wastes or mudas have been recognised in lean manufacturing.

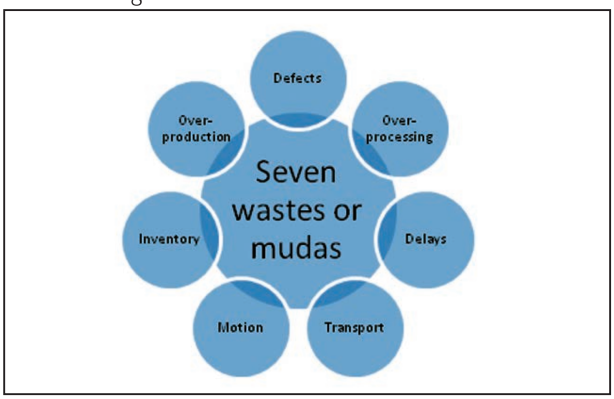


Figure 2.2: Seven wastes of lean manufacturing

1. **Transport:** The transport expenses incurred to bring the material from the point of storage to shop floor or cost incurred for the movement of materials from one location to another. These expenses do not add any value to the product rather it increases cost of production.
2. **Inventory**: Inventory might be in the form of raw material, work in progress, or finished goods. The unnecessary

inventory will increase the storage, and handling charges. It will increase the working capital requirement.

3. **Motion:** Motions are unnecessary movements of man or machine from start point to work point. For example, time taken to pick the tools, movement of machines from one process to another.
4. **Delays:** Waiting of workers for raw materials, or setting up of machinery causes delays in the production and increases idle time. Delays may be due to improper planning, poor maintenance of machinery, and lack of communication.
5. **Over-Processing**: Over-processing is excessive work on one part than required. It increases labour cost and wastage of time. For example, use of mega machines in the production process increases the scheduling complications of processes. Hence, the small processes might be preferred.
6. **Excess-production**: Excess production is production of goods in excess of estimated demand or production before time. It may increase the storage, inspection charges, and spoilage of inventory. Companies are adopting JIT technology to overcome the problem of excess production.
7. **Defects:** Quality control is an important regime in the production process. Poor quality of product causes distress among customers and lowers down the goodwill. The rework process increase labour cost and time.

Lean manufacturing is applicable in different segments of automobile industry:

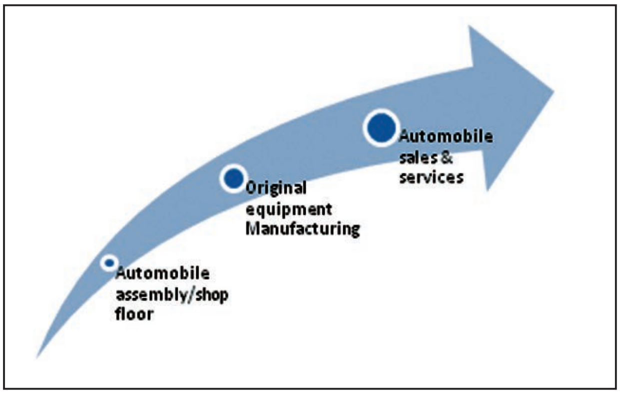


Figure 2.3: Applicability of lean manufacturing in different segments

Advantages of applying Lean Manufacturing in automobile sector:

- Reduction in level of inventory and improvement in stock turnover
- Reduction in cost
- Standardization of work
- Reducing line stoppages and process breakdown
- Improvement in quality and Reduction in rejections and rework
- Lesser space requirement for storage due to reduction in level of inventory
- Improvement in customer satisfaction and strengthening relation with suppliers
- Motivation and morale to employees
- Makes the industry globally competitive

Digital revolution in manufacturing industry for flow of information throughout the firm

Digitalisation and automation of shop floor and other manufacturing process has manifold the efficiency and productivity of automobile industry in India. Enterprise Resource Planning and Manufacturing executive system are prime IT enabled services being used in automobile sector of our country. Tata Motors are using the manufacturing executive system (MES) to reap the benefit of cost reduction by 20-30 percent. MES market was worth USD4.7 billion in 2011 and rose to USD8.9 billion in 2016.

Designing level specific IT strategy:

The auto component manufacturers are using the IT strategy based on their complexities of work being performed and size of firm. The firms with low manufacturing capabilities are more prone to transactions whereas the firms with high capabilities are deploying high-end decision making tools and technologies. IT enabled strategies can be best suited after identifying the level of firm. The different levels of auto component manufacturers and applicability of IT strategies can be summarised as:

Level V-Generally, they are upper medium and large firms who supplies to OEM as well as export the auto components. They have multiple customers, and multiple manufacturing facilities inside and outside country. They are ahead of tier-2 and tier-3 suppliers in application of ERP (Enterprise Resource Planning) and other IT technologies.

Level IV- It consists of tier-1(small and medium size enterprises). They procure raw materials and work on the blue prints provided to them and supply auto components directly to the OEM (original equipment manufacturers), meeting the required specifications and state of completion.

Level III- This level comprises of tier 2 suppliers. They made supplies to tier-1 supplier who ultimately supply to OEM (original equipment manufacturers). They have superior IT enabled technologies than Level I and II.

Level II-It consists of tier-3 suppliers. They have lower turnover and superior technology than level I producers.

Level I-It constitutes tier-4 or supplier of raw materials to producers of other tiers. They are using old and inferior technologies.

Advantages of digitalisation:

- Continuous flow of information.

- Easy accessibility to the information
- Scheduling and rescheduling of activities
- Quality control
- Check on the progress of customers order
- Improve operational efficiency

Total Quality Management (TQM)

Total quality management is an important tool for automobile industry to check the quality of production. It helps to increase quality and productivity. It was laid out by Deming and Juran in 1940s which was rediscovered in United States in 1980s. The full fledged quality philosophy of Deming and Juran was outlined by 14 points of management. *Toyota was the first automobile company to practice the principles of TQM in 1950s. Ford introduced TQM in the 1980s.*

Deming 14 principles of TQM:

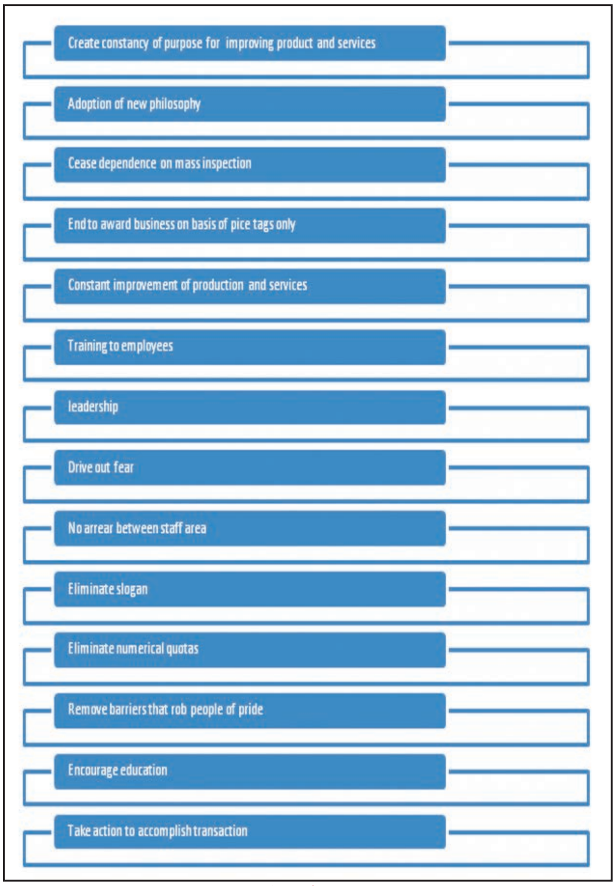


Figure 4.1: Deming 14 principles of TQM

Deming Grand Prize maintained by Union of Japanese Scientists and engineers (JUSE) is given to the organization maintaining total quality management for more than three years after the winning of the Deming Prize. The Deming Grand Prize winner for 2015 is National Engineering Industries Limited of India. ***Indian automotive companies have consistently won five consecutive Deming Grand Prizes.***

Year	Winner of Deming Grand Prize for Total Quality Management
2007	Mahindra & Mahindra Limited, Farm Equipment Sector [India]
2011	Rane TRW Steering Systems Limited, Steering Gear Division [India]
2012	Tata Steel Limited [India] Rane (Madras) Limited [India] Lucas-TVS Limited [India]
2013	Rane Brake Lining Limited [India]
2015	National Engineering Industries Limited [India]

Source: Union of Japanese Scientists and Engineers.

Total Productive Maintenance (TPM)

TPM is the system devised for the maintenance of plant and equipment to improve its efficiency. It targets to improve the efficiency and effectiveness of plant and equipment to achieve zero defects, zero accident, and zero breakdowns. It is intended to strengthen the efficiency from the shop floor to the executive boardroom and designed to inculcate zero accidents, zero defects and zero breakdowns. *It was introduced and first implemented by Nippon Denso in Japan.*

How TPM can be introduced in the organization?

The introduction of TPM follows four main phases:

1. Initialization: Conducting awareness programme and informing about the introduction of TPM. Quality circle of employees can be made to carry out this programme.
2. Introduction: Initialization of TPM, Information to suppliers, sister concerns, and customers.
3. Implementation: This is done with the help of eight activities referred as eight pillars of TPM.
4. Review and Control

TPM strategy focuses on eight pillars of success with 5S strategy as foundation.

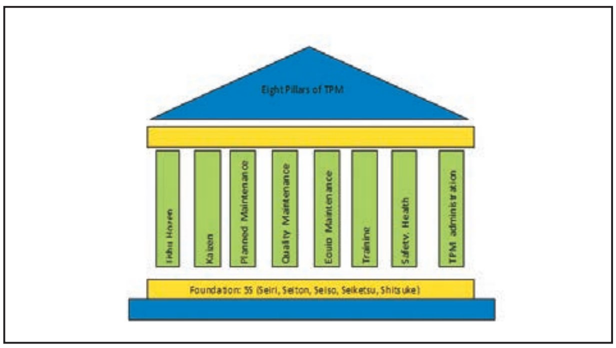


Figure 5.1: Eight pillars of TPM with 5S as foundation

Foundation 5S:

5-S	Equivalent meaning	Process	Techniques
Seiri	Sort	It involves the categorisation of goods according to their importance so that proper care can be done.	ABC (always better control) analysis, FSN (fast, slow, non moving items), VED (vital, essential, desirable) analysis
Seiton	Systematize	This refers to organization of inventory.	Bin card, store ledger
Seiso	Shine	Seiso is the cleaning of machineries, and wastes.	Oiling, greasing, repairing
Seiketsu	Standardise	These are the standards set forth for performing work. Standards might be for work place, plant and equipment, and for employees. The standards might vary from one organization to another. But same standard will be followed throughout the organization.	
Shitsuke	Self-discipline	Shitsuke is related to the maintenance of discipline among the employees of organization.	Introduction of proper uniform, badges, punctuality

The eight pillars of TPM are the following:

Pillar	About	Techniques	Advantages
Jishu hozen (Autonomous maintenance)	It is a routine maintenance of plant. Employees are trained about the disciplines like Pneumatics, electrical, hydraulics, lubricant and coolant.	Cleaning, oiling, inspection	• Keeps the equipment cleaned and ready to use. • Provide proper knowledge of plant to the operator. • Prevents sudden failure of the plant during production. • New methods of cleaning are used.
Kaizen (Focussed improvement)	"Kai" means change and "zen" means good or for better. Hence, this pillar is about the small improvements made on continuous basis. It aims to achieve zero losses with minor measures and improvements. The root cause of loss is analyzed and improvement measures are formulated.	Kaizen register, Kaizen summary sheet, Why-Why analysis, summary of losses	• Small improvements on continuous basis leads to large improvements. • Quality circle of employee is formed to carry out kaizen analysis. • It provides a sense of responsibility and belongingness in the employees.

Pillar	About	Techniques	Advantages
Planned maintenance	This is proper maintenance system adopted for plants to produce defect free products. It aims to have zero breakdown of the machinery and reduce cost by 20%.	breakdown maintenance, preventive maintenance, corrective maintenance, and maintenance prevention	• Minimal breakdown, availability of spares, • Reduction in cost, • Improves reliability of plant.
Quality maintenance	It targets to maintain the quality of product and customer satisfaction. Errors are detected and prevented to maintain the standard.	Root cause analysis, In house and customer end data analysis	• Minimization of defects, reduction in cost. • It helps the transition from reactive to proactive quality control. • Increases customer satisfaction and builds confidence.
Early equipment management	It provides technical defect in the plant observed during the total plant maintenance.	Engineering and re-engineering processes.	• Recognises the area of technical improvements of plant. • Employee participation.
Training	It aims to improve knowledge, skills, and enhance morale of employees. It follows the following phases of employees: "Do not know-Know about machine but no practical experience-Have practical experience but cannot teach other-Can operate and teach others too."	Seminars, Webinar, Classroom training programme, On-site training to employees	• Improves motivation and morale of employees, • Increases practical knowledge about the plant, • Encourages 100% employee participation in suggestions.
TPM in administration	This refers to application of techniques of TPM in administration.	Sub-committee of employees heading from different departments like production, MIS, purchase, administration, Finance etc.	• Increases area of TPM from shop floor to administration, • It increases the efficiency of administrative department,. • It addresses the major losses suffered by the organization. • Reduction in cost. • Better work environment
Safety, health, and environment	Above all the safety of worker is of prime importance. It aims to have zero accidents, and no health damages.	Automated safety measures, safety slogans, posters to increase awareness for safety and its measures.	• Builds a sense of safety among the workers and they can focus on work. • Creates healthy work environment.

Japan Institute of Plant Maintenance introduced TPM (Total Productive Maintenance) Award in 1971. *Nippon Denso was the first company to get TPM certification.* Volvo in Ghent, Belgium was the first company in Europe to apply TPM.

Best Energy Kaizen Award 2014-15 of Confederation of Indian Industries (CII) was won by Toyota Kirloskar Motors for innovative energy reduction under total plant maintenance.

Six Sigma

Six Sigma is a measurement based strategy oriented towards customer satisfaction by eliminating defects (not producing 3.4 defects per million opportunities). *It was introduced by an engineer Bill Smith working in Motorola in 1986.* General Motors defined it as "Six Sigma is a highly disciplined process that helps us focus on developing and delivering near-perfect products and services". During first five years of implementing Six sigma General Motor estimated benefits on the order of $10 billion whereas Motorola estimated the saving of US$17 billion in 2005. Afterwards this strategy was adopted by Motorola and Allied signal.

Six sigma works with the help of empirical and statistical control tools and techniques. Some of the important tools used in Six Sigma are Process mapping, graphical techniques, multivariate studies, hypothesis testing, and correlation and regression analysis. It works with the help of two sub methodologies, DMAIC (Define, measure, analyze, improve, and control) for improvement in existing process and DMADV (define, measure, analyze, design, and verify) for developing new processes.

DMAIC (Define, measure, analyze, improve, and control) for improvement in existing process:

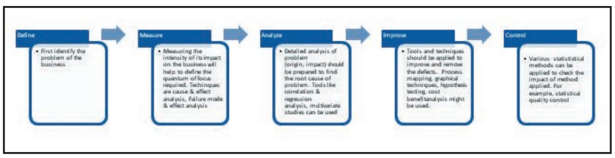


Figure 6.1: DMAIC

DMADV (define, measure, analyze, design, and verify) for developing new processes.

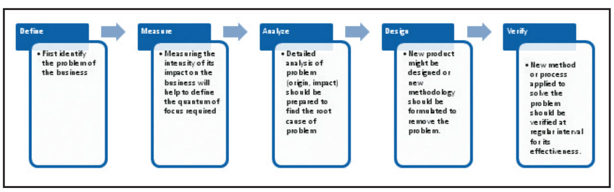


Figure 6.2: DMADV

Adoption of Six Sigma in automobile industry:

Ford is prominent example of adopting six sigma strategy in 1999. After the introduction of Six Sigma, Ford recognised the decrease in 60% of the warranty repair rate and cost reduction of more than $250,000. In this era **lean six sigma** methodology has been adopted by companies like Genpact, IBM, General Motors. It is a combination of lean manufacturing and Six Sigma. It redresses the problems of waste issues and removing defects with variation in design and technologies for achieving business excellence. It encompasses all the issues from manufacturing and software development to sales and service delivery functions.

The other operational excellence techniques are being employed by OEMs are Theory of Constraints (TOC), Just-In-Time (JIT), Failure Mode Effect Analysis (FMEA), and First Time Right.

Conclusion

Indian automotive sector has emerged as a backbone of manufacturing sector with gross domestic product of 7.2%. But the industry in India has been facing many challenges in competing with the multinationals. The application of lean manufacturing, total quality management, six sigma, digitalisation, captive power generation and none the less other tools will help Indian automobile manufacturers to leapfrog the global competition and will make Indian automobile industry ahead in the competitive global platform. The quality control approaches should be consistently followed at all levels by the organization. National Automotive Testing and R&D Infrastructure Project have been launched by government to provide testing, certification, homologation, and performance standards to automobile industry. National Electric Mobility Mission 2020 (NEMM) encourages the industry to produce efficient electric, and hybrid vehicles in India. The major challenges before the automobile industry is to achieve economies of scale, reduction in cost, to develop international market, remove bottlenecks of infrastructure, automation of work, and proper deployment of resources. Moreover, the automobile industry can focus on green technologies like hybrid vehicles, low emission and fuel efficient engine, frugal engineering, and should uplift the export turnover. MA

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Total Quality Management (TQM)

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Long back from the ancient period the world management has very much important not only in the business but in household, private and government sector. The total success is depends upon the management or the person who is in charge of all the activities of the management .Because management coordinates all the activities which are related to the business directly or indirectly. The term management is inclusive term it has people who works for the organization for the common goal of the organization management include number of functions like planning controlling, financing. It always creates the corporate policy or strategy. The definition of the management its functions which are performed by the management. "Management is the get work done from others". But always management works for the organization or business, having common goal and achieve it. There cannot separate goals which are to be attained instead of common goal. In the ancient period management was different but functions and workings are same. Due to modernization industrial development, globalization management has been changed.

Total business growth development, success and its sustainability depends upon the management. The starting point of any business is the management. For sustaining in the modern era, every businessman or organization must adopt new concepts which give successful reply from the third parties and stakeholder of the business. While investing in the business many stakeholder check about the process strategy adopted by the business.

The concept of Total Quality Management which is not very recently developed it was came into in India vary late. It is developed by 'William Deming' a management consulted who was working in the Japan and had great impact on the manufacturing sector in the Japan. So it is the Japanese concept. It has been more popular during late 1980 and early 1990 before management and industry overshadowed by ISO 9000 lean management, Six Sigma such concept. The Total Quality Management related with the quality management as it name suggested. Here quality refers to produce and services rendered by the any organization. Quality of the product decides popularity of the product in the market. "Quality renders to an indicator which decides superiority or inferiority of a product or service.

In today's market, customer is the king hence nobody is going to compromise with the quality of product. For sustaining into the market, every business should maintain the quality of product or service. It is immaterial that how much expensive is the product or not. Every successful business empire maintained their product quality according to customer demand; hence they are enjoying high popularity and having goodwill in the market. Modern customers are ready to pay extra but they are not compromising with the quality. Total Quality Management focuses on this great issue or it gives solution to the problem of maintain the quality of the product or services rendered with the minimization of cost. As popularity or goodwill decides by the customers in the market so far achieving sustainability continually management has to adopt new techniques. So, Total Quality Management is the process or strategy to be adopted. There are number of options available according to modern techniques and tools. So, Total Quality Management is one of that. Following are some of definitions of Total Quality Management (TQM) : -

"A management approach of an organization centered on quality based on participation of all its members and aiming at long term success through customer satisfaction and benefits to all members of an organization or society."

"A management philosophy embracing all activities through which the needs and expectations of customers and community and the objectives of an organization are satisfied in the most effective manner maximizing the potential of all employees in a continuing drive for improvement."

From the above definitions, it is clear that Total Quality Management is the policy, strategy or process to be adopted by the management or it is implemented in the business having center point quality and customer and having all employee participation. It is not one day program means there is no any specific tenure of such policy once it is adopted it is continuous process. Management has to monitor continuously about the quality and cost. Total Quality Management requires cultural change also or these changes bring in the business by Total Quality Management. It refers prevention is better rather that detention of errors.

Total Quality Management (TQM) is the holistic approach for the long term success. These cannot be short term achievement. The process of TQM is long term through progressive changes in the attitude, practices, system and structure. The definitions of the TQM are the guide lines but the concept of TQM is inclusive which also includes-

- There is committed and direct involvement of highest or top executives in the goal setting, policy, allocation and optimum use of available resources. These type of strategic decisions always taken by the top level management.
- There should be realization of fundamental changes which transform everyone's job. The aim is that every person can do each type of job.
- From the beginning itself there should be building quality and improving it according to the demand or requirements of customer.
- Business should understand the changing needs of external or internal factors but they should be cost effective.
- There is continuous supervision and leadership for the quality improvement.
- People who are working in the organization, for the organization should have common goals. There is no any business between people and department. There working should be common efforts taken to achieve common objectives.
- Flexible training program must be organized by the management for the ultimate performance.

The process of TQM is divided into 4 phases are as follows:-

1) Plan

2) Do

3) Check

4) Act. Popularly it is known as **PDCA** cycle.

This 'PDCA' cycle should run continuously.

- Plan: - In this phase, planning is done according to the problem which should be defining first while doing this optimum utilization of resources should be there planning is done according to the problem.
- Do: - In this phase, actual implementation and development of activities which are already planned in the first phase. The activities which are suitable in all manners

are to be implemented.

- ❖ Checking: - In this phase, there is comparison between before and after implementation of solution. There is a continual checking and monitoring the activities under the leadership.
- ❖ Acting: - In this phase, documentation and report are prepared. If any recommendations which are to be adopted or any lacking behind then there should be removal of these lacking points.

Another angle of TQM is also Total Productive maintenance. Management system should customer focus. Organization which involve all employees in continual improvement by using strategy, data and effective ways of communication. TQM has some primary element or we can say that these are attributes of TQM:-

- ❇ Customer focused: - The TQM should be focused according to customers. There should be adoption of new policy and techniques.;
- ❇ Total employee involvement: - In the process of TQM, there is involvement of every employee irrespective of their level.
- ❇ Process centered: - It is fundamental part. There should be efforts taken for inputs transform into output. Measurement of performance should be continuously monitored to detect unexpected variations.
- ❇ Integrated system: - It is the horizontal process which is connected vertically to structure department, connected business improve the satisfaction of the customer, employee and stakeholder.
- ❇ Strategic and systematic approach: - There is strategic plan for integration of quality is a core component.
- ❇ Continual improvement: - It is to be ensured that right things are done at right time for first timing. Major trust which varies analytically and by creative ways.
- ❇ Fact based: - All decisions should be taken on the fact and reality.
- ❇ Communication: - Effective communication is core requirement. If there is communication gap, TQM loses its utility.

When TQM is implemented in business, there are some difficulties but efforts of TQM are the real measurements of TQM policy. Once the TQM is adopted continuous monitoring is necessary. Hence efforts of it can be judged in very short period.

Efforts or why any business or organization goes for TQM:-

- ❖ TQM makes an organization more competitive.
- ❖ It establishes new culture with growth and longevity.
- ❖ It reduces stress, waste and friction.
- ❖ TQM builds plans, partnership and cooperation.
- ❖ Always interaction with the customer gives new customer to the business.
- ❖ Product enjoys more popularity in the market.
- ❖ Organization becomes modern and advanced.

For adopting TQM philosophy, there are numerous option are available. Following are the options:-

- ❇ Flow Chart
- ❇ Statistical Process Control
- ❇ Pareto Analysis
- ❇ Cause and Effect Diagram
- ❇ Employee and Customer Survey.

After all quality is the element which decides or separates product or service from the competitor. The general tendency is that one satisfied customer brings ten new customers. For this purpose, TQM is most important. It is comprehensive and structured approach to organizational management which seeks to improve the quality of the product and service through on-going achievement in response to continuous feedback.

If you want to make sure that everything will run smooth then put one of your best works in-charge of TQM.

If any business wants to always working in a state of TQM then you should know everything which is to be done and it is right at once only.

From above all TQM is to be adopted for quality improvement by exiting management or new management also to become a successful business. MA

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The Institute of Cost Accountants of India congratulates CMA Dr. P.V.S. Jagan Mohan Rao, Council Member of the Institute, on his selection as Member of the IFAC Professional Accountants in Business (PAIB) Committee on behalf of the Institute and wishes him success in all of his future endeavors.

'A to Z'

BENEFITS OF BANK MERGERS

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A merger involves the total absorption of a target firm by acquiring. As a result one firm ceases to exist and only the new firm **(acquiring)** remains.

General, the following are the advantages of the mergers:

⌘ ***Synergy:*** The synergy created by the merger of two companies is powerful enough to enhance business performance, financial gains, and overall shareholders value in long term.

⌘ ***Cost Efficiency:*** The merger results in improving the purchasing power of the company which helps in negotiating the bulk orders and leads to cost efficiency. The reduction in staff reduces the salary costs and increases the margins of the company. The increase in production volume causes the per unit production cost resulting in benefits from economies of scale.

⌘ ***Competitive Edge:*** The combined talent and resources of the new company helps it gain and maintain a competitive edge.

⌘ ***New Markets:*** The market reach is improved by the merger due to the diversification or the combination of two businesses. This results in better sales opportunities.

The above are a few advantages of Mergers. Due to "Monopolistic Competition" prevailing in the market, every Business Organization is facing the following to vital challenges:

- ⌘ Increase in Competition and also Costs (Business Overheads)
- ⌘ Decrease in Product Price and thereby decrease in Spreads (Profits/Surplus)

In this scenario Mergers and Acquisitions gives some comfortable position to the Business Organizations to overcome the above problems.

Lot of discussions is happening among the Staff of Banking

Industry and also in Public with regard to merger on the following NEWS:

> ***Live Mint -22nd May, 2016-E paper:***
> India took its first step towards creating a large bank with the country's largest lender State Bank of India (SBI) and its five associate banks initiating a merger process. All six are state-owned.
> A merger would create a banking behemoth with a balance sheet size of Rs.37 trillion, SBI chairman Arundhati Bhattacharya said.

A to Z Advantages of Mergers

'Rationalization' AND 'Economies of Scale' are the TWO biggest Advantages in the proposed merger, thereby huge Cost Reduction, Increase in Productivity Levels and it strengthens the Balance Sheet of acquiring Bank.

1. Benefits in "Administrative Costs"

A. Rationalization of Branches:

One of the Major Advantages of Merger of Banks is "Rationalization of Branches". From time to time Government of India / Reserve Bank of India instructed the Banks to open their Branches at different centres to provide service to the people in the country. The basic objective is to enjoy the fruits of the banking services by all sections of the society in India not by certain people of the country. But the actual situation is different "Bank Branches are flooded" in certain places / areas / towns and thin network of Branches in other places. For example, in metros, urban areas the Bank Branches were located side by side and at certain places in the same building Four to Five Bank Branches were located. On account of merger, rationalization of Branches is possible, thereby huge cost reduction to the acquiring Bank. Take for example, in Bank Street of Hyderabad for every 10 to 15 feet one Bank Branch. And in certain Commercial Complexes in Hyderabad City Four to Five Bank Branches of same group were located. Due to increase in alternate delivery channels like ATMs, POS Machines (Micro ATMs), Business Correspondents, Pass Book Printing machines, Internet Banking, Cash Deposit Machines etc. customers are gradually shifting from branch banking to alternate delivery channels thereby the footfalls of the Customers are gradually reducing particularly in Metros and Tier-I Cities. Due to merger, lot of scope for the acquiring bank for Rationalization of Branches at these centres, thereby it not only reduces huge amount of Overheads (Fixed and Variable Costs), Manpower Costs but also Productivity levels of the Bank will increase tremendously and optimum utilization of existing Branches or Branch licences is possible.

B. Rationalization of Regional / Zonal Offices:

For Administrative Control of Branches, banks have opened number of Regional / Zonal Offices across the Country. All most all places the Administrative Offices (Regional / Zonal Offices) of Banks were located. Due to establishment of Regional Office or Zonal Offices at strategic cities huge amount of Administrative Cost is incurring by the Banks. Once the merger happens, the Regional and Zonal Office will minimize drastically and the existing Regional / Zonal Offices can be used at optimum level, thereby the following savings will arise to the acquiring bank.

- ⌘ High Rental Costs (Real Estate Costs)
- ⌘ Electricity Costs
- ⌘ Manpower Costs
- ⌘ Technology Costs
- ⌘ Overhead Costs etc.

Due to "Rationalization of Branches" on account of merger, number of Regional or Zonal Offices will also 'come down drastically' and effective use of the existing Regional or Zonal Offices of the acquiring Bank is possible. It not only reduces the administrative costs of the Bank, but also reduces wastages / duplication / underutilization by the acquiring bank.

C. Rationalization of Business Networks / Circle Offices:

To increase the volume of Business and also for to have a better control and follow up the Regional / Zonal Offices and Branches effectively and efficiently 'business networks' administrative offices were established by the Banks. These business networks of the Bank adds huge administrative costs like,

- ⌘ Higher Grade Officials to be posted to Head these Business Networks
- ⌘ Logistics Costs for the Officials
- ⌘ Additional Administrative Staff to support the officials of these Network Heads.
- ⌘ As these are located in Metros and Tier-I Cities it attracts huge Office Premises Rental Costs and other costs.

Due to availability of Information Technology, Video Conferences Systems, Emails, SMS, Quick Transportation Systems etc., these Business Networks can be centralized instead of in a distributed or decentralization manner. And due to rationalization of Branches and also Regional / Zonal Office Structures on account of Mergers, these Additional Business Networks / Circle Offices are not required and it will reduced drastically and thereby the acquiring bank will get huge savings in Fixed Costs, Overheads and also Manpower Costs. If any surplus of own Buildings of the Bank are vacant on account mergers, these buildings can be hired or sold by the Bank to get additional funds / revenues to the acquiring Bank Books.

D. Controlling the Real Estate Costs of CPCs:

Hiring of office premises in Prime Localities is a costly particularly in Metro and Tier-I Cities. This not only it increases the Real Estate Cost of Hiring Premises (Fixed Costs) but also attracts other costs like infrastructure facilities like logistics, Information Technology, employing High Designation posts etc. These costs can be minimized by the acquiring bank particularly by merging the following Central Processing Centres (CPCs).

- ⌘ Retail Assets CPCs
- ⌘ SME CPCs
- ⌘ Liability CPCs
- ⌘ Asset Recovery CPCs
- ⌘ Clearing CPCs
- ⌘ Pension CPCs
- ⌘ CMP CPCs etc.

The above CPCs can be merged with the existing CPCs of the Bank and if existing CPCs or not sufficient due to volumes of business, it can be expanded further by paying additional rent to get more productive use benefit of existing CPCs instead of multiple CPCs functioning in the same City. Due to closer of multiple CPCs, huge amount of Fixed and Variable Costs can be minimized and it increases customer service of the acquiring bank. Better pricing of the bank products is also is possible due to reduction in Administrative Costs of the Bank in Marginal Interest Rates System of the acquiring Bank.

II. Manpower Cost Benefits

E. Manpower Adjustments

Manpower planning exercise is somewhat difficult function in the Banking Industry due to the following:

- ⌘ Transfers System
- ⌘ Promotions / Carrier Development.
- ⌘ Suddenly Increase or Decrease in Business Levels of the Branches due to economic conditions in the market.
- ⌘ Number of New Bank Branches other Banks added or closed in the market / area of operation.
- ⌘ Due to increase in Alternate Delivery Channels.
- ⌘ Due to adding of NBFCs, MFIs, Finance Companies etc.
- ⌘ Due to funding by Credit Card Agencies through EMI on purchases of consumer goods etc.
- ⌘ Due to saturation point reached Old Branches.
- ⌘ Due to closure of Industries on account of economic problems / viability.
- ⌘ Due to decrease in business levels in captive Branches (Universities, PSUs etc.)
- ⌘ Attrition rate in staff.
- ⌘ Sudden raise (spikes) in volumes (transactions / business) due to various factors and Government Policies etc.

On account of the above reasons, some of the Branches are running with excess staff and other branches are running with skeleton staff. Instant shifting or transfers or adjustment of staff is a problem, thereby interrupt in customer service and business levels of the bank. Immediate recruitment in place of promotions, attrition is not possible due to personnel policies of the Bank (Time lag between sourcing of application to joining will take a minimum of 6 months (i.e., total Recruitment processing time), most of banks are recruiting clerical or officers positions on Yearly Intervals). Due rationalization of Branches on account of merger, the acquiring bank will get surplus staff and this can be readjusted to needy branches without going for further recruitment, if more surplus personnel available, banks can offer voluntary retirement to staff. It not only reduces the manpower costs but also the needy branches will get adequate staff immediately to run the branches efficiently, thereby customer service will not interrupt and business levels will increase and the end result is increase in productivity levels of acquiring bank.

F. Recruitment Costs:

This is more one important area where acquiring bank will be benefited on account of mergers, the acquiring bank can arrest the wastages in Recruitment Costs. Here, recruitment costs means, not only the cost of recruitment but also high Attrition Rate of new recruits at the initial stages of recruitment i.e.,

- ⌘ Training Costs including Initial Learning Curve Costs.
- ⌘ Decrease in Business Levels on account of resignations.
- ⌘ Interruption in Customer Service due to lack of staff at some branches and thereby of loss of Business.
- ⌘ Time Lag i.e., upto next recruitment, under utilization of Fixed Costs of the Bank Branches etc.,

For example SBI is conducting Manpower Recruitment **TWICE** in a year, one for State Bank of India and another for Associate Banks of SBI. Due to difference in perks, promotion chances, location of Branches etc., those who joined in Associate Banks, after certain time, they will again appear for SBI and if they selected, they resigned from the Associate Banks of SBI. Thereby the attrition rate is more in Associate Banks of SBI than in SBI. Once merger happens, the acquiring Bank will conduct one examination, the above wastages / problems will not arise. Merger gives savings in Recruitment Costs of acquiring Bank.

Uniformity in Salaries & Allowances, Perks, Promotion Opportunities, Placements etc to Staff Members:

The reasons for attrition or shifting from Bank to another Bank due to the following reasons:

- ⌘ Due to difference in Salaries & Allowances
- ⌘ Due to difference Perquisites
- ⌘ Due to difference in Promotional opportunities or carrier development.
- ⌘ Due to place of posting
- ⌘ Work Culture etc.

Due to merger of different banks, acquiring will follow the Uniformity of the reasons mentioned above. Thereby the following benefits will be gained by the acquiring bank i.e.,

- ⌘ Decrease in staff attrition rate.
- ⌘ Increase in Productivity.

- Increase in Staff involvement in work environment.
- Easy to implement Standards or Bench marks.
- Implementation of Productivity linked salaries is possible.

III. Overhead Cost Benefits

G. Minimization of Overheads Costs:

Other than the Interest Costs on Deposits and borrowed funds, the next major expenditure to the Banks is Manpower Costs and Overhead Costs. The lateral two costs are on increasing trend in the Banking Industry. The various overhead costs incurring by the Banks are:

- Stationery and Printing.
- Hiring of Premises Costs.
- Travelling Expenses.
- Hiring of Cars for Business Purpose.
- Technology Costs particularly Hardware Costs and depreciation thereon.
- Electricity Costs.
- Annual Maintenance Costs (AMCs).
- Advertisement Costs both printed and electronic media.
- Depreciation on Fixed Assets.
- Generator Hiring Costs etc.,

Due to modernization of Branches, it increases the ambience cost of the Branches. In addition to this re-design, change in layout or re-location of the Branches is happening on frequent intervals for the Convenience of Customers and their comfort sake, thereby the overheads are on increasing trend. Nearly 70% to 75% of the Branches are under Air-conditioned environment (including ATM Rooms, Kiosks etc.), Central Processing Centres (Retail Loans, SME Loans), Liability Central Processing Centres etc.,) thereby overheads of the Banks is on increasing trend. Once, merger happens, these costs will come down drastically in the acquiring bank due to rationalization of branches and also economies of scale. In most of the Branches incremental overhead cost is neither matching nor less than the incremental benefit from the Business. If incremental cost is less than the incremental benefit then it is profitable to the bank through its banking operations. Definitely merger will gives some savings the acquiring bank in this regard.

H. Control on wastage of Advertisement Expenses:

Huge amount of advertisement Costs are incurred by the Banks for popularizing their Home Loans, Car Loans, Personnel Loans etc., Duplication and wastage is happening in Group entities of the Bank to sell the same product by different banks. Same product with same features will be advertised by different entities. It is a wasteful exercise and less benefit the Group entity. Once merger happen common advertisement cost by the acquiring bank, thereby the wastages will be controlled and overheads (advertisement costs) decrease substantially. All most all Group Banks are Tie-up with Car Dealers etc. to source the business from them and they are paying Higher Commission to them for sourcing low volume of business in a distributed manner. Some of the group banks are using Direct Sale Agents for sourcing of Business for Car Loans, Housing Loans etc. Due to merger and with higher volumes of the business of single entity, the cost of sourcing the business through these entities will come down drastically by modifying the "Service Level Agreements-SLAs" with Tie-up Agencies, which is beneficial to the acquiring Bank in Long run and also control these entities.

I. Large Scale Economies:

Merger leads to increase in Volumes of business and also Banking Operations. Once volumes are increase, the acquiring bank will enjoy the benefits of "Large Scale Economies" in respect of the following costs:

- Decrease in Overheads.
- Decrease in Cash Replenishment Costs of ATMs.
- Decrease in maintenance costs of Alternate delivery channels including Call Centres.
- Decrease in Advertisement, Selling and Distribution Expenses.
- Decrease in Information Technology Costs to a large extent.
- Decrease in commission payable to business sourcing agencies.
- Decrease in Rental Costs due merging of Big Branches and CPCs
- Decrease in Stationery, Printing Expenses.

Benefits derived both in Fixed and Variable Costs to the acquiring Bank. At the same time, the acquiring bank will incur additional costs for controlling of Branches or CPCs. But if we see the incremental cost with incremental benefit, the incremental benefit is more than the cost. Hence, the merger reduces the overall overhead costs of the acquiring bank.

VI. Financial Benefits

J. NPA Management:

The side effects of increase in Non-performing Assets of the Banks are as follows:

- It increases the Credit Risk.
- It attracts more provisions.
- It requires more Capital to fulfill the Capital Adequacy Ratio of the Bank.
- It reduces the Bottom-line of the Bank.
- It reduces the Credit Rating of the Bank.
- It increases the Asset Liabilities Mismatches.
- It increases Borrowings by the Treasury Department at High Cost to fulfill the ALM mismatches.
- It decreases the Liquidity position of the Bank.

- ⌘ Due to high NPAs, the depositors will shift to other banks for safety of their savings.
- ⌘ It increases the attrition rate of the staff and sometime underutilization of staff etc.

To overcome the above problems, banks should minimize NPAs below the bench mark both in Gross and Net NPAs of the Bank.

NPA Management is BIG function in the Banking Operations. Every Bank has established NPA Management Departments, Sections at both Head office level, Zonal Office and Regional Office level. In addition to the number of employees / officials are engaged in this function like:

- ⌘ DRT Cases and follow-up
- ⌘ SARFASI Cases follow-up
- ⌘ Issue of Notes under SARFASI
- ⌘ Court Cases and follow-up
- ⌘ Review of NPA Loans
- ⌘ Attachment of Primary and Collaterals
- ⌘ Debt Recovery Agents to recover Retail Loans
- ⌘ Soft Recovery Process by issue of notices, SMSs and Tele-calling etc.
- ⌘ Re-schedule / Re-phase of Loans
- ⌘ Corporate Debt Re-structuring
- ⌘ Call Centres to follow-up the NPAs
- ⌘ Emplaned Advocate for the Court, DRT Cases
- ⌘ Sale of Bad Loans to Asset Reconstruction Companies (ARCs) or Securitization.
- ⌘ Out sourcing agencies to attach and sale the properties etc.

Once, the merger happens, the acquiring bank will get huge savings by streamlining or rationalization of the above mentioned activities. Better NPA management is possible in the merger process with strict control systems are to be established.

K. Better Asset Liabilities Management

ALM is one of the important functions of the Bank, spreads / surplus, fine liquidity management of the bank is based on the better ALM practices. Banks should maintain better ALM practices to avoid mismatches and also as per the regulatory guidelines. Due to ALM mismatches, liquidity as well as profitability issues will arise thereby short term borrowings at higher rate of interest affects the profitability of the Bank. Penalties of Regulator will also increase in case of mismatches in Assets and Liabilities. Balance Sheets of group entities in a distributed manner is difficult to control the ALM mismatches. In case of mergers, acquiring bank will be benefited on account of better ALM practices and maintenance of fine Liquidity Management practices is possible, thereby it increases in profitability of acquiring Bank. Better strategies can be implemented based on the volume and turnover of funds in acquiring Bank. This facilitates to monitor or control by the Reserve Bank of India in a better manner due to single entity on account of merger. Better ALM System is a vital area / function of the Banking System.

L. Better Treasury Management / Systems

"One third" of the total sources of funds (Either Demand or Time Deposits and Own Funds) of the banks are managed by the Treasury Departments of the Banks. Due to availability of higher funds for Investments, number of opportunities and fine portfolio investment is possible in Treasury Operations of the acquiring bank, the acquiring bank can search for better investment opportunities in both in domestic money and foreign markets to earn more income through Treasury Operations (Trading Book). Framing good investment policy guidelines is possible due higher volume of funds in Treasury Operations. Better or optimum utilization existing staff skills of Treasury Operations acquiring bank, thereby it not only mitigates the Market Risks of the acquiring bank but also to maintain Fine Liquid funds and it reduces the Borrowings from the Money Markets and maintenance of CRR and SLR guidelines of RBI etc. End result of the acquiring bank is, it increases Treasury Profits.

M. Implementation of Basel III accord

Basel III accord is to be implemented by Indian before 31st March, 2019. This is a big challenge to Indian Banks due to the following reasons:

- ⌘ It requires huge amount of Addition Capital – both Tier-I and II. Capital Conversation Buffer, Counter Cycle Capital Buffer etc.
- ⌘ Credit, Market and Operational Risk are not within control in Indian Banks till date. Year-on-Year these Risks are on increasing trend particularly in "Credit Risk" and "Operational Risk".
- ⌘ Most of the Banks are not ready and preparedness is also slow for full-fledged implementation before 31st March, 2019.
- ⌘ PSBs are depending on Government of India for additional Capital requirements for CAR / CRAR through annual financial budgets of the Government.

Due to following different practices / policies, Systems and Procedures, Strategies adopting by different banks for both Loan book and Trading Book, the degree of these three important Risks i.e., Credit, Market and Operational Risks are differ from bank to bank. For operational risk, most of the banks are following the "Basic Indicator Approach" till date. Lot of improvements and research or business models are required in this area i.e., developing Risk Mitigation Models, Risk Management Practices etc. CAR or CRAR is comfortable in some Banks and in other this position is bad. Once merger happens, this position will improve further due to the following reasons:

- ⌘ Uniformity in implementation of Risk Management Practices.
- ⌘ Additional Research in this area overcomes these risks due to size and volume of Bank Business.

For better implementation of Basel III, merger of banks is one good strategy to mitigate the important risks of the Indian Commercial Bank i.e., Credit, Market and Operational Risks.

V. Information Technology Benefits

N. Technology up-gradation

Each bank maintains different IT Servers to store their business data as well as processing of daily bank transactions, in addition to the main server of the bank, Disaster Recovery Management (DRM) Servers are also established in different places to mitigate the IT / Technology Risk and also for effective implementation of Business Continuity Plan (BCP) as per regulator guidelines. For IT Systems, they are paying huge amount of Annual Maintenance Costs (AMC) and from time to time whatever additions to the existing software (while introducing new deposit / advance products), they are paying huge amount of fees to the IT Companies. Banks also paying huge amount "Communication Systems" for smooth functioning of bank branches across the country like City Aggregation Points (CAPs) etc. Once merger happens, these costs will be saved to a large extent to the acquiring bank due to merger of all Data files of all Banks into one server. Here, the acquiring bank will get savings not only in IT Capital Expenditure but also Variable Cost (Information Technology costs) in the Bank.

O. Optimum utilization Alternate Delivery Channels

Alternative Delivery Channels like ATMs, CDMs, Pass Book Printing Machines and Kiosks established by different banks under same group and most of these Alternate Delivery Channels flooded in certain areas and less or no in other places. Once, merger happens the excess / extra alternative channels will be relocated or shifted to the needy places. Thereby all customers at all locations will use the alternate delivery channels of the Bank without any further capital expenditure to the acquiring bank. The Cash Replenishment Costs, maintenance cost of ATMs, CDMS, Pass Book Printers, and Kiosks will reduce drastically with revised Service Level Agreements (SLA) on account of higher volumes due to merger. Thereby per transaction cost of alternative delivery channels will decrease due to optimum utilization of existing alternate delivery channels. Additional Capital Expenditure for installation of alternative delivery channels will not arise for a period of 3 to 4 years after merger to the acquiring bank.

Vi. Risk Mitigation Benefits

P. Controlling Market, Credit and Operational Risks

Controlling the Three important Risks is need of hour in the Banking Industry, otherwise it leads to decrease in Profitability of Bank and also it attracts more Capital to maintain the CAR or CRAR as per Basel III. The rating of the Bank is primarily based on, how the bank is taking measures to mitigate these three important risks. Attracting the Capital and subordinate debt from the Primary Market through IPO is also a big challenge to the Banks as their CAR, Net Profit is low and also high NPAs. In case public sector Banks it is very difficult to the Central Government to pump additional capital the needy banks from time to time through Finance Budget of the Country. The only one alternate available to the Banks is to mitigate all the Three Important with the help suitable Risk Management Practices.

Q. Duplication of Finance

Duplication or double financing is on increasing trend in the Banking Industry due to mass expansion of the Bank Branches, massive lending and pressures on achievement of Business Budgets of Bank Branches by the controllers, non-insisting of "No Due Certificates" by the Branches, waiver of Collateral Security in certain advances are leads to double financing in Banks. This trend is more in Retail Advances like CAR Loans, Personnel Loans etc. even though CIBIL Tracking Systems exists in the Bank. In Rural and semi-urban places particularly in Self-help Group finance, Government Sponsored Schemes and some Agriculture Segment Product Loans are enjoying more than one bank by certain borrowers. Due to Loan waiver scheme or settlement of Insurance Claims on account failure of crops etc. these borrowers are again enjoying these additional benefits from Government etc. Double finance, over finance to a single borrower by the Bank also leads to NPAs. Once merger happens, these irregularities can be arrested to a large extent.

R. Better implementation of Risk Focused Internal Audit, Concurrent Audit and Statutory Audit:

Due rationalization of Branches, Audit Costs will reduce further. Strict implementation of Risk Focused Internal Audit (RFIA) results in mitigates the three important risks of the Banks i.e.

- ⌘ Credit Risk
- ⌘ Market Risk
- ⌘ Operational Risk

Due to merger, implementation of "e-concurrent audit" and uniformity in implementation of RFIA across all Branches, and fine tune the "Audit System" not only decreases the above risks and it leads lower provisions and lower Capital for CRAR or CAR and Audit Costs to a large extent.

Year end Accounts or finalization Financial Statements in distributed manner are to be scrutinized by the Statutory Auditors, Zone-wise, Circle-wise for Group Banks is a time consuming process and huge costs incurred in this process i.e., both Audit Fees Cost and also Manpower Cost (People involved in the Year end Audit Process). On account merging and through rationalization of Branches, Regional Office, Zonal Offices these costs will reduce substantially and early declaration Financial Results of the acquiring Bank is possible and duplication cost and wastages can be eliminated drastically.

VII. Benefits To Stake Holders

S. Easy to supervise by the Regulator and Government of India

"Span of Control" of Banks by the Regulator and Government of India are in increasing trend on account of increase in number of banks in the country. Thereby, it may leads to dilution in controlling all banks in the country by both Regulator and Government of India. On account of mergers the number of Banks will come down drastically and it is very easy for the regulator and also Government Authorities to supervise monitor and control less number of Banks. To implement Basel-III, KYC/AML and supervise limited number of Banks is easy due to mergers. Control higher number of Banks, monitor their Boards, Appointment of Chairman's and Managing Directors, Controlling NPAs, implementation of Basel-III, providing additional capital through budgets and control of irregular practices etc., by both Regulator as well as the Government is a big challenge / task to the Regulator. Restricted the Banks through mergers is a best strategy both to the Regulator and Government to have a better control and monitor the limited number of banks, thereby the efficiency and functioning of the banks will improve substantially.

T. Better implementation of Corporate Governance

One Board instead of multiple Boards for different group entity Banks, One Audit Committee instead of multiple Audit Committees and other Committees as defined under Corporate Governance as per SEBI listed guidelines is possible through merger. This not only reduces the huge administrative costs, but also implementation or recommendations of the multiple committees is a big task to the Group. Acquiring bank can implement Corporate Governance in a better manner than in distributed boards in group entities. Multiple Annual General Body Meetings and declaration of results after completion of all entities is a time consuming process, duplication process, wastages of resources and a costly affair. Through merger, single Annual General Body Meeting, Corporate Governance Practices and Single Board meetings gives reduction in administrative cost and timely completion of Balance Sheet finalization to be submitted to Stock Exchanges, SEBI and also to the Shareholders of the Bank (including all stake holders of the bank).

U. Better Customer Service

Number of banks under one Group creates confusion to the customer while purchasing a bank product from group entity banks, due to merger this confusion will decrease. He need not verify the product price and its features from different banks under a single group entity. Due to merger, he can approach only one Bank instead of multiple banks. Reduction in various Service Costs due to merger and also Customer Complaints Grievance mechanism will strengthen due to size thereby it increases the customer satisfaction levels. Good Customer Service and implementation of best banking practices followed across the globe in acquiring bank is possible due size results and it increases Business Growth and market share of the acquiring Bank.

V. Business Competition within the Group

Competition within the Group is not a healthy sign. In short run one bank may benefit in business growth levels but in long run it affects the profitability of the bank. Due to implementation of Base Rate of Interest, Marginal Cost Rate of Interests in the market and these rate of interest are differ from bank to bank on account of their cost of sources of funds, overheads and profit margins etc, competition within the group spoils the image and also group profit in future. Even though the Banks are doing business under one Logo, competition among the bank branches within the Group not only reduces the spread of the Bank, but also it creates "Image Risk" to the Group in the market or in public. This weakness will en-cashed by others players in the market. Once, merger of group entities into one, this type of market practices will not arise. Healthy competition with other banks will prevail in the market.

VIII. OTHER BENEFITS

W. Implementation of Systems and Procedures

Uniformity in implementation of Systems and Procedures across the Group entity Branches is not only mitigates the various Risks of the Banking Operations but also it gives good results to the acquiring Bank as a whole. Different banks under same group following different Systems and Procedures may lead to difference in functioning and it leads to difference in business performance results. On account merger, all branches of the acquiring bank will implement the same Systems and Procedures thereby benefits will accrue. From time to time implementation Revised, New Systems and Procedures is possible across all branches gives good results. Implementation of Best Banking Practices is possible at all Branches in merged environment due to size.

X. Uniformity in implementation of Strategies:

Different banks are following different strategies to mobilize the business, to increase their market share and also to mitigate the various risks in operational areas. Due to this, profits, productivity levels, work culture, market share and financial strength of the Balance Sheets will differ from one Bank to another Bank. Some Banks, due to small in size and lower Capital or funds, they may not implement the Good Strategies or Systems, which is a costly for them, thereby it affects the business growth and also financial position of the Bank. Uniformity in implementation of Strategies across all Branches by acquiring bank due to size overcome the above issues.

Y. Easy to implement Best Banking Practices:

Different banks are following different control systems and procedures to complete the day today business operations of the Bank. The performance and degree of risk levels of the business operations of the Bank is mainly depends on the implementation of best banking practices in the following business operations i.e.

- ⌘ Marketing Function.
- ⌘ HR Function.
- ⌘ Operations Function.
- ⌘ Risk Management Practices.
- ⌘ Information Technology Function.
- ⌘ NPA Function.
- ⌘ Treasury Function
- ⌘ ALM Function
- ⌘ Administration Function etc.

Due to differ in Systems and Procedures or Book of Instructions or implementation of strategies from one Bank to another Bank, the performance and financial strength of the Bank are not comparable i.e., inter firm or intra firm comparisons. Overall efficiency of the Bank improves a lot and in turn all stakeholders will be benefited due to efficient implementation of uniform Systems and Procedures across all Bank Branches.

Z. Increase in Productivity Levels

Productivity levels of the Banks are differing from Bank to Bank on account of the following:

- ⌘ Policies and Organization Practices
- ⌘ Implementation of Standards or Bench marks
- ⌘ HR Training (On Job or Institutional Training) and HR practices
- ⌘ Systems and Procedures
- ⌘ Risk Management Practices
- ⌘ Work Culture of the Organization etc.

Market share, Goodwill and Brand Value of the Bank are based on the above factors. The ultimate result of higher productivity leads to increase in Top and Bottom Line of the Bank. Due to merger the acquiring bank good practices as mentioned above, will be implemented in the all merged entities (Branches also), thereby the overall efficiency of the Bank will improve and all stakeholders of the acquiring bank will be benefited.

Conclusion Remarks

Merger gives more benefits to the acquiring bank particularly reduction of Fixed and Variable costs and it avoids the wastages of expenditure to a large extent. In public sector Banks, 'Expenses Share' in Total Income of the Bank is more than 20% and the 'Manpower Cost' in Total Expenses is more than 16%. Hence, these costs will be reduced drastically. In addition to this, acquiring bank can use Information Technology in a big way and optimum utilization of existing Alternate Delivery Channels like ATMs, Mobile Banking, CDMs, Pass Book Printers, POS Machines, Internet Banking, Business Correspondents or Customer Service Points and Call Centres etc. to reduce the cost per transaction of the bank and also to increase the bottom line. This is possible through mergers thereby the acquiring Bank can afford to charge "Low Rate of Interest" on their Advance Products. Lower Rate of Interest on advances boosts the economy growth of the country further and also it increases the Business Levels, market share and bottom-line of the acquiring Bank.

But one important factor to be keep it mind by the acquiring bank in merging process i.e., Strengthen the Organizational Structure i.e., Centralization and Decentralization of operational areas, span of control of the Bank. Undoubtedly merger gives number of advantages to acquiringr bank, at the same time Controlling is very difficult due increase in size of the Organization, Business Operations and Volumes. To overcome this problem, from day one of merging processes, the acquiringr bank should think about the Control aspects for each and every function i.e., how effectively and efficiently the acquiring bank control Bank Branch located in nook and corner of the country. The objective of merger will be defeated, if control systems are not well established properly by the acquiringr bank. Due to availability of latest Information Technology in the country, controlling Branches located in villages from the Head Office is not a big problem by the acquiring Bank. To mitigate THREE important Risks of the Banks i.e., Credit Risk, Market Risk and Operational Risk, the acquiring bank should strengthen the Risk Management Department, Risk Focused Internal Audit, Strict implementation of System & Procedures etc. Then maintenance of adequate Capital Adequacy is not a problem to acquiring bank due to merger. MA

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Concentrated and Diffused Ownership Structure on the Performance of Indian Cos

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The association between performance of the firm and composition of ownership is always an important area of financial research and research in corporate governance. The influence between composition of ownership and companies' performance has covered significant attention in the literature of finance and corporate governance. Berle and Means (1932)[2] has initiated the debate in relation to the association between ownership Composition and the performance of the company. They found direct correlation between concentrated ownership structure and firm performance. However, in the year 1985, Demsetz and Lehn(1985)[1] have questioned the argument initiated by Berle and Means (1932). They established empirically that there are no statistically significant impact of Ownership structure and accounting earning based indicators.

The objective of this paper is to study the governance practice in developing economies, like India, and its association with earning-based and market-based Indicators. India is a country where shares of big corporate houses are substantially owned by Promoters. Basically business starts as sole proprietorship or partnership or closely held companies. But as company expands, such business houses gradually approaches capital market to raise equity capital through IPO (Initial Public Offering) route. The promoters, who are the owners of the closely held company, take the company up to the stage of IPO. The persons or bodies other than the promoters having investment in the share capital are non-promoters or non-promoter shareholders. They represents the diffused ownership in the company.

In this paper we try to examine the link between accounting earning-based and market-based Indicators with ownership composition for a panel of BSE SENSEX companies. The period of study covers 15 years, 2001-02 to 2014-15. We take promoters and non promoters shareholdings as an alternative to concentration and diffuseness of ownership respectively. Market related indicator, such as Tobin Q as well as accounting earning-based returns such as Return on Equity (ROE) and Return on Capital Employed (ROCE) are taken as proxies to measure the performance of the companies. BSE SENSEX Index Companies (excluding banking and non-banking financial companies) are used for our study as it represents substantial portion of the total market capitalization on BSE. The Index also covers almost all major industries of the economy. Thus our study gives a fair view of Indian corporate world. The remainder of the paper is organized as follows.

1.2 Review of literature
1.3 Objectives of study
1.4 Research methodology
1.5 Hypothesis of the study
1.6 Empirical Model
1.7 Research Variables
1.8 Empirical findings
1.9 Conclusion
1.10 limitation of the study

Review of Literature

Previously researches tried to understand whether isolation of ownership and control really had an impact of the performance of the company. Conflicting evidence had been found on the performance of the owner controlled or manager controlled firms. In some cases companies with concentrated ownership has well performed than companies with diffused ownership structure and vice-versa was seen in other studies. Thus we include some significant studies in our review.

Morck R, Shleifer A, and Vishny R, in his paper named " *Management Ownership and Market Valuation: An Empirical Analysis*" published in *Journal of Financial Economic(1988)* considering the association between ownership concentration, measured by directors shareholding , and performance of the company, measured by both Tobin's Q and accounting profit of 500 USA based companies and using piece-wise linear regression, found a positive association between Tobin's Q and board ownership . They observe that Tobin's Q rises as board ownership increases from 0 to 5%, decreases between 5% and 25% and once again rises, though slowly, beyond 25%. When shareholding rises initially performance improves because of the alignment of monetary incentives between the manager and other equity owners. But after a certain limit mangers may become complacent and thus may not try to put adequate efforts for the firm's growth. But again at higher levels, incentive effect may align their thoughts towards performance as it might multiply opportunities to appropriate corporate wealth.

Loderer C and Martin K in their paper, "*Executive Stock Ownership and Performance Tracking Faint Traces*" published in Journal of Financial Economics,(1997) they considered shareholding by the insiders as a measure of ownership and Tobin's Q as performance indicators. They used simultaneous equation method to study the behavior of exogenous variables and endogenous variables. They found that ownership does not predict performance, but performance negatively predicts ownership. They states that since Tobin Q ratios measure growth opportunities already capitalized in the stock price, managers liquidated their own shareholding in the firm and diversify their wealth.

Demsetz H and Villalonga B , in their empirical research paper "*Ownership Structure and Corporate Performance*", published in Journal of Corporate Finance,(2001), investigated the relation between the ownership structure and the performance (average Tobin's Q for five years–1976-80) of the companies. However, No statistically significant relation could be ascertained using Ordinary Least Squares and Two-stage Least Squares regression model. According to them, "The market react to forces that create suitable ownership structures for firms, and this removes any predictable relation between empirically observed ownership structures and firm rates of return."

Kapopoulas P and Lazaretou s, in their research paper "*Corporate Ownership Structure and Firm Performance: Evidence from Greek Firms*", published in *Corporate Governance: An International Review, (2007),* applying the model of Demsetz and Villalonga (2001), examined the relationship between ownership structure and firm performance of Greek 175 listed companies. Their empirical findings suggest that ownership of shares by the top management is significant in explaining the performance measured by Tobin's Q and found that concentrated ownership structure leads to higher profitability.

Ganguli.S.K and Agarwal.s in their paper titled – "*Empirical study ownership structure and firm performance – a case study of listed mid-cap Indian companies*", published in Applied ICFAI Journal of Finance (2009), and analyzed the relationship between firm performance and ownership structure in respect of Indian mid-cap listed companies. They have used the models of Demsetz and Villalonga (2001) with some modifications. They studied the impact of ownership on market-based performance and vice versa. The study concludes that in the case of listed mid-cap Indian companies, there exists a positive association between firm performance and concentration of ownership in the companies and vice versa in a statistically significant manner.

While most of the model used to study the relation between ownership composition and market based performance, we further extended our study to see the impact of both market based (Tobin's Q) and accounting based (ROA, ROCE) returns by ownership structure. We considered here the sample period of ten years panel data on BSE SENSEX companies.

Objectives of the study

The objectives of the study are as follows:

1. To examine the relationship between the accounting-based performance indicators with concentrated ownership structure, measured by Promoters' shareholding, vis-à-vis diffused ownership structure, measures by non-promoters' shareholding.
2. To examine the relationship between the market-based performance indicators with concentrated ownership structure, measured by Promoters' shareholding, vis-à-vis diffused ownership structure, measures by non-promoters' shareholding.

Research methodology

Data source and sample: The proposed research study, although will be mainly of empirical nature, but it will contain some conceptual aspects related to the empirical verification. For these parts, we would depend on books and journals available on these fields and related websites. However, for empirical purpose, we would depend mainly on published annual reports of sample companies and we would also utilize database of *Prowess*. The annual data used in the analysis consists of BSE SENSEX companies listed on the Bombay Stock Exchange (BSE), for which we could get their historical share holding pattern. Companies within financial services segments (banking and non-banking financial companies) are not considered due to difference in laws governing them. Public Sector firms are also not included in the analysis as their performance is influenced by a large number of social obligations and regulations, which may be difficult to account for. These companies have been selected on judgmental basis, without any scientific methodology and sampling technique, mainly because they are renowned companies and their scripts dominate and influence the stock market movement of the country. Further, these companies are market leaders, trend-setters and innovative in corporate financial reporting and disclosure practices in India. It covers the all sectors of Indian economy except banking. At last only 20 companies we have selected for our study.

Sample period: we have selected 15 years as a sample period starting from 2001-02 to 2014-15. The reasons behind the selection of the years are as follows:

1. Reforms in financial sectors
2. Convergence of Indian accounting standards with the International Accounting standards has made the Indian accounting system at par with advanced countries.
3. Introduction of new Companies Act 2013.
4. Stringent SEBI Regulations in relation to Listing of shares and other numerous initiatives by SEBI has paved the way to the highest level of corporate governance
5. Several economic reforms
6. Long time period for study

Tools of analysis: we study the Impact of Concentrated and Diffused Ownership Structure on the Performance of Indian Companies with the help of multiple regression techniques and the coefficients are tested using T-test Statistics at 5% level of significance.

Hypothesis of the study

On the basis of the objectives of the study we can frame the following research hypotheses:

H_{01}: there is no significant linear relationship between accounting-based performance indicators with Promoters' shareholding.

H_{02}: there is no significant linear relationship between accounting-based performance indicators with Non-promoters' shareholding.

H_{03}: there is no significant linear relationship between market-based performance indicators with Promoters' shareholding.

H_{04}: there is no significant linear relationship between market-based performance indicators with Non-promoters' shareholding.

Empirical Model

Our basic objective is to find out how company performance gets influenced by ownership structure, i.e., concentration and diffuseness of shareholding pattern. We take market based performance indicators and earning-based performance indicators such as Tobin's Q, Return on Equity and Return on capital employed respectively at the end of fiscal year as independent variables and promoters' and non-promoters' shareholding representing concentration and diffuseness of ownership respectively as dependent variables. If promoters' holding is x, by definition non-promoters holding will be (1 – x). We shall be face up with severe multicollinearity problem if both the promoters' and the non-promoters' shareholdings are included as independent variables in the same regression equation The problem can be avoided if we construct two separate regression models, whereby in the first equation we take promoters' holding as independent variable, while in the other we take non-promoters' holding as independent variables. Generalized Equation is given below

$$\text{Performance}_{it} = A + B\,(\text{Ownership})_{it} + C\,(\text{Control variables})_{it} + \varepsilon_{it}.$$

Such equation further extended as follows

$$\text{Performance}_{it} = A + B(\text{Ownership})_{it} + C_1(\text{Advertisement}_{it} + C_2(\text{Marketing})_{it} + C_3\,(\text{Distribution})_{it} + C_4(\text{Research and Development})_{it} + \text{Errors}$$

Research Variables

A. Dependent variables: the study uses Return on equity (ROE) and Return on Capital Employed (ROCE) as accounting earning-based performance indicators. On the other side we used Tobin's Q as the Market-based performance indicators.

1. Return on Equity

Equity shareholders are entitled to the residual profits. A return on shareholder's equity is calculated to see the profitability of owners' investment. The shareholder's equity or net worth will include paid up share capital, securities premium and reserve & surplus less accumulated losses. Net worth can also be found by subtracting total liabilities from total assets. The return on equity is net profit after taxes divided by shareholder's equity which is given by net worth.

$$\text{ROE} = \frac{(\text{Profit after Taxes})}{\text{Net worth (Equity)}} = \frac{\text{PAT}}{(\text{Net Worth})}$$

DU Pont analysis (1953) enables the enterprise to break its ROE into three major components, in order to identify the area that is responsible for the profit earning capacity of the enterprise. These three components are:

Profitability – measured by net profit ratio $\left(\frac{\text{Income}}{\text{Sales}}\right)$

Activity – measured by asset turnover ratio $\left(\frac{\text{Sales}}{\text{Assets}}\right)$

Solvency - measures the leverage position in the capital structure $\left(\frac{\text{Assets}}{\text{Equity}}\right)$ i.e. total assets acquired by share holders fund

2. Return on Capital Employed

The profitability of the firm can also be analysed from the point of view of the total fund employed in the firm. The term funds employed or capital employed refers to the total long term sources of the funds. It means that the capital employed comprises of shareholders funds plus long term debts.

$$\text{ROCE} = \frac{(\text{Net Profit After tax + interest (1-t)})}{(\text{Average Capital Employed})}$$

It is post tax version of earning power

3. Tobin's Q

The Tobin's Q ratio is a ratio devised by James Tobin of Yale University, Nobel laureate in economics, who hypothesized that the combined market value of all the companies on the stock market should be about equal to their replacement costs. The Q ratio is calculated as the market value of a company divided by the replacement value of the firm›s assets:

$$\text{Tobin Q ratio} = \frac{(\text{Total market value of the firm})}{(\text{Total assets value})}$$

$$= \frac{(\text{ Total market value of eqity and liabilities })}{(\text{Total book value of assets and liabilities})}$$

$$= \frac{(\text{Total market capitalization})}{(\text{Total Networth})}$$

When the Tobin's Q ratio is between 0 and 1, it costs more to replace a firm's assets than the firm is worth. A Tobin's Q above 1 means that the firm is worth more than the cost of its assets. Because Tobin's premise is that firms should be worth what their assets are worth, anything above 1.0 theoretically indicates that a company is overvalued.

4. Control variables

The other possible determinants of firm performance which are not captured by ownership variables are included as control variables. The control variables used in the study have been selected with reference to those employed in earlier empirical studies. We use R&D Intensity, Advertising Intensity, Distribution Intensity and Marketing Intensity as the control variables. These expenditures may yield positive returns in future, thus enhancing firm performance. These variables also control for opportunities of discretionary expenditure by management. These are measured as a percentage of sales. These variables are used to control the operational aspect. This is based on empirical performance studies by Halder.A & Nageshwara Rao(2011).

B. Independent variables:

in this study we take performance promoters' and non-promoters' shareholding representing concentration and diffuseness respectively as exogenous variables.

Concentrated and Diffused Ownership Structure

Ownership concentration refers to the amount of stock owned by individual investors and large-block shareholders (investors that hold at least 5 per cent of equity ownership within the firm), more specifically percentage of shares held by promoters. A higher level of ownership concentration suggest a stronger monitoring power from investors over a firm's managerial decisions because of the incentives from these owners to proactively safeguard their investment. Owners with significant amount of shares may take aggressive actions, either directly or indirectly, over firm decisions such as the election of board members and replacement of CEO or poor management with their voting power. As such, ownership concentration can be an internal governance mechanism that helps reduce the likelihood of managerial opportunism because managers and boards of directors are more likely to take into accounts the preferences and interests of large shareholders.

By contrast, firms with a low level of ownership concentration (diffused ownership) might indicate weaker governance power because investors with less ownership interests have little incentive to pay attention to the strategic decisions of the firm and thus, are less motivated to closely monitor and discipline top executive behaviors. It is measured by non-promoters shareholdings. Diffuse ownership (produces weak monitoring of managerial decisions.

Empirical findings

Based on the statistical findings given in the following tables we can suggested that Promoters shareholdings in the company have significant impact on market based performance measures as well as accounting based performance indicators at 5% level of significance. It can also concluded that influences on accounting-based measures, represented by ROE(2.147) and ROA(2.434), are relatively high than market based indicator, represented by Tobin's Q ratio(0.038).

Regression of performance measures on promoters holding and others control variables

	Coefficient	Std. Error	t	Sig.
(Constant)	1.095	1.267	0.865	0.389
PH	0.038	0.019	1.993	0.048
ADV	2.321	0.141	16.48	0
MRK	0.15	0.123	1.219	0.225
DIST	0.169	0.254	0.668	0.505
RD	0.446	0.111	4.024	0

a.Dependent variable : Tobin'Q Ratio

	Coefficient	Std. Error	t	Sig.
(Constant)	26.871	4.915	5.467	0
PH	2.147	0.984	2.183	0.031
ADV	7.769	0.546	14.222	0
MRK	0.79	0.476	1.659	0.099
DIST	0.076	0.074	1.033	0.303
RD	0.422	0.43	0.981	0.328

a. Dependent Variable : Return on Equity(ROE)

	Coefficient	Std. Error	t	Sig.
(Constant)	32.187	5.944	5.416	0
PH	2.434	1.189	2.047	0.042
ADV	10.182	0.661	15.413	0
MRK	1.387	0.576	2.41	0.017
DIST	0.075	0.089	0.848	0.398
RD	0.124	0.52	0.239	0.812

a. Dependent Variable: Return on capital employed (ROCE)

(PH: Promoters holding%; ADV: advertisement intensity; MRK: Marketing Intensity; DIST: Distribution Intensity; RD: R&D Intensity)

whereas based on the statistical findings given in the following tables we can suggested that Non-promoters' shareholdings in the company have no significant impact on market based performance measure, mapped by Tobin's Q ratio as well as accounting based performance indicators measured by ROE and ROCE at 5% level of significance. The control variable like advertisement is significant in all the cases related to promoter's holdings as well as non-promoter's holdings

Regression of performance measures on Non-promoters holding and others control variables

	Coefficient	Std. Error	t	Sig.
(Constant)	4.003	0.68	5.886	0
NPH	0.01	0.013	0.792	0.429
ADV	2.378	0.135	17.565	0
MRK	0.145	0.12	1.204	0.23
DIST	0.353	0.231	1.528	0.129
RD	0.38	0.104	3.661	0

b. Dependent variable : Tobin's Q Ratio

	Coefficient	Std. Error	t	Sig.
(Constant)	21.091	2.599	8.115	0
NPH	0.018	0.049	0.364	0.716
ADV	7.667	0.517	14.818	0
MRK	0.786	0.459	1.712	0.089
DIST	1.782	0.882	2.02	0.045
RD	0.289	0.397	0.73	0.467

b. Dependent Variable : Return on Equity(ROE)

	Coefficient	Std. Error	t	Sig.
(Constant)	25.756	3.141	8.2	0
NPH	0.037	0.059	0.622	0.535
ADV	10.133	0.625	16.205	0
MRK	1.375	0.555	2.48	0.014
DIST	2.128	1.066	1.996	0.048
RD	0.04	0.479	0.083	0.934

Dependent Variable: Return on capital employed (ROCE)

(PH: Promoters holding%; NPH: Non promoters holding%; ADV: advertisement intensity; MRK: Marketing Intensity; DIST:

Distribution Intensity; RD: R&D Intensity)

Conclusion

This study has examined empirically the relationship between the ownership structure and firm performance using a Cross sectional data of BSE-SENSEX Index firms over 15 years, 2001-02 to 2014-15. Firstly we conducted on promoters as independent variable with respect to Tobin's Q, ROE and ROCE. Then we conducted on non promoters as independent variable with respect to Tobin's Q, ROE and ROCE. From the results in the table it is clear that firm performance is directly related to promoters holding and inversely related to non-promoters holding. From the results obtained we can conclude that promoters' holding is a major contributor in the firm performance. There is a significant and positive relation between companies' performance and promoters holding. Thus, non-promoters holding do not contribute much to the companies' performance. So we can comment that the performances of the Indian companies are still dominated and influenced by concentrated ownership as this leads to better control and management of the companies.

limitation of the study

The study also has several limitations. Such limitations, however, can be taken as the subject of further research. Such limitations are as follows:

1. We have selected only 20 sensex Index companies out of the total listed companies in BSE.
2. Financial services segments, like banking and non-banking financial companies are not considered due to difference in laws governing them.
3. Public Sector firms are also not included in the analysis as their performance is influenced by a large number of social obligations and regulations.
4. Study period is limited to 15 years, 2001-02 to 2014-15.
5. Restricted our study on some specific control variables. There may be other variables which can control the performance of the company like age, size represented by sales fig and assets, leverage etc. MA

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At the helm

CMA K Narasimha Murthy is recently appointed as Advisor (Financial Services) by Government of Andhra Pradesh in the rank of Special Chief Secretary. The assignment involves working on Expenditure Management Reforms and also protecting the deposit holders interest involved in Financial Ponzi Schemes, as Chairman of the Government Committee constituted on the subject.

Voluntary Disclosure of Financial Ratios: CNX Nifty Companies

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Voluntary disclosures of information in annual reports of companies have increased substantially over the years and have been an area of interest for researchers over the years (Cooke,1989; Skinner,1994; Courtis,1999, Hossain et al., 1995). Voluntary disclosure is disclosing information which is more than what is mandated by the regulatory authorities or agencies in various countries. According to Stanga (1976), good disclosures, among others, will foster a healthy relationship between a company and professional analysts; will tend to lessen fluctuations in security prices and help eliminate insider profit and related legal problems. Companies disclose voluntary information for varied reasons. Some companies provide voluntary disclosures in an effort to distinguish their products from those of their competitors (Tariq,2001), while others are of the view that such disclosures of accounting information voluntarily would help raise additional capital (Craven et al.,1999). Motivating factors for voluntary disclosures as identified by Subramanyam et al., (2014) are legal liability, expectations, signalling and managing expectations. Agency theory may also explain why managers disclose voluntary information and at times, competitive market forces may induce the management to disclose more information (Firth,1979). Better disclosure practices are helpful in boosting brand name and goodwill, mitigating frauds and in avoiding litigations and fines (Naranyaswamy,2011).

Corporate voluntary disclosures can take several forms. Many studies were conducted on voluntary disclosures; Economic Value Added disclosures by Kaur et al., 2010, corporate social disclosures by Murthy (2008), intellectual capital disclosures by Joshi et al., (2011), human capital disclosures by Jindal et al., (2012). One noteworthy voluntary disclosure is non-mandatory financial ratios and the present study is directed in that direction. According to Thomas et al., (1987), the information from ratio analysis, especially in the form of trend analysis, can be used to forecast the efficiency and profitability of a company as well as to determine its financial position, and possibly, to avoid business failures. According to Barnes (1987), 'financial ratios are used by accountants and analysts to forecast future financial variables and by researchers for predictive purposes, namely credit rating, assessment of risk and corporate failure'. Financial ratios involveestablishing a relevant financial relationship between the components of financial statements for further investigation. It is a powerful tool for recognizing a company's strength as well as probable trouble spots(Bhatia et al.,2015). According to Watson et al., (2002), 'the disclosure of ratios in company accounts may provide users of financial statements with new information not calculable elsewhere, or may simply provide information available elsewhere in the same or different form'. Gibson (1982) suggested that financial ratios are more effective in projecting the financial future of a company and that it increases the quality of annual reports.

India is the chosen destination for this study owing to its unique background as an emerging market economy with rapidly growing capital markets. With the advent of liberalization, there are umpteen companies targeting funding from foreign sources. Hence, the extent of voluntarily disclosed business information available from annual reports of companies will play a huge part in attractive potential investors, both domestic and foreign. However, in India, listed companies are mostly family controlled with majority holdings in shares and board positions. Hence, such family-owned companies do not have much motivation to disclose additional business information over and above the mandatory requirements. This attribute in the Indian stock market structure provides for a fascinating understudy when looked at in the context of the rising qualm for internationalization and global transparency. This would entail more research needed on the Indian capital market, and also call for extended studies on evaluation of voluntary disclosure patterns of Indian companies.

The present paper focuses on voluntary disclosure of financial ratios as it would be of value to users of annual reports as seen from the above citations. This paper is based on a study by Abdullah et al., (2008) and Bhatia et al., (2015). The objectives of this study are as follows-

★ To determine the extent of voluntary disclosure of financial ratios in annual reports of CNX Nifty Companies

★ To construct a voluntary disclosure indexto be applied to annual reports of the selected CNX Nifty Companies and examine the association between the index with firm specific characteristics and industry classification.

The rest of the sections are organised as follows- Section 2 presents the theoretical framework and review of literature, Section 3 describes the Methodology including hypotheses development and testing, Section 4 provides the findings of the study, Section 5 provides findings &conclusion and Section 6 provides directions for future research.

2. Theoretical Framework and Literature Review

2.1 Theoretical Framework

Agency theory

Jensen &Meckling (1976: 308) define the agency relationship as "a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent." Agents correspond to managers, whereas principals correspond to shareholders from a companies' perspective. Agency costs stem from the assumption that the two parties, agents and principals, have different interests. Monitoring costs are paid by the principals, shareholders, to limit the agents' aberrant activities. Bonding costs are paid by the agents, managers, to guarantee that no harm of the principal's interests will result from their decisions and actions. Residual loss stems when decisions of the agents diverge from decisions that would maximise the principal's welfare. Accordingly, the agency cost is the summation of the monitoring cost, bonding cost, and the residual loss.The agency relationship leads to the information asymmetry problem due to the fact that managers can access information more than shareholders. Optimal contracts is one of the means of mitigating the agency problem as it helps in bringing shareholders' interests in line with managers' interests. In addition, voluntary disclosure is another means of mitigating the agency problem, where managers disclose more voluntary information reducing the agency costs and also to convince the external users that managers are acting in an optimal manner (Shehata, Narmeen; 2014).

Signalling theory

Although the signalling theory was originally developed to clarify the information asymmetry in the labour market, it has been used to explain voluntary disclosure in corporate reporting. As a result of the information asymmetry problem, companies signal certain information to investors to show that they are better than other companies in the market for the purpose of attracting investments and enhancing a favourable reputation. Voluntary disclosure is one of the signalling means, where companies would disclose more information than what is mandatorily required as per laws & regulations in order to signal that they are better (Shehata, Narmeent;2014).

Capital need theory

Companies aim to attract external finance to increase their capital, either by debt or equity. The capital need theory suggests that voluntary disclosure helps in achieving a company's need to raise capital at a low cost. In 2001, according to the Improved Business Reporting: Insights into Enhancing Voluntary Disclosure, which is published by the Financial Accounting Standards Board as part of their broader Business Reporting Research Project, the competition for capital leads to increased voluntary disclosure. The rationale beyond this is the fact that "a company's cost of capital is believed to include a premium for investors' uncertainty about the adequacy and accuracy of the information available about the company." Therefore, reduction in a company's cost of capital is achieved when investors are able to interpret the company's economic prospects through voluntary disclosure (Financial Accounting Standards Board, 2001). The relationship between voluntary disclosure and cost of capital was thought to be a positive relationship; the higher the information disclosures, the lower the cost of capital (Shehata, Narmeent; 2014).

2.2 Literature Review

The literature on accounting disclosures are substantial and these studies cover a broad range of issues. Studies on corporate disclosure practices either investigate mandatory or voluntary disclosures or both. Financial ratios'disclosures fall under the purview of voluntary disclosures. Keeping this in mind, literatures relating to utility of financial ratios and voluntary disclosure of financial ratios are discussed in the ensuing pages.

There has been an increasing interest in voluntary disclosures, however, there are only a few studies available on financial ratios' disclosure. Previous studies examined the use of financial ratios to predict failure/bankruptcy (Beaver,1966; Altman, 1968, Houghton et al., 1984). According to Beever (1966), the utility of ratios depends on a particular objective for which it is being calculated. Lee et al., (1977) opined that several ratios are important enough to indicate the financial performance of companies. Financial ratios provide insights about company's financial performance (Subramanyam et al., 2009).

Williamson (1984) studied the selective reporting of financial ratios and found that three of the eleven selected ratios(i.e. return on equity, current ratio, and return on sales) were more likely to be disclosed by firms. The conclusion was that the selective reporting of financial ratios appears to be more dependent on deviation from industry medians than on improvements in the ratios. Watson et al., (2002) carried out a study on U.K companies'practices of voluntary disclosure of ratios. According to them, companies which are large in size disclose more ratios as compared to companies which are small in size. The nature of the business also has an impact on voluntary disclosure practices. It was observed that utility and media companies were disclosing fewer ratios in U.K.In Malaysia, a study conducted by Mokhtar et al. (2004) on financial ratio disclosure (both mandatory and voluntary) shows that there are variations in the extent of disclosure by Malaysian listed companies. The study revealed that the most frequently reported ratio was earnings per share (EPS), followed by dividends per share and net tangible assets per share. Since EPS and dividends per share are mandatory ratios, the findings are expected. Mokhtar et al. (2004) argued that the level of voluntary disclosure of financial ratios was still low. In addition, they concluded that firm size is significantly and positively associated with the extent of financial ratios disclosed in the annual reports.

Abdullah et al ., (2008) researched on voluntary ratio disclosure practices of Malaysian Companies. They found that large and regulated companies disclose more than others and it also depends on internal and external antecedents such as firm and industry norms. They recommended that disclosures of ratios should be standardised so that the users and analysts gain from it. Aripin et al., (2011), studied the extent of financial ratios disclosure and determinants of disclosures for Australian firms. It was observed that the firm's size, non-audit fees and profitability have influence on the extent of financial ratio disclosures. Ali Uyar et al., (2012) investigated the influence of firm characteristics on voluntary disclosure of financial ratios in the annual reports of Turkish listed companies. The sample consisted of industrial firms listed in the Istanbul Stock Exchange (ISE). The findings revealed that Turkish listed firms disclose, on an average, 5.37 financial ratios in their annual reports. The results of multivariate analyses indicated that firm size, auditor size, profitability and ownership diffusion have significant positive association with voluntary disclosure level of financial ratios, while leverage does not. Bhatia et al., (2015) studied the magnitude of voluntary financial ratio disclosures in India by selecting CNX 100 National Stock Exchange companies. According to them, the magnitude of voluntary disclosure of financial ratios was low. The voluntary disclosures of financial ratios were influenced by market capitalisation and efficiency of asset usage.

Research Questions-

1. Do firm specific characteristics such as profitability, liquidity, efficiency and industry classification jointly influence voluntary disclosure index?
2. What are the financial ratios mostly disclosed by companies in India?
3. What is the disclosure pattern of companies included in CNX Nifty? (The CNX Nifty is a well diversified 50 stock index accounting for 22 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds.)

3. Methodology

3.1 Data and Period of Study-

The data for the study is secondary in nature. The secondary data has been collected from the annual reports of the companies which can be downloaded from the respective company's website. The investor section in the websites contains the audited annual reports and other related documents. The period of study is 2014-2015 as a majority of companies on the date of data collection did not upload the annual reports of 2015-16.

3.2 Sample Selection –

CNX Nifty consists of 50 companies drawn from 22 Industrial sectors. A sample of 40 companies was selected for the purpose of the study. 10 companies belonged to banking and financial services sector. The ratios and regulatory requirements of such companies are different and hence excluded from the study. The sample size is assumed to be sufficient because it satisfies the rule of thumb that a sample size larger than 30 companies and less than 500 is appropriate for most studies (Abdullah et al., 2008).

3.3 Scoring of Variables and Construction of Index-

For measuring the level of financial ratio disclosure, index of disclosure method is used, owing to its wider use by researchers and acceptability. The index for disclosure index can be created either by using weighted or un-weighted scores. Many researchers have used weighted disclosure index where in different items are assigned different weights on the basis of importance or type of disclosure (Bergamini et al, 2002; and Kang, 2006).Watson et al. (2002), Abdullah et al., (2008) in Malaysia, Bhatia et al., (2015) have used un-weighted disclosure index wherein equalimportance is assigned to all the items. The basis of using un-weighted index is that the annual reports are read by various stakeholders with different objectives, thus they attach different importance to these items and as the paper is modelled in the similar lines of Abdullah et al., (2008), an un-weighted index for analysis purpose.

Financial ratios are classified into seven categories, i.e., profitability, leverage, efficiency, liquidity, dividendand investment ratios. Within these categories there is further sub classification. The mandatory accounting ratios, i.e., dividend per share and earnings per share are ignored as the study is based on voluntary disclosure of financial ratios.

For constructing the disclosure index, each company is given a score of 1 for every ratio disclosed and nil score for ratio not disclosed. Disclosure index is made by dividing the total number of financial ratio disclosed by the maximum score attained by a company in a sample, i.e., average is considered. A score sheet was prepared after perusing details of the annual report of the sampled companies.

$$\text{Disclosure score} = \sum_{i=1}^{n} d$$

where,

d = 1 if the ratio is disclosed and nil if it is not; and

n = Number of items

Disclosure index = Disclosure score/Highest score by a company in the sample

3.4 Model Specification

Keeping in view the objective of the study, multiple regression analysis is considered as an appropriate model. The attributes that influence the voluntary financial ratio disclosure (dependent variable) are profitability, liquidity, leverage, efficiency and size of the company. Ratio disclosures also depend on the sector classification. Sector classification is considered by using dummy variables.

$$Y_{VDI}=\alpha+\beta_1X_{prof}+\beta_2X_{liq}+\beta_3XI_{ev}+\beta_4X_{eff}+\beta_5X_{size}+\Sigma\beta_jX_j+\varepsilon$$

Description of Dependent and Independent variables of the model are as follows

Dependent Variable	Explanation
VDI	Voluntary financial ratio disclosure represented by the ratio of the number of financial ratios disclosed by the highest score.
Independent Variables	

Dependent Variable	Explanation
Prof	Profitability represented by return on investment as on March 31, 2015.
Liq	Liquidity represented by current ratio as on March 31, 2015.
Lev	Leverage represented by debt equity ratio as on March 31, 2015.
Eff	Efficiency represented asset turnover ratio as on March 31, 2015.
Size	Size represented by natural logarithm of market capitalisation as on March 31, 2015
Xj = IndClass	For Industry Classification, seven dummy variables (X6 to X11) are used one each for automobiles, consumer goods, energy, infrastructure, pharmaceuticals , IT &services industry. Each of these is assigned a value of 1 when they fell in the industry group represented by it.

Hypotheses Development

The present study proposes to test the association between voluntary disclosure index and factors such as profitability, liquidity, efficiency, size and industry classification. The hypotheses are the following-

H_1- There is significant association between voluntary disclosure index and profitability of the companies.
H_2- There is significant association between voluntary disclosure index and liquidity of the companies.
H_3- There is significant association between voluntary disclosure index and leverage of the companies.
H_4- There is significant association between voluntary disclosure index and size of the companies.
H_5- There is significant association between voluntary disclosure index and industry classification of the companies.

Analysis and Interpretation

Table I. Companies Selected for the Study

Sectors	No. of Companies	Percentage
IT & Services(Software, media and entertainment)	6	15
ENERGY (Power, Gas and Oil Exploration)	8	20
AUTOMOBILE	6	15
PHARMA	4	10
CONSUMER GOODS	3	7.5
INFRASTRUCTURE (Cement and cement products, Telecom, Ports, Construction, Metals)	13	32.5
TOTAL	40	100

(Source- Author's Classification)

Table I shows the companies selected for the purpose of study. Out of 50 companies, 10 companies represented 'Banking and Financial Services'. Since the reporting pattern of such companies is different, the 10 companies were not considered for the study. The final sample stands at 40. The table also shows that majority (32.5%) represented 'Infrastructure Sector' followed by Energy (20%), Automobile (15%), IT& Services (15%) respectively.

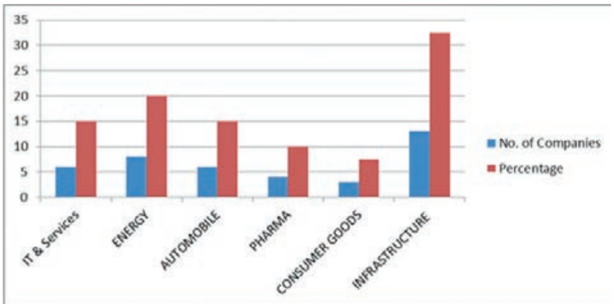

Figure I

Table II

Number of Companies Disclosing Different Types of Ratio

Type of Ratios	No.	Percentage of Sample Size
Profitability	27	67.5
Liquidity	10	25
Leverage	16	40
Investments	17	42
Dividends	6	15
Total Sample	40	

(Source-Author's Classification)

Table II shows the different types of ratios disclosed by companies during the period of study. The ratios were categorised as 'Profitability', 'Liquidity', 'Leverage', 'Investments' and 'Dividends'. The table shows that majority of the companies disclosed profitability ratios (67.5%). EBITDA margin, EAT margin were the most common ratios disclosed by companies. 42% of the companies disclosed investment ratios. Return on Capital Employed and Return on Networth were the ratios most disclosed by companies. 40% of the companies disclosed leverage ratios with debt equity ratio being the most disclosed one under this category. 25 % of the companies disclosed liquidity ratios. 15% of the companies disclosed dividend ratios with dividend payout ratio being the most disclosed ratio.

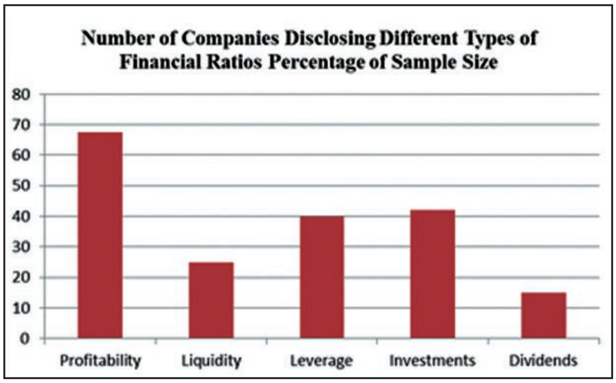

Figure II

Table III
Frequency of Companies Disclosing Voluntary Accounting Ratios

Number of Ratios	Disclosure Index	Frequency	Percentage
0	0	7.00	17.5
1	0.076923077	5.00	12.5
2	0.153846154	5.00	12.5
3	0.230769231	5.00	12.5
4	0.307692308	4.00	10
5	0.384615385	5.00	12.5
6	0.461538462	4.00	10
7	0.538461538	2.00	5
8	0.615384615	1.00	2.5
9	0.692307692	1.00	2.5
13	1	1.00	2.5
	Total	40.00	100

(Source-Author's Calculation)

Table III shows the frequency of companies disclosing financial ratios during the period of study. Out of 40 companies, 7 companies did not disclose any ratios, which is 17.5% of the sample size. 5 companies are disclosing only one ratio. There are 5 companies each disclosing 2,3 and 5 ratios respectively. There is only one company which discloses 13 ratios which is 2.5% of the sample.

Table IV
Descriptive Statistics of Dependent and Explanatory Variables

	Index	*RoI*	*CR*	*DE*	*ATR*	*Ln(size)*
Mean	0.275	23.40791	1.571163	0.265408	1.879363	10.9267
Standard Error	0.034827	3.750963	0.141187	0.063162	0.308742	0.2255
Median	0.230769	17.68779	1.325698	0.036338	1.234982	2.940
Range	1	141.8336	3.610192	1.79	7.805885	5.9834
Minimum	0	0	0.389808	0	0.134115	7.729
Maximum	1	141.8336	4	1.79	7.94	13.7312
Count	40	40	40	40	40	40

(Source-Excel Analysis)

Table IV shows the descriptive statistics of the dependent variable and the explanatory variables. Out of the total number of ratios considered for the study in the disclosure list (13), the companies disclose on an average of 27.5% of the ratios which is approximately 4 ratios. This implies that the extent of voluntary disclosure of financial ratios by companies is low. The table also presents the descriptive statistics of independent variables.

Table V
Pearson Correlation Coefficient Among Variables

	VDI	RoI	CR	DE	ATR	Size	Auto	ITS	Energy	Pharma	CG	Infra
VDI	1											
RoI	-0.007	1										
CR	-0.015	0.109	1									
DE	0.186	-0.342*	-0.331	1								
ATR	0.101	0.712*	0.351	-0.375*	1							
size	0.1752	0.58**	0.414	-0.431*	0.871*	1						
Auto	-0.159	-0.006	0.060	-0.150	0.080	0.164	1					
ITS	-0.134	0.214	0.50**	-0.252	0.197	0.183	-0.176	1				
Energy	-0.32*	-0.255	-0.136	0.041	-0.114	-0.177	-0.058	-0.22	1			
Pharma	-0.008	-0.084	0.027	-0.209	-0.020	0.019	-0.140	-0.140	0.219	1		
CG	-0.024	0.046	-0.0196	0.0922	0.1286	0.122	-0.119	-0.119	-0.153	-0.094	1	
Infra	0.349*	-0.322*	-0.0578	0.301	-0.297	-0.311	-0.142	-0.291	-0.373	-0.231	0.05	1

**correlation is significant @ 5% level*

** correlation is significant @ 1% level

Table V shows the result of Pearson Correlation Coefficients among the variables. The correlation coefficients were analysed to explore the presence of multicollinearity. Multicollinearity refers to close relations between various variables. A general rule is, if the correlation coefficient is between -0.7 and 0.7, then there is no problem using independent variables for the study (Lind et al., 2008). The correlation coefficient matrix reveals that there is multicollinearitybetween asset turnover ratio and size ($r=0.871$, $p< 0.05$). To address the issue of multicollinearity, any one variable will have to be removed to run the regression model. Asset turnover ratio was removed and size was retained. It was found that size of a company is associated with high disclosures (Abdullah et al., 2008). To check further, VIF (Variance Inflation Factor) test was also conducted. It is usually accepted that if any VIF is more than 10 and the tolerance value is below 0.10, there is a problem of multicollinearity. The VIF results are shown in Table VI.

Table VI- Summary of Regression Results

Adjusted R^2=0.115 F=3.634 Sign=0.036

Model	Coefficients	't' value	Sign (p)	Tolerance	VIF
(Constant)	0.273	2.831	0.008	--	--
RoI	-0.065	-0.753	0.225	0.385	2.594
CR	-0.035	-0.171	0.865	0.518	1.931
DE	0.251	1.4117	0.167	0.692	1.445
Ln(size)	0.083*	2.112	0.043*	0.574	1.742
ITS	-0.166	-0.701	0.488	0.387	2.586
Energy	-0.115*	-2.092	0.042*	0.562	1.780
Pharma	-0.178	-1.103	0.279	0.834	1.199
CG	0.082	0.477	0.637	0.730	1.370
Infra	0.123*	2.301	0.027*	0.424	2.359

**Significant @ 5%.*

Table VI reveals the summary of regression results. The adjusted R^2 and F values are 0.115 and 3.643 respectively, implying that the model is significant. The model can explain 11.5% variation in the disclosure index by the explanatory variables. The results indicate that there is an association between the level of disclosure , firm size measured by natural logarithm of market capitalisation and industry classfication. The β value of ln(size) is 0.083, which indicates that the level of disclosure is positively associated with the size of the company. This implies that large companies are more likely to disclose more ratios than smaller companies. Therefore hypothesis '$H_4$is accepted.The β value of 'Infra' is 0.123 at 5% level of significance (p<0.05), indicating that infrastructure companies disclose more ratios than companies in other sectors. The β value of 'Energy' is -0.115 at 5% level of significance, indicating that Energy companies disclose less ratios than companies in other sectors. The other variables namely, ITS (IT &Services), Pharma (Pharamceutical Sector) and CG(Consumer Goods) 'β' values are not statistically significant(p>0.05). Companies of infrastructure and Energy sector have an association with voluntary disclsoure inded and hence hypothesis 'H_5' is accepted. The other firm specific variable viz., profitablity, leverage and liquidity β values are not statistically significant(p>0.05) and therefore do not have any association with voluntary disclosure index . Hence, hypotheses 'H_1', $H_2$and $H_3$are rejected

4. Findings and Conclusion

The anaylsis of CNX Nifty companies shows that the voluntary disclosure of financial ratios is low. It is evident from the research that financial ratios disclosure is not of great importance for companies listed in India. Companies on an average reveal 3 to 4 ratios voluntarily. The findings are consistent with the studies of Abdullah et al., (2008) and Bhatia et al., (2015). The study also finds that there are two extreme samples in the study. On one hand, there are 7 companies which do not disclose any ratios, whereas there is only one company which has disclosed 13 ratios. The most common ratios published are EBITDA margin, EAT margin and Return on Capital Employed. The study also finds that only three variables, size, infrastructure and energy influence the disclosure index. The implication of the study is that large companies interms of market capitalisation disclose more ratios voluntarily than smaller companies. Companies representing infrastructure sector disclose more ratios than companies from other sectors. Companies from Energy sector disclose fewer ratios when compared to companies in other sectors. The findings are inconsistent with earlier studies (Abdullah et al, 2008; Varghese,2011; Ai Uyar et al., 2012;Bhatia et al.,2015) which stated size, liquidity and efficiency as the variables significantly influence voluntary disclosure of finanical ratios. The study also found that there is no uniformity in disclosing financial ratios in the annual reports. This may be due to the absence of standards and lack of guidelines from the regulatory authorities. Financial ratios are considered as one of the important tools of analysis, the inclusion of which in the annual reports shall reduce the information asymmetry. Investors and analysts use ratios for comparability purposes, standardization of the method of calculations will help them compare the performance of companies sector-wise and decide on the best investment vehicle. The empirical findings show a positive relationship between disclosure index and selected performance variables. In order to apply the findings to practical use, a lot rides on on the

The study has examined the extent of voluntary disclosure of financial ratios in India and its association with performance of the company, size and industry classification. The companies selected for the study are CNX Nifty companies. Multiple correlation and regression were used to explore the relationship between disclosure index and the selected explanatory variables. The results indicate that the extent of voluntary disclosure of ratios is significantly influenced by size of the company and industry classification. The Infrastructure sector disclosed more ratios than companies from other sectors. The disclosure index was very low indicating that the companies were lacking in efforts to disclose more ratios voluntarily to various stakeholders for a better understanding and interpretation of financial statements. The paper also calls for mandatory reporting of select ratios and standardization of the methods used in calculation of financial ratios. Improved levels of voluntary disclosures will reduce information asymmetry among investorsand enhance clarity about long-term business sustenance.

nature of the voluntary disclosure, i.e. strategic, financial or corporate governance information. The need of the hour for the regulatory authority in India is to take a firm call on making a select set of ratios under each category mandatory, standardize calculation of ratios ensuring uniformity in disclosures, resulting in better investment decisions by stakeholders.The findings demonstrate the need for a shift in strategic thinking at the board level and senior management of listed Indian companies. Thus, the methodologicalapproach and findings from this research enrich the existing literature on the relationship between voluntary disclosure of financial ratios, firm specific characteristics and industry classification.

Directions for Future Research

Research is an on going process. The present study has identified the following factors which can be considered when research activities in this topic are undertaken in the future to augment the literature.

a. The present study is restricted to 40 companies drawn from CNX Nifty- NSE Index. Sample size could be increased to check for consistency/deviations from the findings of earlier studies. The NSE has various indices such as NSE 500, NSE Mid Cap 250 etc. A large sample size should throw more light on the factors influencing voluntary disclosure of ratios.

b.Future studies can also consider corporate goverance variables (board composition, board size, board independence) to check whether such variables also jointly influence volunatry disclosure of ratios.

c. The present study is restricted to only one year. Future studies can focus on increasing the time period to assess whether disclosure practices have improved or not and explore reasons for the same.

d. The present study has found that 'Industry' variable as a factor has association with disclosure index. Hence, sector specific studies can be undertaken in the future. This is to identify the discriminating factors sector-wise interms of voluntary disclosure of ratios.

e. A comparitive study of the extent of voluntary disclosures between companies listed in Indian & European bourses can be takenup. This will lend credence to the idea that top-performing companies worldwide disclose company information in a uniform manner. MA

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Paradigm shift from CLB to NCLT & NCLAT

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Introduction

1. The Central Government notified the constitution of National Company Law Tribunal and National Company Law Appellate Tribunal with effect from 01/06/2016 and thus fulfilled the long pending demand of the Corporate Sector. The origin of NCLT and NCLAT can be traced to Justice Eradi Committee Report. The NDA Government headed by former Hon'ble Prime Minister Shri. A.B. Vajpayee on 22.10.1999 constituted a Committee under the Chairmanship of Retd. Justice Mr. K.S. Paripoornan consisting of experts to examine the law relating to winding up proceedings of companies in order to remodel it in line with the latest developments and innovations in the corporate law and governance and to suggest reforms in the procedure at various stages followed in the insolvency proceedings of companies to avoid unnecessary delays in tune with the international practice in this field. Shri. Justice V. Balakrishna Eradi, retired Judge, Supreme Court of India, was substituted for Shri. Justice K.S. Paripooman, retired Judge, Supreme Court of India vide Department of Company Affairs's Corrigendum No: 1/13/99-CL-V dated 6 December,

1999. The Committee submitted its report on 31.07.2000.

2. The Committee, in para 5.6 of the Report, indicated the need for constituting NCLT.

"It has been brought to the attention of the Committee in the many presentations made before it that the High court Judge dealing with company cases is not able to sit on a day-to-day basis and is not in a position to devote the time and energy required for early disposal of winding-up cases. It is for these reasons that the Committee strongly feels that it is necessary to establish a separate National Tribunal, which may exclusively deal with revival/winding-up of companies on a regular and day-to-day basis as such an arrangement would expedite the disposal of winding-up cases"

3. The Committee recommended that the provisions of Part VII of the Companies Act, 1956, be amended to include the provisions for setting up of a National Tribunal which will have,

a. the jurisdiction and power presently exercised by Company Law Board under the Companies Act, 1956;
b. the power to consider rehabilitation and revival of companies – a mandate presently entrusted to BIFR/AAFIR under SICA;
c. the jurisdiction and power relating to winding up of companies presently vested in the High Courts. In view of above recommendations Article 323B of the Constitution should be amended to set up National Tribunal. SICA should be repealed and the Companies Act, 1956 be amended accordingly.

4. The Central Government accepted the recommendations of the Committee and amended the Companies Act, 1956 by Companies (Second Amendment) Act, 2002 by inserting Part 1B and Part 1C in the Companies Act, 1956 for the purpose of constituting NCLT and NCLAT. The Madras Bar Association challenged the constitutional validity of Companies (Second Amendment) Act, on the ground of growing tribunalisation of justice and thereby questioned the constitution of NCLT and NCLAT. The Hon'ble Madras High Court vide its judgement made on 30/03/2004, held that the parliament is competent to make law with regard to incorporation, regulation and winding up of companies under Entry 43 and 44 of List-I of the Constitution and the power to regulate would include the power to set up adjudicatory machinery for resolving the matters litigated upon and which concern the working of the companies in all their facets and creation of National Company Law Tribunals and Appellate Tribunals and vesting in those tribunals the powers exercised by the High Court with regard to company matters cannot be said to be unconstitutional. By the said judgement, the Hon'ble High Court, Madras also held that certain provisions were found to be defective in as much as they were in breach of basic constitutional scheme of separation of powers and independence of the judicial function and were required to be amended by removing the defects. Otherwise, the tribunal and appellate tribunal would be unconstitutional.

5. The Madras Bar Association aggrieved by the judgement holding that establishment of NCLT and NCLAT were held to be constitutional and the Central Government aggrieved by the orders mandating that certain provisions required to be amended filed appeals before Hon'ble Supreme court. The Hon'ble Supreme Court vide its order dated 11/05/2010 upheld the decision of the Hon'ble High Court, Madras that the creation of NCLT and NCLAT and vesting in them, the powers and jurisidiction exercised by the High Court in regard to company law matters are not unconstitutional and certain sections of Parts 1B and 1C are unconstitutional and they may be made operational by making suitable amendments as indicated in the judgement in addition to the amendments agreed to by the Central Government.

Exclusive Jurisdiction:

6. Sec.430 of the Companies Act, 2013 seeks to vest exclusive jurisdiction on the NCLT and NCLAT in respect of the matters vested in it either under the Companies Act or under any other law for the time being in force. Let us analyse Sec.430 of the Companies Act, 2013.

Sec.430: No civil court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which the Tribunal or the Appellate Tribunal is empowered to determine by or under this Act or any other law for the time being in force and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act or any other law for the time being in force, by the Tribunal or the Appellate Tribunal.

7. Whether it can be said that the legislature by using the word, "suit" has completely ousted the jurisdiction of the Civil Courts in respect of the matters which the Tribunal or the Appellate Tribunal is empowered to determined by the Companies Act or any other law for the time being in force. The proceedings before the Company Law Board which is sought to be replaced now by NCLT was a summary proceeding and that was the precise reason, the Company Law Board in many matters where complicated questions of law and facts were involved relegated the parties to civil courts. In Ansar Khan And Kalimulla Shariff Vs. Finecore Cables Private Limited, http://indiankanoon.org/doc/1677876, the Company Law Board held that the disputes involving substantial rights of the parties and where the allegations are forgery and fabrication of records, which could only be resolved by oral testimony tested by cross examination of witnesses, cannot be resolved on the strength of the averments made in the affidavits filed by the parties, defeating the purpose and object of the summary procedure prescribed by Section 397/398 and directed parties to agitate their rights over 4815 shares in a competent civil court. In S. Sivakumar Vs, Cirlacs Data Systems Limited (2002) 112 Comp Cas 162 (CLB), the Company Law Board did not determine whether the signature in the transfer deed is genuine or forged one as the proceedings before it were summary in nature and there being a criminal case already filed in the matter gave a direction that in case the criminal court comes to a finding that the signature of petitioner on the instrument of transfer was a forged one, the company should re-enter the name of the petitioner on the register of members and deliver the share certificates to him.

8. Now, since exclusive jurisdiction is sought to be vested with NCLT and NCLAT whether it can be said that the civil courts cannot adjudicate the matters which are entrusted to NCLT/NCLAT. Let us analyse two sections, Sec.97 and 59 of the Companies Act, 2013. Sec 97 deals with the powers of NCLT to order convening of an Annual General Meeting where a company defaulted to hold the Annual General Meeting. The NCLT can order convening of an Annual General Meeting on the application made by a member of the Company. Under Sec.97, a member can only make the application and there is a degree of certainty as to the position of a member, i.e., a person whose name is entered in the Register of Members and the matter complained of is purely in relation to the affairs of a company. If a person is not a member, then he cannot make the application. Sec.59 which deals with rectification of Register of Members vests power on NCLT to order rectification of Register of Members. In case, a person comes before NCLT after signing the share transfer deed and receiving consideration on transferring his shares seeking rectification of Register of Members on the ground that he signed the transfer deed and received consideration on coercion, whether NCLT is duty bound to hear the matter. One has to see here that the Company is only a proforma party and on the date of approving share transfer by the Company there was no allegation of coercion. The company bona-fide approved the transfer. The matter complained of herein is not purely in relation to the affairs of the Company but in relation to the affairs of two individuals/persons who claim that the shares belong to them. Similarly where probate proceedings are to be initiated in relation to shares, whether it can be said that civil court will not have jurisdiction to entertain the matter.

9. The Hon'ble Supreme Court in Ammonia Supplies Corporation P. Ltd. Vs. Modern Plastic Containers P. Ltd. and others (1998) 94 CompCas 310 (SC) while dealing Sec.155 of the Companies Act, 1956 relating to rectification of Register of Members in paragraph 32 held as follows:

"Paragraph 32: ....If it truly is rectification all matter raised in that connection should be decided by the court under Sec.155 and if it finds adjudication of any matter not falling under it, it may direct a party to get his right adjudicated by civil court. Unless jurisdiction is expressly or implicitly barred under a statute, for violation or redress of any such civil right civil court would have jurisdiction. There is nothing under the Companies Act expressly barring the jurisdiction of the civil court, but the jurisdiction of the 'court' as defined under the Act exercising its powers under various sections where it has been invested exclusive jurisdiction, the jurisdiction of the civl court is impliedly barred. We have already held above the jurisdiction of the 'court' under Sec.155, to the extent it has exclusive, the jurisdiction of civil court is impliedly barred. For what is not covered as aforesaid, the civil court would have jurisdiction. ......"

10. The Hon'ble Supreme Court also interpreted the words 'sufficient cause' appearing in Sec.155 of the 1956 Act and held that the word 'sufficient cause' is to be tested in relation to the Act and Rules. Without sufficient cause entered or omitted to be entered means done or omitted to do in contradiction of the Act and the Rules or what ought to have been done under the Act and the Rules but not done. What the Hon'ble Supreme Court said that the jurisdiction of the civil court is impliedly barred is now explicity barred under Sec.430 of the Companies Act, 2013 and Sec.430 does not alter the interpretation of the words, 'sufficient cause'. Therefore Sec.430 would bar the jurisdiction of the civil courts only when the matter complained of is purely in relation to the affairs of the Company and not incidental/tangential to affairs of the company. The original civil court is a court of record and the civil rights of the parties cannot be taken away by Sec.430 of the Companies Act, 1956.

Taking of evidences

11. The Company Law Board very rarely resorted to taking of evidences though it held in Rajinder Kumar Malhotra vs Harbhans Lal Malhotra & Sons Ltd (1996) 87 Comp.Cases 146 (CLB) that at any point of time it considers that on the basis of the affidavits no conclusion can be drawn, it shall, on its own, call such of those petitioners or respondents to depose in person before adjudicating on the allegations. Since the Companies Act, 2013 bars the jurisdiction of Civil Courts, Rule 9 of draft National Company Law Tribunal Rules, 2015 which deals with taking of evidences, by Rule 9(2) contemplates cross-examination of any deponent either through Information and Communication Technology (ICT) facilities like video conferencing or otherwise as may be decided by the Tribunal, on an application moved by any party on the points of conflict. Further, Rule 10(1) stipulates that notwithstanding anything contained in Rule 9, the parties to the proceedings shall not be entitled to produce before the Bench additional evidence, either oral or documentary, which was in the possession or knowledge but was not produced before the Inspector (s), appointed by the Central Government for the purpose of investigating the affairs of the concerned company (s), during investigation under Chapter XIV of the Act, but if the Bench requires any document to be produced or any witness to be examined or any affidavit to be filed to enable it to pass orders or for any other substantial cause, or if the Inspector (s) so appointed for the said purpose has not given sufficient opportunity to the party to adduce evidence, the Bench, for reasons to be recorded, may allow such document to be produced or witness to be examined or affidavit to be filed or may allow such evidence to be adduced. Therefore, these two Rules make it clear examining the witnesses shall have to be resorted to by NCLT especially when the jurisdiction of the Civil Court is ousted.

12. Sec.268 of the Companies Act, 2013 also bars the jurisdiction of the civil courts in relation to rehabilitation of sick companies. According to Sec.268, No appeal shall lie in any court or other authority and no civil court shall have any jurisdiction in respect of any matter in respect of which the Tribunal or the Appellate Tribunal is empowered by or under this Chapter and no injunction shall be granted by any court or other authority in respect of any action taken or proposed to be taken in pursuance of any power conferred by or under this Chapter.

13. While Sec.430 stipulates that no original proceeding can be brought before the Civil Court, Sec.268 contemplates that no appeal can be filed before court or other authority in relation to rehabilitation of Sick Companies. The reason is that Sec.434 of the Companies Act, 2013 which deals with transitional provisions says that any appeal before AAIFR and any reference before BIFR shall abate and the Company may make a reference to NCLT within 180 of notification of the said section. There may be a situation where a company has filed an appeal before AAIFR or received an order of rehabilitation from BIFR on which the Company wants to file an appeal and there is a possibility a company may invoke the writ jurisdiction of the High Court. By stating that no appeal can be filed, Sec.268 even bars the writ jurisdiction of the High Court from considering the orders of BIFR. The High Court can only direct the company to initiate de-novo proceedings before the NCLT.

14. Sec.430 and Sec.268 of the Companies Act, 2013 do not alter the entertaining of suits by civil courts in respect of the matters which are not entrusted to NCLT or NCLAT. For eg., (i) a company convened an AGM and a section of shareholders want to get a restraint order against the Company from holding the AGM and (ii) a director who has been declared that he vacated the office of director wants to get an order that he did not vacate the office. In these situations, the shareholders concerned or the director concerned has to approach the civil court only for the simple reason that no remedy has been provided under the Companies Act, 2013 and in these situations Sec.9 of Civil Procedure Code, 1908 comes into play. The Hon'ble High Court, Madras in K. Radhakrishnan vs Thirumani Asphalts and Felts P. Ltd (1997) 13 SCL 169 Mad. held that the Companies Act, 1956 does not bar the jurisdiction of the civil courts in respect of matters which are not expressly made subject to the jurisdiction of the Company Court, the Company Law Board, the Magistrate or the Central Government. In its judgement, the Hon'ble High court, Madras referred to the judgements of the Hon'ble High Courts, Kerala in R. Prakasam Vs. Sree Narayanan Dharma Paripalana Yogam 1980 (50) Comp Cas 61 (KER) and Hon'ble High Court, Karnataka, in Prakash Roadlines Limited Vs. Vijaya Kumar Narang 1995 (83) Comp Cas 569 (KAR). However, the full Bench of Hon'ble High Court, Andhra Pradesh in K. Venkat Rao vs Rockwool (India) Ltd., and Ors. (2002) 108 Com Cas 494 did not agree with the above judgement of Hon'ble High Court, Madras and held the right of a person to continue as a director of the Company can be enforced by the Company Court by adjudicating on the question as to whether he incurred such disqualification or not. The Hon'ble High Court, Bombay in Khetan Industries Pvt. Ltd. and others Vs. Manju Raviprasad Kethan AIR 1995 Bom 43 held that the Civil Court has no jurisdiction to entertain a suit for removal of directors of a limited company as it relates to internal management of the Company which is governed by the provisions of the Companies Act, specifically made in that behalf.

15. The above legal position would continue even under the Companies Act, 2013 also as these matters are not entrusted to NCLT or NCLAT for adjudication. The aggrieved person in respect of the matters which are not entrusted to NCLT either has to approach the civil court or the High court depending on the judgement of the High Court within whose jurisdiction the Registered Office of the Company is situated.

Whether the Jurisdiction of the High Courts is completely ousted

16. The decisions of Hon'ble High Court, Andhra Pradesh and Hon'ble High Court, Bombay quoted above leads to a conclusion that the Jurisdiction of the High Courts at least in those states where the High Courts have rendered decisions on the lines of Hon'ble High Court, Andhra Pradesh and Hon'ble High Court, Bombay are not ousted in respect of the matters which are not entrusted to NCLT and NCLAT for adjudication. The reason is that Sec.2(29) of the Companies Act, 2013 which defines the Court is the amalgam of Sec.2(11) and Sec.10 of the Companies Act, 1956. The reasons laid out by these courts would hold good even under the Companies Act, 2013 for the purpose of invoking the jurisdiction of lowest civil courts/High Courts, as the case may be, in respect of matters not entrusted to NCLT and NCLAT.

17. Apart from the above, the Companies Act, 2013 itself vests the jurisdiction with the High Courts under Sec.130, 210(2) and 463(1) of the Companies Act, 2013. Sec.130 deals with re-opening of accounts, Sec.210(2) deals with ordering investigation into affairs of the Company by the Court and Sec.463(1) deals with granting of relief to directors when they apprehend that prosecutions may be launched against them.

Application of Limitation Act:

18. Sec.433. The provisions of the Limitation Act, 1963 shall, as far as may be, apply to proceedings or appeals before the Tribunal or the Appellate Tribunal, as the case may be. The Limitation Act is applicable to the proceedings before a court of civil judicature. The National Company Law Tribunal or the National Company Law Appellate Tribunal are not civil courts and the challenge to the Companies (Second Amendment) Act, 2002 was itself was on the basis of tribunalisation of judiciary. . Further, according to Sec. 424 (1), the Tribunal and Appellate Tribunal shall not, while disposing any proceeding before it, or, as the case may be, an appeal before it, bound by the procedure laid down in the Code of Civil Procedure , 1908 but shall be guided by the principles of natural justice, and subject to other provisions of this Act and of any rules made thereunder, the Tribunal and the Appeallate Tribunal shall have power to regulate their own procedure. The fact that the tribunal and appellate tribunal are not bound by the Code of Civil Procedure, 1908 but shall be guided by the principles of natural justice and shall have power to regulate their own procedure and also would have technical members as its presiding officers make it clear that the NCLT and NCLAT are not courts but only quasi judicial bodies. However, now invariably questions would be raised before NCLT whether the matters which would be brought up before the NCLT would be a suit in a generic sense or a suit in a restricted sense which is filed before Civil Courts because the limitation act is made applicable.

19. The Company Law Board which dealt with rectification of Register of Members under Sec.111(4) of the Companies Act, 1956 always held that the Company Law Board is only a tribunal and the provisions of Limitation Act is not applicable to it. It is pertinent to that the power to order rectification of Register of Members was with High Courts prior to notification of Companies (Amendment) Act, 1988 and the Limitation Act was applicable to the proceedings under Sec.155 of the Companies Act, 1956. In T.G. Veeraprasad Vs. Sree Rayalaseema Alkalies and Allied Chemicals Ltd. (1997) 89 Comp Cas 13 (CLB) the Company Law Board held that the Company Law Board is not governed by the provisions of the Limitation Act, it cannot be said the right to move the Company Law Board has become time barred. Further, the Company Law Board before the Judgement of Hon'ble High Court, Calcutta in Nupur Mitra Vs. Basupani Private Limited MANU/WB/0388/1999 always held that the provisions of limitation act do not apply to the proceedings before it (Dr. G.N. Byra Reddy and others Vs. Arathi Cine Enterprises Pvt. Ltd and others MANU/CL/0013/1997) After the judgement in Nupur Mitra's case, though the Company Law Board applied the provisions of limitation act in relation to petitions filed under Sec.111/111A of the Companies Act, 1956 yet it treated them as a suit in generic sense and not in a restricted sense and that was the precise reason that In Tommy Mathew Vs. Duroflex Limited (2004) 122 Comp Cas 741 CLB,, it condoned the delay in the filing the petition. In a subsequent judgement, a single judge of the Hon'ble High Court, Calcutta in Peerless General Finance and Investment Co. Ltd. Vs. Poddar Projects Limited held that the provisions of Limitation Act are not applicable to Company Law Board. It is pertinent to note that the Division Bench Judgement of Hon'ble High Court, Calcutta in Nupur Mitra's case was not cited before the Hon'ble single Judge. These are now only academic interest as Sec. 433 of the Companies Act, 2013 makes it clear that the provisions of Limitation Act apply to NCLT and NCLAT. Therefore, issues would be raised before NCLT whether matters brought before it are in the nature of suit in a restricted sense or in a generic sense.

20. The Hon'ble Supreme Court in Patel Roadways Limited Vs. Birla Yamaha Limited, *http://Indiankannon.org/doc/1907957* while interpreting the word, 'suit' appearing in Sec.9 of the Carriers Act, held that the word, 'suit' has to be interpreted in a generic sense and not in a restricted sense. According to Sec.9 of the Carriers Act, in any suit brought against a common carrier for the loss, damage or non delivery of goods (including containers, pallets or similar article of transport used to consolidate goods) entrusted to him for carriage, it shall not be necessary for the plaintiff to prove that such loss, damage or non delivery was owing to the negligence or criminal act of the carrier, his servants or agents. The Hon'ble Supreme Court held that the term suit has not been defined in the Carriers Act nor is it provided in the said Act that the term suit will have the same meaning as in the Civil Procedure Code. Therefore, the ordinary dictionary meaning of the term will have to be taken for ascertaining the meaning.

21. In Companies Act, 2013 there are many provisions for which no time limit is laid down. If the matters are going to be treated as a suit in generic sense then the limitation period of 3 years laid down in Article 137 of the limitation Act would get attracted or alternatively if the matters are going to be treated as a suit in a restricted sense, then the limitation period of 3 years specified in Article 113 would get attracted. While in the former case, the NCLT may condone the delay in filing the application and in the latter case, the filing of application for condonation of delay does not arise and the NCLT is bound to dismiss the application in case the same is found to be time barred. Apart from this, Sec.58 which deals with the power of NCLT to direct registration of transfer of shares stipulates time limit for filing appeal before it. Sec.59 which deals with rectification of Register of Members does not lay down any time limit for filing application before it. Questions would be raised before NCLT that these are suits in a restricted sense and NCLT is bound to dismiss the same, in case they are filed beyond the period prescribed under Sec.58 for transfer of shares and beyond a period of 3 years in case of rectification of Register of Members The High courts have always dismissed the winding up petitions in case the debts have become time barred. There is every likelihood that NCLT may follow the High Courts in admitting winding up petitions as the substance has not changed but the forum before which the winding up petition is filed is only changed. However, arguments may be advanced before NCLT that it being a tribunal and being not bound by the Code of Civil Procedure, the winding up petition shall be the suit in generic sense and the NCLT may condone the delay. It is pertinent to note that the Company Law board also entertained applications in relation to non re-payment of deposits even after the expiry of three years and directed the concerned companies to re-pay the deposit..

22. As regards appeal before NCLAT, there is no need to look into the provisions of limitation act as Sec.421(3) of the Companies Act, 2013 lays down that appeal can be made within a period of forty five days by the person aggrieved. The proviso to sec.421(3) further states that appeal can be entertained by the appellate tribunal after the expiry of forty five days but within a further period not exceeding forty five days. In an unreported judgement rendered in Tenecco Mauritius Ltd vs Bangalore Union Services Ltd & others, the Hon'ble High Court, Madras held that the language in Sec.10F of the Companies Act, 1956 is couched in a negative language and it cannot condone the delay even by exercising its inherent power under Sec.5 of the Limitation Act, 1963. Therefore, an appeal before NCLAT cannot be filed beyond the period of 90 days. Similar would be the case of filing an appeal before Hon'ble Supreme Court under Sec.423 of the Companies Act, 2013. The appeal before Hon'ble Supreme Court cannot be filed beyond a period of 120 days.

Whether appeal on question of facts can be filed before NCLAT

23. Sec.421(1) of the Companies Act, 2013 states that any person aggrieved by any order of the Tribunal may prefer an appeal to the appellate tribunal. Sec.421 (1) is silent whether an appeal before NCLAT can be filed only on a question of law or both on the questions of law and facts. The Madras Bar Association after the judgement of the Hon'ble Supreme Court rendering that the constitution of National Tax Tribnual as unconstitutional filed another writ petition (W.P (C) 1072/2013) before the Hon'ble Supreme Court challenging the constitutional validity of NCLT and NCLAT on the ground that the new provisions under the Companies Act, 2013 are almost on the same lines as it were in the Companies Act, 1956 and suffered from the vice of unconstitutionality as well on the application of the ratio in 2010 judgement. In its judgement rendered on 14/05/2015, the Hon'ble Supreme court while directing the Central Government to remove the defects in paragraph 16 made it clear that appeal would lie before NCLAT both on the questions of facts as well as questions of law. Therefore appeal can be filed before NCLAT on questions of facts as well as questions of law.

Time-bound disposal by NCLT and NCLAT

24. Sec.422(1) of the Companies Act, 2013 stipulates that endeavour shall be made to dispose of the application or petition filed before NCLT and appeal filed before NCLAT within three months of the presentation of the application/petition or the appeal. Sub-section (2) of Sec.422 states that where the application/ petition or appeal cannot be disposed of within three months of its presentation, the President of the Tribunal/Chairperson of the appellate tribunal by recording the reasons there for may extend the period by ninety days. Thus a total period 180 days is envisaged for disposal of the application/petition or the appeal.

25. Since, the intention of the legislature is to dispose of the matters as expeditiously as possible, the draft Rule 24 of National Company Law Tribunal Rules, 2015 envisages that the filing of Rejoinder by the petitioner is not a matter of right.

Draft Rule 12: where the respondent states such additional facts as may be necessary for the just decision of the case, the Bench may allow the petitioner to file a rejoinder to the reply filed by the respondent, with an advance copy to be served upon the respondent.

Draft Rule 24: No pleadings, subsequent to the reply, shall be presented except by the leave of the Tribunal upon such terms as the Tribunal may think fit.

A combined reading of the rules 12 and 24 make it clear that the rejoinder/reply to counter can be presented only with the permission of the tribunal.

Review of orders by NCLT

26. Draft Rule 17 of National Company Law Tribunal Rules, 2015 deals with consequences of non appearance of applicant. According to sub-rule (2) to Rule 17, where the petition or application has been dismissed for default and the applicant files an application within thirty days from the date of dismissal and satisfies the Tribunal that there was sufficient cause for his non-appearance when the petition or the application was called for hearing, the Tribunal shall make an order restoring the same:

Provided that where the case was disposed of on merits the decision shall not be re-opened except by way of review.

It may be seen that Sec.10FN and Sec.10FZA(2)(i) of the Companies Act, 1956 vested powers to review the orders by NCLT. These provisions are absent in the Companies Act, 2013. Further, proviso to Regulation 26(2) of CLB Regulations, 1991 stipulated that where the case was disposed of on merit, the decision shall not be re-called by CLB. Therefore, the draft rules contemplating review of the orders by NCLT where it was disposed of on merits especially when the power to review has not been vested on the NCLT or NCLAT by substantive legislation i.e., by any of the Sections of the Companies Act, 2013, there is every likelihood that proviso to sub-rule (2) of Rule 17 would be challenged.

27. The parliament has now passed Insolvency and Bankruptcy Code and it may any time be notified. Under the Insolvency and Bankruptcy law, the NCLT or NLCAT has been vested with power to approve Insolvency resolution approval plan in respect of a corporate person including a limited liability partnership. Thus the NCLT and NCLAT will be adjudicating authority under the Companies Act, 2013, Sec.45QA of the RBI Act, Limited Liability Partnership act, 2008 and Insolvency and Bankruptcy Act, 2016. Let us hope the NCLT usher a new era in corporate disputes. MA

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WOMAN EMPOWERMENT

WOMAN DIRECTORSHIP

- a laudable initiative towards Women Empowerment

CS Rupanjana De
Regional Council Member
EIRC-ICSI
Kolkata

"Woman, thy name is power"

"The angel of the Family is Woman. Mother, wife, or sister, Woman is the caress of life, the soothing sweetness of affection shed over its toils, a reflection for the individual of the loving providence which watches over Humanity. In her there is treasure enough of consoling tenderness to allay every pain. Moreover for every one of us she is the initiator of the future. The mother's first kiss teaches the child love; the first holy kiss of the woman he loves teaches man hope and faith in life; and love and faith create a desire for perfection and the power of reaching towards it step by step; create the future, in short, of which the living symbol is the child, link between us and the generations to come. Through her the Family, with its divine mystery of reproduction, points to Eternity." So opined Giuseppe Mazzini almost one and half a century back; the truth of the quote cannot be questioned till date, perhaps, never ever as long as the sun shines upon the earth.

Woman often feel belittled when introduced as a mother and homemaker. Little do we realize that just being a mother gives a lady the job profile of a timekeeper, a chef, a maid, a waitress, a watchman, a teacher, a nurse, a referee, an arbitrator, a security guard, a photographer, a beautician, a counselor, a driver, a personal assistant and a 24x7 on-call caretaker for life... And this job is devoid of any paid holidays, sick pay, overtime pay or days off. No wonder Goddess Durga is shown as an embodiment of prowess and capability, but the real world often undermines the role of a woman who is just a mother and a homemaker.

In this connection I am reminded of a famous quote. Ruth Bader Ginsburg, Associate Justice of the Supreme Court of the United States remarked once "My mother told me two things constantly. One was to be a lady and the other was to be independent, and the law was something most unusual for those times because for most girls growing up in the '40s, the most important degree was not your B.A. but your M.R.S.". Thankfully we have come a long way since that time and social order. In today's corporate world 'women empowerment' is the buzz word. And with the introduction of the concept of Women Director in the Companies Act 2013, the movement has actually been accelerated.

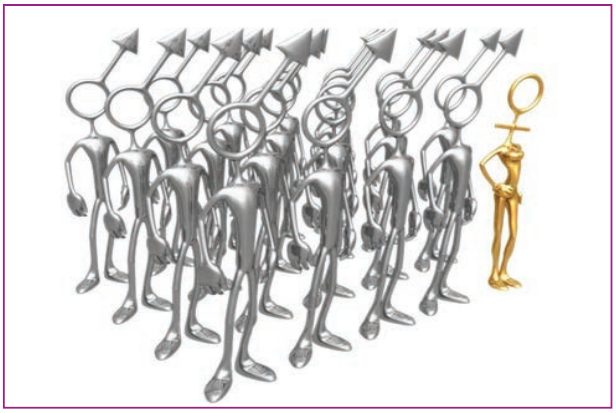
Gender Equality in India

The principle of gender equality has been enshrined in the Indian Constitution in its preamble, fundamental rights, fundamental duties and directive principles of state policy, but despite such unambiguous equal rights given to both men and women Indian society has remained male dominated. The work place is one example where gender inequalities are easily noticed.

But in the modern era the status of women is changing. The Government of India has propagated many laws for the empowerment of women. However, India is not the first country to do so; many others like Norway, France, Italy, Spain, and Belgium have already implemented such steps by introducing legislation which makes it mandatory to appoint women directors in a company's board.

Companies Act 2013

One of the most significant concepts and provisions introduced by the new Companies Act, 2013 is the mandatory inclusion of at least one woman director in the Board of every prescribed class of companies in India. This is a truly revolutionary step initiated by the legislature for women empowerment in the corporate world and seeks to recognize the important role of women in promoting economic welfare of the country.



Section 149(1) of Companies Act, 2013, deals with women directors. It states that every company shall have a board of directors who are individuals with a minimum number of three directors in case of a public company and two directors in case of a private company and one in case of One Person Company, and a maximum of fifteen directors. Further it also states that such class or classes of companies as prescribed shall have at least one woman director. Accordingly, the Rule 3 of Companies (Appointment and Qualification of Directors) Rules, 2014 states that the following categories of companies are mandatorily required to appoint at least one woman director to their board of directors:

1. Every listed Company
2. Every Other Public Limited Company which has

a. Paid-up Share Capital of Rupees One Hundred Crores or more (≥ Rs 100 Cr); or

b. Turnover of Rupees Three Hundred Crores or more (≥ Rs. 300 Cr)

The paid up share capital or turnover as stated above shall be the one which is mentioned in the latest audited financial statement.

Any company which is incorporated under the new Companies Act shall comply with the above conditions within six months from the date of incorporation.

The new law provides that in case if there is vacancy in the post of women director, such vacancy has to be filled not later than the immediate next board meeting or after three months from the date of the post being vacant, whichever is later.

Number of directorships

As per the extant provisions of section 165 of the Companies Act, 2013, a person shall hold office as a director, including any alternate directorship, in not more than twenty companies (20) at the same time subject to maximum directorships in ten public (10) companies. However, SEBI restricts directorship as an Independent Director to maximum of seven (7) listed companies. In case an Independent Director is a Whole-time Director in any listed company, he / she can hold directorship as an Independent Director in maximum three (3) listed companies only.

To simplify the provisions for any woman interested in being appointed as a Woman Director:

1. She can be appointed in a total of 20 companies as Director including alternate directorship, private companies etc.
2. Out of the total of twenty, she can hold the position of Director in a maximum of 10 public companies.
3. Out of this ten she can be in a maximum number of 7 listed companies and 3 unlisted public companies
4. If she is already a whole time director in one of the companies, her maximum independent directorship in listed companies is 3

In this respect it may be noted that for reckoning the limit of public companies in which a person can be appointed as director, directorship in private companies that are either holding or subsidiary company of a public company shall be included.

The initial debate

While the debate on inclusion of the mandatory provision was still on, in July 2014, Smt. Nirmala Sitharaman, MoS in the Ministry of Corporate Affairs, in a written reply on the statistics had replied that according to MCA21 database, there were 1,26,077 public limited companies in the country then, out of a total number of 14 lakh companies. And an amazing number of 4,83,323 companies out of that, including public limited companies, had Women Directors. (Refer Press Information Bureau Release dated 15-July-2014 17:31 IST available at www.pib.nic.in). This came in as a good reply to many speculating on the need on women directors and their availability. However, questions have been raised at various quarters about the veracity of the data on women directors as many believe that a much lower percentage of companies in India actually have women directors.

Empirical evidence

There is a question as to whether the mandatory inclusion of a lady in the board will actually increase women's participation in the corporate sector. A study conducted two years back revealed that the board of a private sector company, run by a professional CEO with a mix of both men and women, helped the Return on Equity (ROE) rise by 4.4% over the last year. In contrast, a similar company with a men-only board saw its ROE rise by a mere 1.8% in the same period. Certain other examples would be Chanda Kochhar, who heads ICICI bank and Kiran Mazumdar Shaw, Director of Biocon Limited, both of which have shown a positive difference on return on equity. All the above analysis probably point to the fact that with increase in women participation on the boards, and with gender diversity in place, the economic growth would be positively impacted.

Women in society

The contribution of women to society is insurmountable. They have supported men and the society, for achieving all-round development and progress, as well as in every significant sphere of domestic and social life. In the occupational and professional domains, women have an ever-increasing participation in almost all fields of the economic sectors of business and commerce, professions, industries, and services, at all levels of hierarchies. In some well-developed countries, with liberal outlooks and opulent facilities for quality higher education and disciplinary training, women have been at par with men, even in the fields of army and defense, aviation, and space exploration.

Women in the Board

The Board of Directors of a company is the vital governing body and directors have the utmost responsibility for stable, efficient, and profitable running of the company, safeguarding the interests and progress of the company and its stakeholders. As India is one of the fast growing economies of the world, this initiative for empowerment of women in the giant corporate world by the MCA, is indeed, highly commendable.

Candidate preference

In order to embrace the legislation in letter and spirit many front-running companies in the private sector have been giving serious thoughts about bringing in dynamic women on the board. While majority of the companies have showed willingness in inducting women candidates from the corporate sector as WDs, there are other companies who have extended their choice to women candidates from academia, law firms, government organizations and social sectors as they bring a different perspective and are especially helpful for CSR initiatives and brand building. There have also been preferences on having women members from professional bodies like the ICAI, ICAI (Cost) and ICSI. This definitely comes in as great news to the professional institutes as well.

Does India have enough women leaders to meet this requirement?

The new provisions were welcomed at many quarters as a forward looking idea while in others it was accepted half-heartedly; the result in these cases was that the compliance was made only in letter and not in spirit. Many have also been raising the doubt on availability of enough capable women for the position. Answering to this, some corporate leaders in India have also questioned: "Are there sufficient good men on the boards of Indian companies?" Kalpana Morparia, member of JP Morgan's global strategy team headquartered in New York and JP Morgan Asia Pacific Executive Committee who figures in the list of most powerful women in Indian industry, says there are thousands of capable women in the country to be on the boards of Indian companies. "I don't understand why such questions should arise about the availability of women as board directors. However, it is a good start by the government to mandate at least one director on the board of companies. I truly believe that once these companies fulfill these mandatory requirements, they will start witnessing the merit of women directors on the board," says Morparia. Being on the board of several companies as an independent director, she is confident about the fact that women can bring richer corporate governance standards and improve the quality of discussions in board rooms. A diametrically extreme view also states that there should be not one, but at least two women directors in a Board for quality discussion.

It is to be remembered that half of the country's population comprises women and probably a little less than one half of every good academic course or study programme consists of women. Hence, for the willing hearts it is definitely not difficult to find the right woman candidate for the boards.

Benefits of having a Woman Director in the Board

- As there are representations for academic and ethnic interests on the board, women directors will bring meaningful diversity
- Women have a democratic leadership style
- Women as good listeners can ensure problem solving

- Through their collaborative approach women encourage participative decision-making
- Women are said to be proactive in anticipating risks and issues that could arise, and thereby help strengthen risk management practices
- WDs can effectively oversee implementation of policies and processes, as they tend to closely follow up on deviations, be tough on exceptions, and ensure timely adherence to the right process
- Gender diversity brings in diversity of thought pattern
- Women are thought to be more inclined towards social work. In this era of mandatory CSR WDs can effectively contribute towards CSR activities of companies by minutely following the flow of activities, acting upon concerns and so on.
- With more and more thrust being laid on Business Ethics, this is another area which can be effectively supervised by a WD
- Survey results show that boards / senior managements with gender diversity perform better with higher return on equity and return on capital employed
- Diversity in values may help enhance board decision-making by increasing the number of alternatives considered, the quality of ideas as well as different aspects of the issues at hand
- Boards with WDs are more likely to consider counter-arguments regarding the decisions to be made
- While men are generally head-strong, women usually exhibit more compassion
- A study has revealed that Boards with women are more likely to engage in debates and disagreement and are associated with higher perceived and objective firm performance
- Women directors differ from their male counterparts in terms of their prior professional experiences as they have nontraditional backgrounds
- WDs are more likely to come from non-business backgrounds and hold more advanced degrees
- WDs with different backgrounds offer unique perspectives that may help counter the conventional wisdom and increase consideration of a wider range of potential solutions

Beware of the cons if not complied in spirit

Appointment of independent woman director would be beneficial in many ways but since the provision does not specify any eligibility criteria for an independent woman director, companies are likely to recruit women from amongst the promoter's family and friends irrespective of whether they are qualified for the post or not. Such being the case women will be appointed to the boards but in many cases they might not actually attend board meetings and be in a position to actually make any difference. Women should be accepted for their skills and not just because they are women. It's indisputable that only experienced women with the right qualifications should be appointed as a director of the boards. There are lots of talented women out there; the deserving and qualified women should be brought on board.

Here Norway's experience could serve as an example for us; Norway established a 40 percent quota for women on its boards in 2003. At the start of the initiative, women held less than seven percent of board seats but by 2010, women filled more than a quarter of those seats. Although the numbers of women were up in Norway, there was little evidence that corporate performances had been enhanced. A study conducted by the University of Michigan suggested that Norway's introduction of quotas had negatively impacted both performance and board quality. In order to obey the law the Norwegian firms appointed many women as members of the board who were less experienced.

Though such legislation and quota can be effective to bring women to the top positions in the companies, its benefits will be short lived if there are no proper guidelines to implement it and if it is not properly supervised by the Government.

The new mandate has given the much desired initial push

Actual implementation would depend on the whole-hearted acceptance of the role of women directors by promoters and shareholders in general.

The provision should not be seen as mere compliance, but a necessity.

Conclusion

While many conservative Board members might just shrug off a woman director stating that 'she is only a lady', it is the ones who understand the benefits of having gender diversity on board that actually get the benefits. In fact there are no less male directors on various boards who hardly add any value. The need of the hour is diversity, and effective discussion. It is time, therefore, to accept the provision of women directors in spirit, and not just in letter. MA

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Customs

Notifications:

Tariff:

● In the said notification, in the Schedule, after serial number 31 and the entries relating thereto, the following serial numbers and entries shall be added, namely :-

S. No.	Name of Country
"32.	Republic of Togo
33.	Republic of Chad"

[Notification No. 39/2016-Customs New Delhi, dated the 21st June, 2016]

● In this notification, Government of India makes the following further amendment, in the Ministry of Finance (Department of Revenue), No.12/2012-Customs, dated the 17th March, 2012, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 185(E), dated the 17th March, 2012, namely:-

In the said notification, after the Table, in the proviso, clause (ac) shall be omitted.

[Notification No. 38/2016-Customs New Delhi, the 17th June, 2016]

● In this notification, Government of India in the Ministry of Finance (Department of Revenue) makes the following further amendment, No. 27/2011-Customs, dated the 1st March, 2011, published in the Gazette of India, Extraordinary, vide number G.S.R. 153(E), dated the 1st March, 2011, namely :-

In the said notification, in the Table, serial number 9A and the entries relating thereto shall be omitted.

[Notification No. 37 /2016-Customs New Delhi, the 16th June, 2016]

● In each of the notifications, Government of India in the Ministry of Finance (Department of Revenue) makes the following amendments, specified in column (2) of the Table below, which shall be amended or further amended, as the case may be, in the manner specified in the corresponding entry in column (3) of the said Table,

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-tarr2016/cs36-2016.pdf

[Notification No. 36/2016 - Customs New Delhi, dated 1st June, 2016]

● In this notification, Government of India in the Ministry of Finance (Department of Revenue) No. 27/2011-Customs makes the following further amendments, dated the 1st March, 2011, published in the Gazette of India, Extraordinary, vide number G.S.R. 153(E), dated the 1st March, 2011, namely :- In the said notification, in the Table, serial number 24BA and the entries relating thereto shall be omitted.

[Notification No.35/2016-Customs New Delhi, the 26th May, 2016]

Non-Tariff:

● In exercise of the powers conferred by sub-section (2) of section 75 of the Customs Act, 1962 (52 of 1962), sub-section (2) of section 37 of the Central Excise Act, 1944 (1 of 1944), and section 93A read with sub-section (2) of section 94 of the Finance Act, 1994 (32 of 1994), read with rules 3 and 4 of the Customs, Central Excise Duties and Service Tax Drawback Rules, 1995, the Central Government, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No.110/2015-Customs (N.T.), dated the 16th November, 2015, published vide number G.S.R. 861 (E), dated the 16th November, 2015, namely:-

In the said notification,-

(a) in the Notes and conditions, after paragraph (24), the following paragraph shall be inserted, namely :- "(24A) Notwithstanding anything contained in paragraph (7) above, the drawback rate specified in the said Schedule against tariff items 711301, 711302 and 711401 shall not be applicable to goods manufactured or exported availing CENVAT facility for any of the inputs or input services used in their manufacture or availing the rebate of duty paid on materials used in their manufacture or processing in terms of rule 18 of the Central Excise Rules, 2002 or manufactured or exported in terms of sub-rule (2) of rule 19 of the said Central Excise Rules, and the exporter claiming the drawback rate against said tariff items shall make appropriate declaration at the time of export.";

(b) in the Schedule, in Chapter-71.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt90-2016.pdf

[Notification No. - 90 / 2016 - CUSTOMS (N.T.) New Delhi, dated the 24th June, 2016]

● In exercise of the powers conferred by section 14 of the Customs Act, 1962 (52 of 1962), the Central Board of Excise and Customs hereby makes the following further amendments in the Notification of the Central Board of Excise and Customs No.87/2016-CUSTOMS (N.T.), dated 16th June, 2016, with effect from 25th June, 2016, namely:-

In the SCHEDULE-II of the said Notification, for serial No.1 and the entries relating thereto, the following shall be substituted, namely

Schedule-II

Sl.No.	Foreign Currency	Rate of exchange of 100 units of foreign currency equivalent to Indian rupees	
1	2	3	
		a	b
		(For Imported Goods)	(For Export Goods)
	Japanese Yen	69.10	66.85

[Notification No.89/2016 - Customs (N.T.) Dated the 24th June, 2016]

● In exercise of the powers conferred by section 14 of the Customs Act, 1962 (52 of 1962), the Central Board of Excise & Customs hereby makes the following amendments in the Notification of the Central Board of Excise and Customs No.87/2016-CUSTOMS (N.T.), dated 16th June, 2016, with effect from 24th June, 2016, namely:- In the SCHEDULE-I of the said Notification for serial No.12 and the entries relating thereto, the following shall be substituted, namely

Schedule-I

Sl.No.	Foreign Currency	Rate of exchange of one unit of foreign currency equivalent to Indian rupees	
1	2	3	
		a	b
		(For Imported Goods)	(For Export Goods)
12.	South African Rand	4.80	4.45

[Notification No.88/2016 - Customs (N.T.) Dated the 23rd June, 2016]

● In exercise of the powers conferred by section 14 of the Customs Act, 1962 (52 of 1962), and in supersession of the notification of the Central Board of Excise and Customs No.80/2016- CUSTOMS (N.T.), dated 2nd June, 2016, except as respects things done or omitted to be done before such supersession, the Central Board of Excise and Customs hereby determines that the rate of exchange of conversion of each of the foreign currencies specified in column (2) of each of Schedule I and Schedule II annexed hereto, into Indian currency or vice versa, shall, with effect from 17th June, 2016, be the rate mentioned against it in the corresponding entry in column (3) thereof, for the purpose of the said section, relating to imported and export goods.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt87-2016.pdf

[Notification No. 87/2016 - Customs (N.T.) New Delhi, dated the 16th June, 2016]

● In exercise of the powers conferred by sub-section (2) of section 14 of the Customs Act, 1962 (52 of 1962), the Central Board of Excise & Customs, being satisfied that it is necessary and expedient so to do, hereby makes the following amendment in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 36/2001-Customs (N.T.), dated the 3rd August, 2001, published in the Gazette of India, Extraordinary, Part-II, Section-3, Sub-section (ii), vide number S. O. 748 (E), dated the 3rd August, 2001.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt86-2016.pdf

[Notification No. 86 /2016-CUSTOMS (N. T.) New Delhi, 15th June, 2016]

● In exercise of the powers conferred by sub-section (2) of section 14 of the Customs Act, 1962 (52 of 1962), the Central Board of Excise & Customs, being satisfied that it is necessary and expedient so to do, hereby makes the following amendment in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 36/2001-Customs (N.T.), dated the 3rd August, 2001, published in the Gazette of India, Extraordinary, Part-II, Section-3, Sub-section (ii), vide number S. O. 748 (E), dated the 3rd August, 2001.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt85-2016.pdf

[Notification No. 85/2016-CUSTOMS (N. T.) New Delhi, 14th June, 2016]

● In exercise of the powers conferred by sub-section (1) of section 4 and sub-section (1) of section 5 of the Customs Act, 1962 (52 of 1962), the Central Board of Excise and Customs hereby appoints the Additional Director General(Adjudication), Directorate of Revenue Intelligence, Delhi to act as a Common Adjudicating Authority to exercise the powers and discharge the duties conferred or imposed on the officers mentioned in column (4) of the Table below in respect of the noticees mentioned in column (2) of the Table for the purpose of adjudication of the show cause notices mentioned in column(3) of the Table namely:

Sl. No	Name of the Noticee	Show Cause Notice Number and Date	Answerable to
(1)	(2)	(3)	(4)
1	M/s Vintron Industries Ltd., New Delhi and others	DRI F. No. 34/XI/21/93-INV dated 29.07.1994/ 03.08.1994	Collector of Customs, Calcutta
		DRI F. No. 34/XI/22/93-INV dated 03.08.1994	Collector of Customs, Custom House, New Delhi
		DRI F. No. 34/XI/24/93-INV dated 03.08.1994	Collector of Customs, Delhi

[Notification No. 84/2016-Customs (N.T.) New Delhi, dated the 14th June, 2016]

● In exercise of powers conferred by sub-section (1) of section 4 and sub-section (1) of section 5 of Customs Act, 1962 (52 of 1962) and in supersession of order/notification as stated in column (5) of the Table below, the Central Board of Excise and Customs hereby appoints officers mentioned in column (6) to act as a Common Adjudicating Authority to exercise powers and discharge duties conferred or imposed on officers mentioned in column (4) of the Table in respect of noticees mentioned in column (2) of the Table for purpose of adjudication of show cause notices mentioned column (3) of the Table.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt82-2016.pdf

[Notification No. 82/2016 -Customs (N.T.) New Delhi, dated the 7th June, 2016]

● In exercise of powers conferred by sub-section (1) of section 4 and sub-section (1) of section 5 of Customs Act, 1962 (52 of 1962) and in supersession of order/notification as stated in column (5) of the Table below, the Central Board of Excise and Customs hereby appoints officers mentioned in column (6) to act as a Common Adjudicating Authority to exercise powers and discharge duties conferred or imposed on officers mentioned in column (4) of the Table in respect of noticees mentioned in column (2) of the Table for purpose of adjudication of show cause notices mentioned column (3) of the Table,

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt81-2016.pdf

[Notification No. 81/2016-Customs (N.T.) New Delhi, dated the 6th June, 2016]

● In exercise of the powers conferred by section 14 of the Customs Act, 1962 (52 of 1962), and in supersession of the notification of the Central Board of Excise and Customs No.77/2016-CUSTOMS (N.T.), dated 19th May, 2016, except as respects things done or omitted to be done before such supersession, the Central Board of Excise and Customs hereby determines that the rate of exchange of conversion of each of the foreign currencies specified in column (2) of each of Schedule I and Schedule II annexed hereto, into Indian currency or vice versa, shall, with effect from 3rd June, 2016, be the rate mentioned against it in the corresponding entry in column (3) thereof, for the purpose of the said section, relating to imported and export goods.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt80-2016.pdf

[Notification No.80/2016 - Customs (N.T.) New Delhi, dated the 2nd June, 2016]

● In exercise of powers conferred by sub-section (1) of section 4 and sub-section (1) of section 5 of Customs Act, 1962 (52 of 1962) and in supersession of order/notification as stated in column (5) of the Table below, the Central Board of Excise and Customs hereby appoints officers mentioned in column (6) to act as a Common Adjudicating Authority to exercise powers and discharge duties conferred or imposed on officers mentioned in column (4) of the Table in respect of noticees mentioned in column (2) of the Table for purpose of adjudication of show cause notices mentioned column (3) of the Table.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt79-2016.pdf

[Notification No. 79/2016-Customs (N.T.) New Delhi, dated the 31st May, 2016]

● In exercise of the powers conferred by sub-section (2) of section 14 of the Customs Act, 1962 (52 of 1962), the Central Board of Excise & Customs, being satisfied that it is necessary and expedient so to do, hereby makes the following amendment in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 36/2001-Customs (N.T.), dated the 3rd August, 2001, published in the Gazette of India, Extraordinary, Part-II, Section-3, Sub-section (ii), vide number S. O. 748 (E), dated the 3rd August, 2001.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-nt2016/csnt78-2016.pdf

[Notification No. 78/2016-CUSTOMS (N. T.) New Delhi, 31st May, 2016]

Anti-Dumping Duty

● Whereas, the designated authority vide notification No.15/19/2014- DGAD, dated the 27th April, 2015, published in the Gazette of India, Extraordinary, Part I, Section 1, dated the 27th April, 2015, had initiated a review, in terms of sub-section (5) of section 9A of the Customs Tariff Act, 1975 (51 of 1975) (hereinafter referred to as the Customs Tariff Act), and in pursuance of rule 23 of the Customs Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995 (hereinafter referred to as the said rules), in the matter of continuation of anti-dumping duty on “Poly Vinyl Chloride Paste Resin” (hereinafter referred to as the subject goods), falling under heading 3904 of the First Schedule to the Customs Tariff Act, originating in or exported from, Korea RP, Taiwan, People’s Republic of China, Malaysia, Thailand and Russia, imposed vide notification of the Government of India, in the Ministry of Finance

(Department of Revenue), No. 66/2011-Customs, dated the 26th July, 2011, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 571(E), dated the 26th July, 2011; and originating in or exported from the European Union, imposed vide notification of the Government of India, in the Ministry of Finance (Department of Revenue), No. 70/2010-Customs, dated the 25th June, 2010, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 553(E), dated the 25th June, 2010;

And whereas, the Central Government had extended the anti-dumping duty on the subject goods, originating in, or exported from, the aforesaid countries, upto and inclusive of the 25th day of July, 2016 and 24th day of June, 2016 respectively, vide notification of the Government of India, in the Ministry of Finance (Department of Revenue) No. 25/2015- Customs(ADD), dated the 1st June, 2015, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R 443 (E), dated the 1st June, 2015 and vide notification of the Government of India, in the Ministry of Finance (Department of Revenue) No. 26/2015-Customs(ADD), dated the 1st June, 2015, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R 444(E), dated the 1st June, 2015;

And whereas, in the matter of review of anti-dumping duty on import of the subject goods, originating in or exported from the aforesaid countries (hereinafter referred to as the subject countries), the Designated Authority in its final findings published vide notification No. 15/19/2014-DGAD, dated the 26th April, 2016, in the Gazette of India, Extraordinary, Part I, Section 1, dated the 26th April, 2016, has come to the conclusion that,-

(a) there is continued dumping of the product concerned from the subject countries except Russia, and M/s LG Chemicals and M/s HCC from Korea RP, both in absolute terms and in relation to production/consumption in India causing injury to the domestic industry;

(b) imports are significantly undercutting the prices of the domestic industry, and are suppressing and depressing the domestic prices.

(c) dumping of the product under consideration from the subject countries except Russia, and M/s LG Chemicals and M/s HCC from Korea RP is likely to continue/intensify should the current antidumping duty be revoked,

and has recommended continued imposition of the following definitive anti-dumping duty on all imports of the subject goods, originating in, or exported, from the subject countries;

Now, therefore, in exercise of the powers conferred by sub-section (1) and sub-section (5) of section 9A of the Customs Tariff Act, read with rules 18 and 23 of the Customs Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995, the Central Government, after considering and on the basis of the aforesaid final findings of the Designated Authority, hereby imposes on the subject goods, the description of which is specified in column (3) of the Table below, falling under heading of the First Schedule to the Customs Tariff Act specified in the corresponding entry in column (2), originating in the countries specified in the corresponding entry in column (4), exported from the countries specified in the corresponding entry in column (5), produced by the producers specified in the corresponding entry in column (6), exported by the exporters specified in the corresponding entry in column (7), and imported into India, an anti-dumping duty at the rate equal to the amount specified in the corresponding entry in column (8), in the currency specified in the corresponding entry in column (10) and as per unit of measurement specified in the corresponding entry in column (9) of the said Table.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-add2016/csadd27-2016.pdf

[Notification No. 27/2016-Customs (ADD) New Delhi, the 23rd June, 2016]

● Whereas, the designated authority vide notification No.15/01/2016-DGAD, dated the 7th June, 2016, published in the Gazette of India, Extraordinary, Part I, Section 1, dated the 7th June, 2016, has initiated review, in terms of sub-section (5) of section 9A of the Customs Tariff Act, 1975 (51 of 1975) (hereinafter referred to as the Customs Tariff Act), and in pursuance of rule 23 of the Customs Tariff (Identification, Assessment and Collection of Anti-dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995 (hereinafter referred to as the said rules), in the matter of continuation of anti-dumping duty on "Pentaerythritol", falling under sub-heading 2905 42 of the First Schedule to the Customs Tariff Act, originating in, or exported from, the People's Republic of China, imposed vide notification of the Government of India, in the Ministry of Finance (Department of Revenue), No.47/2011-Customs, dated the 14th June, 2011, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R.450(E), dated the 14th June, 2011, and has requested for extension of antidumping duty for a further period of one year, in terms of sub-section (5) of section 9A of the Customs Tariff Act.

Now, therefore, in exercise of the powers conferred by sub-sections (1) and (5) of section 9A of the Customs Tariff Act and in pursuance of rule 23 of the said rules, the Central Government hereby makes the following further amendment in the notification of the Government of India, in the Ministry of Finance (Department of Revenue), No. 47/2011-Customs, dated the 14th June, 2011, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R.450(E), dated the 14th June, 2011, namely: -

In the said notification, after paragraph 2 and before the

Explanation, the following paragraph shall be inserted, namely: -

"3. Notwithstanding anything contained in paragraph 2, this notification shall remain in force up to and inclusive of the 13th day of June, 2017, unless revoked earlier.".

[Notification No. 26/2016-Customs (ADD) New Delhi, the 13th June]

● In exercise of the powers conferred by sub-section (1) and subsection (5) of section 9A of the Customs Tariff Act, 1975 (51 of 1975) read with rules 18, 20 and 22 of the Customs Tariff (Identification, Assessment and Collection of Antidumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995, the Central Government hereby rescinds the notification of the Government of India, in the Ministry of Finance (Department of Revenue), No. 35/2012-Customs (ADD), dated the 10th July, 2012, published in the Gazette of India, Extraordinary, Part II, Section 3, Subsection (i) vide number G.S.R. 551 (E), dated the 10th July, 2012, except as respects things done or omitted to be done before such rescission.

[Notification No. 25/2016-Customs (ADD) New Delhi, the 7th June, 2016]

● Whereas, in the matter of import of Vitrified/Porcelain tiles (hereinafter referred to as the subject goods), falling under heading 6907, 6908 or 6914 of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975), originating in or exported from China PR (hereinafter referred to as the subject country), the designated authority vide its final findings in notification No. 15/17/2006-DGAD, dated the 21st April, 2008, published in the Gazette of India, Extraordinary, Part I, Section 1, dated the 23rd April, 2008, subsequently amended vide notification No. 15/17/2006-DGAD, dated the 21st May, 2008, published in the Gazette of India, Extraordinary, Part I, Section 1, dated the 21st May, 2008, had recommended imposition of anti-dumping duty on all imports of subject goods from the subject country in order to remove the injury to the domestic industry.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-add2016/csadd24-2016.pdf

[Notification No. 24/2016-Customs (ADD) New Delhi, the 7th June, 2016]

● Whereas, the Designated Authority, vide notification No. 15/2/2015-DGAD dated the 13th April, 2015, published in the Gazette of India, Extraordinary, Part I, Section 1, had initiated a review in the matter of continuation of anti-dumping duty on imports of Polytetrafluoroethylene or PTFE (hereinafter referred to as the subject goods) falling under tariff item 3904 61 00 of Chapter 39 of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975) (hereinafter referred to as the Customs Tariff Act), originating in or exported, from Russia (hereinafter referred to as the subject country), imposed vide notification of the Government of India, in the Ministry of Finance (Department of Revenue) No. 57/2010-Customs, dated the 3rd May, 2010, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 373(E), dated the 3rd May, 2010.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-add2016/csadd23-2016.pdf

[Notification No. 23/2016-Customs (ADD) New Delhi, the 06th June, 2016]

● Whereas, in the matter of 'Methyl Acetoacetate' (hereinafter referred to as the subject goods), falling under Chapter 29 of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975) (hereinafter referred to as the Customs Tariff Act), originating in, or exported from, the United States of America and the People's Republic of China (hereinafter referred to as the subject countries), and imported into India, the Designated Authority in its final findings published in the Gazette of India, Extraordinary, Part I, Section 1,vide notification number 14/7/2014-DGAD, dated the 1st April, 2016, has come to the conclusion that –

(i) the subject goods has been exported to India from the subject countries below normal values;

(ii) the domestic industry has suffered material injury on account of subject imports from the subject countries;

(iii) the material injury has been caused by the dumped imports of subject goods from the subject countries;

and has recommended imposition of definitive anti-dumping duty on imports of the subject goods, originating in, or exported from the subject countries and imported into India, in order to remove injury to the domestic industry.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-add2016/csadd22-2016.pdf

[Notification No. 22/2016-Customs (ADD) New Delhi, the 31st May, 2016]

● Whereas, in the matter of "Methylene Chloride" also known as "Dichloromethane" (hereinafter referred to as the subject goods), falling under tariff item 2903 12 00 of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975) (hereinafter referred to as the Customs Tariff Act), originating in, or exported from, the People's Republic of China and Russia (hereinafter referred to as the subject countries), and imported into India, the Designated Authority in its preliminary findings published in the Gazette of India, Extraordinary, Part I, Section 1 vide notification No. 14/33/2014-DGAD, dated the 30th October, 2015, had recommended imposition of provisional anti-dumping duty on imports of the subject goods, originating in, or exported from the subject countries and imported into India.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-add2016/csadd21-2016.pdf

[Notification No. 21/2016-Customs (ADD) New Delhi, the 31st May, 2016]

● Whereas, the designated authority, vide notification No. 15/26/2014- DGAD, dated the 16th March, 2015, published in the Gazette of India, Extraordinary, Part I, Section 1, had initiated a review in the matter of continuation of anti-dumping duty on imports of Coumarin (hereinafter referred to as the subject goods) falling under tariff item 2932 20 10 of Chapter 29 of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975) (hereinafter referred to as the Customs Tariff Act), originating in or exported, from the People's Republic of China (hereinafter referred to as the subject country), imposed vide notification of the Government of India, in the Ministry of Finance (Department of Revenue) No. 12/2012- Customs (ADD), dated the 8th February, 2012, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 77(E), dated the 8th February, 2012.

For details see the following link – http://www.cbec.gov.in/resources//htdocs-cbec/customs/cs-act/notifications/notfns-2016/cs-add2016/csadd20-2016.pdf

[Notification No. 20/2016-Customs (ADD) New Delhi, the 27th of May, 2016]

Safeguards Duty

● No new Notification

CVD

● No new Notification

Central Excise

Notifications:

Tariff:

● In exercise of the powers conferred by sub-section (1) of section 5A of the Central Excise Act, 1944 (1 of 1944), read with sub-section (3) of section 3 of the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957) the Central Government on being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No.67/95-Central Excises, dated the 16th March, 1995, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 259(E), dated the 16th March, 1986, namely:-

In the said notification, in the proviso, in item (i), for the words "Free Trade Zone" the words "Special Economic Zone" shall be substituted.

Note: The principal notification No.67/95-Central Excises, dated the 16th March, 1995, was published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 259(E), dated the 16th March, 1995 and was last amended vide notification No.19/2014- Central Excise, dated the 11th July, 2014, published vide number G.S.R. 450(E), dated the 11th July, 2014.

[Notification No.25/2016 – Central Excise, New Delhi, the 14th June, 2016]

● In exercise of the powers conferred by sub-section (1) of section 5A of the Central Excise Act, 1944 (1 of 1944) read with sub-section (3) of section 3 of the Additional Duties of Excise (Goods of Special Importance) Act, 1957 (58 of 1957) and sub-section (3) of section 136 of the Finance Act, 2001(14 of 2001), the Central Government on being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No.214/86-Central Excises, dated the 25th March, 1986, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 547(E), dated the 27th March, 1986, namely:-

In the said notification, for the words "free trade zone", wherever they occur, the words "Special Economic Zone" shall be substituted.

Note: The principal notification No. 214/86-Central Excises, dated the 25th March, 1986, was published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 547(E), dated the 27th March, 1986 and was last amended vide notification No. 48/2006- Central Excise, dated the 30th December, 2006, published vide number G.S.R. 804(E), dated the 30th December, 2006.

[Notification No.24/2016 – Central Excise, New Delhi, the 14th June, 2016]

Non-Tariff:

● In exercise of the power conferred by sub-sections (1) and (2) of section 218 of the Finance Act, 2016, (28 of 2016), the Central Government hereby makes the following rules, namely:-

1. Short title and commencement.-
   (1) These rules may be called the Indirect Tax Dispute Resolution Scheme Rules, 2016.
   (2) They shall come into force on the 1st day of June, 2016.

2. Definitions. - In these rules, unless the context otherwise requires, -
   (a) "Form" means the Form annexed to these rules;
   (b) "Scheme" means the Indirect Tax Dispute Resolution Scheme, 2016, specified under Chapter XI of the Finance Act,2016 (28 of 2016) ;
   (c) "section" means section of the Finance Act,2016 (28 of 2016) ;

(d) words and expressions used in these rules and not defined in these rules but defined in the Scheme under Chapter XI of the Finance Act,2016 (28 of 2016), shall have the meanings respectively assigned to them in that Scheme.

3. Form of declaration under sub section (1) of section 214 and manner of verification of such declaration in respect the amount payable.-

(1) The declaration under sub section (1) of section 214 of the Scheme shall be made in Form 1 in respect of the amount payable under the Scheme.

(2) The declaration under sub section (1) of section 214 shall be verified in the manner indicated therein and shall be signed by the person making such declaration or by any person competent to act on his behalf. F No 1080/06/DLA/IDRS/2016 -2-

(3) The declaration under sub-rule (1) shall be furnished in duplicate to the designated authority.

(4) The designated authority, on receipt of declaration, shall issue a dated acknowledgement thereof in Form 2 as per sub section (1) of section 214 within seven days of the receipt of declaration.

(5) Copy of the declaration made under sub-rule (1) and the acknowledgement issued by the designated authority under subrule (4) shall be furnished within fifteen days of the receipt of acknowledgement by the declarant to the concerned Commissioner (Appeals) before whom the appeal in respect of which the declaration has been made is pending.

(6) On the receipt of the declaration and acknowledgement, Commissioner (Appeals) shall not proceed with the appeal in respect of which the declaration has been made for a period of sixty days from the date of receipt of information under sub-rule (5)

4. Form of reporting deposits made by declarant under sub-section (3) of section 214.-

(1) Declarant shall, within fifteen days of the receipt of acknowledgement under sub-rule (4) of rule 3, deposit the amounts.

(2) Declarant shall, within seven days of making the deposit, intimate the designated authority about the deposit made under subsection (3) of section 214 in Form 3.

5. Form of order under sub-section (4) of section 214.

(1) The designated authority shall, within fifteen days of receipt of the information about the deposit made under sub-section (3) of section 214, in Form 3, issue the order of discharge of dues in respect of the declaration made under sub section (1) of section 214 in Form 4.

(2) The declarant shall intimate the concerned Commissioner (Appeals) along with the copy of the order of discharge of dues issued by the designated authority under sub-rule (1) before the expiry of the period of sixty days specified in sub-rule (6) to rule 3.

(3) On the receipt of the information along with the copy of the order of discharge of dues issued by the designated authority, Commissioner (Appeals) shall remove the appeal from the list of pending appeals with him and intimate the declarant within seven days of the receipt of information under sub-rule (2).

[Notification No 29/2016-CE(NT), New Delhi the 31st May, 2016]

Circulars:

● **Subject:** Levy of excise duty on readymade garments and made articles of textiles bearing a brand name or sold under a brand name and having a retail sale price of Rs. 1000 or more

1. Representations have been received from the trade regarding the scope of the levy of excise duty on readymade garments and made articles of textiles bearing a brand name or sold under a brand name and having a retail sale price of Rs. 1000 or more in this year's Budget.
2. The issue raised is whether excise duty would be chargeable on readymade garments or made up articles of textiles which are sold by a retail store which merely affixes the retail sale price on the readymade garments or made up articles of textiles which are purchased by such retail store from the open market.
3. The issue has been examined in the Ministry. The present levy is not on all readymade garments and made ups, and is restricted only to readymade garments and made up articles of textiles bearing a brand name or sold under a brand name and having retail sale price (RSP) of Rs. 1000 or above. Further, to avoid disputes and minimize duty evasion, it has also been provided that affixing a brand name on the product, labeling or relabeling of its containers or repacking from bulk packs to retail packs or the adoption of any other treatment to render the product marketable to the consumer, shall amount to manufacture.

   3.1 For this purpose, "Brand name" means a brand name, whether registered or not, that is to say, a name or a mark, such as a symbol monogram, label, signature or invented F. No. 332/5/2016-TRU words or any writing which is used in relation to a product, for the purpose of indicating, or so as to indicate, a connection in the course of trade between the product and some person using such name or mark with or without any indication of the identity of that person.

4. However, such retailer shall not be liable to pay excise duty if:

   a) the retail sale price of such readymade garments or made up articles of textiles is less than Rs. 1000, or

b) the aggregate value of clearances for home consumption by such person is less than Rs. 1.5 crore in a year [provided aggregate value of clearances during previous financial year was less than Rs. 4 crore].

5. Further, merely because the outlets [shop] of a retailer, from where readymade garments or made ups are sold, has a name, say, M/s XYZ and Sons, the readymade garments or made ups sold from such outlet [shop] cannot be held as branded readymade garments or made ups and become liable to excise duty. Needless to say, deemed manufacture and liability to excise duty will arise only if such retailer affixes a brand name on the readymade garments and affixes a label bearing the RSP on the packages containing the readymade garments of Rs. 1000 or above.
6. Further, it is hereby directed that field formations shall not visit individual retail outlets or retail chains, except based on specific inputs regarding duty evasion and with the approval of the jurisdictional Commissioner or Additional Director General or above.
7. The above position may be brought to the notice of formations under your charge for strict compliance. Difficulties, if any, faced in the implementation of the instructions may be brought to the notice of the Ministry at an early date.

[Circular No. 1031/19/2016-CX - F. No. 332/5/2016-TRU Government of India Ministry of Finance (Department of Revenue) Tax Research Unit, New Delhi, 14th of June, 2016]

● **Subject:-** Withdrawal of Circulars/Instruction on excisability of bagasse, aluminium/ zinc dross

1. Excisability of bagasse and similar other by-products or wastes arising during the course of manufacture of an excisable product has been an issue under dispute. Following circulars/instruction have been issued from time to time on the subject:-
   (a) Circular No. 904/24/2009-CX dated 28.10.2009,
   (b) Circular No. 941/02/2011-CX dated 14.02.2011,
   (c) Instruction F.No.17/02/2009-CX (Pt.) dated 12.11.2014.
2. The issue came before the Hon'ble Supreme Court in a case of M/s Union of India and Ors vs M/s DSCL Sugar Ltd [2015-TIOL-240-SC-CX] dated 15.07.2015. Hon'ble Supreme Court examined the issue and reaffirmed that bagasse is not a manufactured product. The Judgement applies to both periods, before and after the insertion of explanation in Section 2(d) of the Central Excise Act, 1944 by the Finance Act, 2008. It may also be noted that Hon'ble High Court of Bombay in case of M/s Hindalco Industries Ltd. vs. Union of India [2015(315)E.L.T.10 (Bom.)] came to similar conclusion in relation to dross and skimming of aluminium, zinc or other non-ferrous metal.
3. In the light of the above judgments, circulars of the Board on the subject viz 904/24/2009-CX dated 28.10.2009, 941/02/2011-CX dated 14.02.2011 and instruction issued vide F.No.17/02/2009-CX(Pt.) dated 12.11.2014 have become non-est and are hereby rescinded. Cases kept in Call Book on the above issue may be taken out and adjudicated.

4.1 It may also be noted that rule 6 of the Cenvat Credit Rule (CCR), 2004 was amended with effect from 01.03.2015 by inserting explanation 1 and explanation 2 in sub-rule (1) of rule 6. These explanations continue in the present rule 6 also and are reproduced below for ease of reference :-

"**Explanation 1**. – For the purposes of this rule, exempted goods or final products as defined in clauses (d) and (h) of rule 2 shall include nonexcisable goods cleared for a consideration from the factory.

Explanation 2. – Value of non-excisable goods for the purposes of this rule, shall be the invoice value and where such invoice value is not available, such value shall be determined by using reasonable means consistent with the principles of valuation contained in the Excise Act and the rules made thereunder."

4.2 Consequently, Bagasse, Dross and Skimmings of non-ferrous metals or any such byproduct or waste, which are non-excisable goods and are cleared for a consideration from the factory need to be treated like exempted goods for the purpose of reversal of credit of input and input services, in terms of rule 6 of the CENVAT Credit Rules, 2004.

5. Difficulty experienced, if any, in implementing the circular should be brought to the notice of the Board. Hindi version would follow.

[Circular No. 1027/15/2016-CX F. No. 96/115/2015- CX.1 Government of India Ministry of Finance Department of Revenue (Central Board of Excise & Customs), New Delhi, dated the 25th April, 2016]

Service Tax

Notifications:

● In exercise of the powers conferred by sub-section (1) of section 93 of the Finance Act, 1994 (32 of 1994), the Central Government, being satisfied that it is necessary in the public interest so to do, hereby exempts the taxable services by way of transportation of goods by a vessel from outside India upto the customs station in India with respect to which the invoice for the service has been issued on or before the 31st May, 2016, from the whole of service tax leviable thereon, subject to the condition that the import manifest or import report required to be delivered under section 30 of the the Customs Act, 1962 (52 of 1962) has been delivered on or before the 31st May, 2016 and the service provider or recipient produces Customs certified copy of such import manifest or import report.

[Notification No. 36/2016-Service Tax New Delhi, the 23rd June, 2016]

● In exercise of the powers conferred by sub-section (1) of section 93 of the Finance Act, 1994 (32 of 1994), read with sub-section (5) of section 161 of the Finance Act, 2016 (28 of 2016), the Central Government, being satisfied that it is necessary in the public interest so to do, hereby exempts taxable services with respect to which the invoice for the service has been issued on or before the 31st May, 2016, from the whole of Krishi Kalyan Cess leviable thereon, subject to condition that the provision of service has been completed on or before the 31st May, 2016.

[Notification No. 35/2016-Service Tax New Delhi, the 23rd June, 2016]

● In exercise of the powers conferred by sub-section (2) of section 68 of the Finance Act, 1994 (32 of 1994), the Central Government hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue) No. 30/2012-Service Tax, dated the 20thJune, 2012, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 472 (E), dated the 20thJune, 2012, namely:-

1. In the said notification,-

(a) in paragraph I, in clause (A),-

(i) in sub-clause (iv), for item (B), the following item shall be substituted, namely:- "(B) an individual advocate or a firm of advocates by way of legal services other than representational services by senior advocates, or";

(ii) for sub-clause (iva), the following sub-clauses shall be substituted, namely:- "(iva) provided or agreed to be provided by a senior advocate by way of representational services before any court, tribunal or authority, directly or indirectly, to any business entity located in the taxable territory, including where contract for provision of such service has been entered through another advocate or a firm of advocates, and the senior advocate is providing such services, to such business entity who is litigant, applicant, or petitioner, as the case may be"; (ivb) provided or agreed to be provided by a director of a company or a body corporate to the said company or the body corporate;"

(b) in paragraph (II):-

(i) in the TABLE, against Sl. No. 5, for the entry under column (2), the following entry shall be substituted, namely:- "in respect of services provided or agreed to be provided by an individual advocate or firm of advocates by way of legal services, directly or indirectly";

(ii) after Explanation II., the following shall be inserted, namely:-

"Explanation III. – The business entity located in the taxable territory who is litigant, applicant or petitioner, as the case may be, shall be treated as the person who receives the legal services for the purpose of this notification.".

[Notification No. 34/2016-Service Tax New Delhi, the 6 th June, 2016]

● In exercise of the powers conferred by sub-section (1) read with subsection (2) of section 94 of the Finance Act, 1994 (32 of 1994), the Central Government hereby makes the following rules further to amend the Service Tax Rules, 1994, namely:-

1. These rules may be called the Service Tax (Fourth Amendment) Rules, 2016.

2. In the Service Tax Rules, 1994, in rule 2, in sub-rule (1), in clause (d), in sub-clause(i),-

(a) in item (D), for sub-item (II), the following sub-item shall be substituted, namely:-

"(II) an individual advocate or a firm of advocates by way of legal services other than representational services by senior advocates;"

(b) after item (D), the following item shall be inserted, namely:-

"(DD) in relation to service provided or agreed to be provided by a senior advocate by way of representational services before any court, tribunal or authority, directly or indirectly, to any business entity located in the taxable territory, including where contract for provision of such service has been entered through another advocate or a firm of advocates, and the senior advocate is providing such services, the recipient of such services, which is the business entity who is litigant, applicant, or petitioner, as the case may be".

[Notification No. 33/2016-Service Tax New Delhi, the 6th June, 2016]

● In exercise of the powers conferred by sub-section (1) of section 93 of the Finance Act, 1994 (32 of 1994), the Central Government being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue) No.25/2012-Service Tax, dated the 20thJune, 2012, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide number G.S.R. 467 (E), dated the 20thJune, 2012, namely:-

In the said notification, in the first paragraph, in entry 6, for clause (c), the following clause shall be substituted, namely:-

"(c) a senior advocate by way of legal services to-

i. any person other than a business entity; or

ii. a business entity with a turnover up to rupees ten lakh in the preceding financial year;".

Note:-The principal notification was published in the Gazette of India, Extraordinary, vide notification No. 25/2012 - Service Tax, dated the 20th June, 2012, vide number G.S.R. 467 (E), dated *the 20th June, 2012 and last amended vide notification number 26/2016 - Service Tax, dated the 20th May, 2016 vide number G.S.R. 538, dated the 20th May, 2016.*

[Notification No. 32/2016-Service Tax, New Delhi, the 6th June, 2016]

Income Tax

Notification:

- In this notification, Government of India in the Ministry of Finance, Department of Revenue (Central Board of Direct Taxes), number 46/2016, dated the 17th June, 2016, published vide number S.O. 2142 (E), dated the 17th June, 2016, in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), at page 2, in line 5, for "to section 115TC" read "below section 115TCA".

[Notification No. 52 /2016, New Delhi, the 23rd June, 2016]

- In exercise of the powers conferred by section 101, read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income-tax (16th Amendment) Rules, 2016.

   (2) They shall come into force from the date of their publication in the Official Gazette.

2. In the Income-tax Rules, 1962, in rule 10U,-

(i) in sub-rule (1), in clause (d), for the figures, letters and words "30th day of August, 2010", the figures, letters and words "1st day of April, 2017" shall be substituted;

(ii) in sub-rule (2), for the figures, letters and words "1st day of April, 2015", the figures, letters and words "1st day of April, 2017" shall be substituted.

[Notification No. 49/2016/, New Delhi, the 22nd June, 2016]

- In exercise of the powers conferred by section 285BA read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Government with respect to registration of persons, due diligence and maintenance of information, and the Central Board of Direct Taxes for matters relating to statement of reportable accounts, hereby make the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income–tax (15th Amendment) Rules, 2016.

   (2) Save as otherwise provided in these rules, they shall come into force on the date of their publication in the Official Gazette.

2. In the Income-tax Rules 1962 (hereafter referred to as the said rules) in rule 114F, in clause (6), in the Explanation, in clause (D),-

(a) in sub-clause (ii), for the word, brackets and figure "clause (3)", the words, brackets and figure "clause (3), which is not located in any of the jurisdictions specified by the Central Board of Direct Taxes in this behalf" shall be substituted;

(b) for sub-clause (iii), the following sub-clause shall be substituted, namely:- "(iii) not a withholding foreign partnership or a withholding foreign trust;",

3. In the said rules, in rule 114H,-

(a) in sub-rule (3),-

(I) in clause (b), in sub-clause (i), for item (D), the following item shall be substituted, namely:-

"(D) in case of U.S. reportable account, any standing instructions to transfer funds to an account maintained in a country or territory outside India and in case of other reportable account, any standing instructions (other than with respect to a depository account) to transfer funds to an account maintained in a country or territory outside India; or";

(II) in clause (c), in sub-clause (ii), for item (E), the following item shall be substituted, namely:- "(E) in case of U.S. reportable account, any standing instructions to transfer funds currently in effect and in case of other reportable account any standing instructions (other than with respect to a depository account) to transfer funds currently in effect:";

(III) in clause (d), for sub-clause (ii), the following sub-clause shall be substituted, namely:-

"(ii) in case of a U.S. reportable account which is low value account as on the 30th June, 2014, shall be completed by the 30th June, 2016 and in case of other reportable account which is high value account as on the 31st December, 2015, shall be completed by the 31st December, 2016;";

(b) in sub-rule (5), in clause (e), for sub-clause (i), the following sub-clause shall be substituted, namely:-

"(i) review of pre-existing entity accounts with an aggregate account balance or value that exceeds an amount equivalent to two hundred and fifty thousand U.S. dollars as on the 30th June, 2014 (in case of a U.S. reportable account) shall be completed by the 30th June, 2016 and review of pre-existing entity accounts with an aggregate account balance or value that exceeds an amount equivalent to two hundred and fifty thousand U.S. dollars as on the, 31st December, 2015 (in case of other reportable account) shall be completed by the 31st December, 2016;".

4. In the said rules, in Appendix-II, with effect from 1st January, 2017, for Form 61B, the following form shall be substituted.

[Notification No.48/2016, New Delhi, the 20th June, 2016]

- In exercise of the powers conferred by sub-section (1F) of section 197A of the Income-tax Act, 1961 (43 of 1961) and in supersession of the notification of the Government of India, Ministry of Finance (Department of Revenue) number S.O. 3069 (E) dated 31st December, 2012, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), the Central Government hereby notifies that no deduction of tax under Chapter XVII of the said Act shall be made on the payments of the nature specified below, in case such payment is made by a person to a bank listed in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934), excluding a foreign bank, or to any payment systems company authorised by the Reserve Bank of India under Sub-section (2) of Section 4 of the Payment and Settlement Systems Act, 2007 (51 of 2007), namely :-

(i) bank guarantee commission;
(ii) cash management service charges;
(iii) depository charges on maintenance of DEMAT accounts;
(iv) charges for warehousing services for commodities;
(v) underwriting service charges;
(vi) clearing charges (MICR charges) including interchange fee or any other similar charges by whatever name called charged at the time of settlement or for clearing activities under the Payment and Settlement Systems Act, 2007;
(vii) credit card or debit card commission for transaction between merchant establishment and acquirer bank.

This notification shall come into force from the date of its publication in the Official Gazette.

[Notification No. 47/2016/ New Delhi, the 17th June, 2016]

● In exercise of the powers conferred by sub-section (1F) of section 197A of the Incometax Act, 1961 (43 of 1961) (hereinafter referred to as the said 'Act'), the Central Government hereby notifies that no deduction of tax under Chapter XVII of the said Act shall be made on the payments of the nature specified in clause (23DA) of section 10 of the said Act received by any securitisation trust as defined in clause (d) of the Explanation to section 115TC of the said Act. 2. This notification shall come into force from the date of its publication in the Official Gazette.

[Notification No.46 /2016, New Delhi, the 17th June, 2016]

● In the notification, Government of India, Ministry of Finance, Department of Revenue (Central Board of Direct Taxes), number 33/2016, dated the 19th May, 2016, published vide number S.O. 1831(E), dated the 19th May, 2016, in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), at page 21, in line 12, for "rule 4" read "rule 3(2)".

[Notification No.44/2016, New Delhi, the 02nd June, 2016]

● In exercise of the powers conferred by section 295 read with subsection (2) of section 14A of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income–tax (14th Amendment) Rules, 2016.
   (2) They shall come into force on the date of their publication in the Official Gazette.
2. In the Income-tax Rules 1962, in rule 8D,-
   (I) for sub-rule (2), the following sub-rule shall be substituted, namely:- "(2) The expenditure in relation to income which does not form part of the total income shall be the aggregate of following amounts, namely:– (i) the amount of expenditure directly relating to income which does not form part of total income; and (ii) an amount equal to one per cent of the annual average of the monthly averages of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income: Provided that the amount referred to in clause (i) and clause (ii) shall not exceed the total expenditure claimed by the assessee.";
   (II) sub-rule (3) shall be omitted.

[Notification No. 43/201, New Delhi, the 02nd June, 2016]

● In exercise of the powers conferred by section 202 of the Finance Act, 2016 (28 of 2016), the Central Government hereby appoints the 31" day of December, 2016 as the date on or before which a person may make a declaration to the designated authority in respect of tax arrears or specified tax under the Direct Tax Dispute Resolution Scheme, 2016.

[Notification No.34/2016, New Delhi, the 26th May, 2016]

Contributed by
Taxation Committee
Institute of Cost Accountants of India

Operational performances of tourism companies

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The Almighty blesses India with abundant natural resources, rich histories and cultures. This helped India rank in the top 10 countries of the UNESCO World Heritage List. India's travel and Tourism Industry contributed 6.88 % of its GDP for 2013. Tourism Industry includes among others- (i) Accommodation projects, (ii) Food oriented projects, (iii) Service oriented projects like Travel agency, Tour operation, Transport operation, Linkage with International Hotel/ Resort chains (Franchise); and (iv) Other Tourism related projects.

The National Tourism Policy adopted by Government of India (GoI) in 2002 had declared tourism as a major engine for economic growth. This would be done by harnessing the direct and multiplier effects of tourism in terms of employment generation, economic development and providing inputs to rural tourism. The Policy had also declared the intention of the Government to focus on both international and domestic tourism and to position India as a global brand to take advantage of the burgeoning global travel and trade and the vast untapped potential of the country as a destination.

Growth of Tourism in India

Ministry of Tourism, Government of India's vision is to showcase India as a preferred destination in the World and it's mission is to achieve a level of 1% share of International Tourist arrivals and 1,450 million Domestic Tourist visit by 2016-17. The tourists' growth in India and income from

Tourism industry for last four years upto 2013-14 may be seen from the following table.

Table 1.1: Growth of Tourism in India

Year	Aggregate Tourist traffic in India			Foreign Exchange Earnings		Economic growth and Employment generation	
	Dom.	Int.	Total	US $ million	Rs. in crore	% Share in GDP	% Share in Employment
	(Numbers in million)						
2009 – 10	747.70	17.91	765.61	14,193	64,889	6.77	10.17
2010 – 11	864.53	19.50	884.03	16,564	77,591	6.76	10.78
2011 – 12	1,045.05	18.26	1,063.31	17,737	94,487	6.76	11.49
2012 – 13	1,145.25	19.95	1,165.20	18,445	1,07,671	6.88	12.36
2013 – 14	1,281.95	22.57	1,304.52	20,236	1,23,320	NA	NA
Total	**5,084.48**	**98.19**	**5,182.67**	**87,175**	**4,67,958**		

(Dom. - Domestic, Int. – International, N A – Not Available)

(Source: Department of Tourism, GoI)

During 20014, India could attract 0.68% of International Tourist arrivals in the World and achieve 1.58% share of International Tourists receipts of the World. Hence, far-away to go and much more to achieve from this potential sector by India.

Accounting Practices

Generally, Operating costing[1] is applied in determining cost of products and services of Tourism Industry. However, the scheme of accounting will depend on the nature and size of products or services offered by a tourism company. The pattern of expenditure by a tourist in India may be presented in the following Pie-chart.

Tapping of this expenditure of tourists as income is a challenge to the management of Indian companies (both Government companies and Private operators) in Tourism Industry. In the Constitution of India, Travel and Tourism is a State subject and not a Central subject. This essentially allows all the States and Union Territories in India to govern the travel and tourism sector as they please.

In order to easily understand the accounting procedure and scope of improvement in accounting for tourism a case study is given below.

Case Study

West Bengal Tourism Development Corporation Limited (the company) is the nodal agency to develop, promote and publicise tourism in the State. The company's products and services comprise 36 tourist lodges (25 under own management and 11 leased out to management contractor), two tourists' information bureaux, three vessels, six AC buses to provide facilities and services to the tourists. Moreover, the company implements various tourism infrastructure developmental projects with grants from the Government of India (GoI) and Government of West Bengal (GoWB).

We will highlight the operational deficiencies of the company as observed in the Comptroller & Auditor General's Audit Report on PSUs for March 2012 and discuss the scope for improvement in accounting vis-a-vis operational performances of the company.

Operational deficiencies of the company

- The main reasons for uneconomic operation of tourist lodges of the company were (i) absence of long-term planning in improving occupancy/ business, (ii) delayed renovation of tourist lodges, (iii) lower occupancy due to inability to market its products at par with the private competitors, and (iv) fall in quality of services reflected in the rising trend of customers' complaints. Moreover, the company had neither fixed *standard occupancy ratio*[2] nor worked out break-even turnover to operate the lodges' profitably. The management neither reviewed the customers' complaints nor initiated remedial action to improve quality of services rendered by the employees. Instead the company freely distributed ` 2.36 crore as honorarium to its employees without judging employees' performances against quality of services rendered out of the service charges collected (` 3.17 crore) from the customers for last five years upto March 2012. The company had not formulated a policy for leasing out its lodges to Management Contractors (MCs). In absence of leasing policy the company could not fix upset price[3] systemically and predetermine percentage increase in lease rentals while renewing leases.

● The company failed to bring down the food cost percentage within the norm by improving its operations. Moreover, periodical trend analysis of consumption of raw materials of restaurants helps to identify economic order quantity (EOQ) for procuring materials on rate contract basis which was not adopted by the company.

● The company had no mechanism for identification of assets in urgent need of repairs or maintenance. Moreover, there were no guidelines or policy fixing any target action plan for renovation and up gradation of assets.

● The company had not evolved a policy for fixation/ revision of tariff. The company revised lodge tariffs twice (April and October) in a year based on discussion with the managers of the lodges and considering occupancy ratio of the respective lodges. Food tariffs were fixed by the respective lodges without any approval/ monitoring from the company. In this connection, it was noted that tariff was fixed without any analysis or comparison with the other operators. No systematic variance analysis of lodge wise tariff was attempted to manage the lodges commercially. Moreover, the rates of food items as offered to the customers were fixed locally by the lodge managers at mark up of cent per cent on direct costs. There was no uniformity in fixing selling prices of liquor items in Bars of the company.

● The implementation process of tourism projects by the company was very slow. This was attributable to poor planning, lack of monitoring/ co-ordination, land acquisition/ diversion problems. The company had to drop project components from the approved project due to non-availability of land.

Thus, it may be observed that Operating costing was absent in determining the pricing of products and services (especially tariff of lodges) of the company. Moreover, accounting policy for fixed assets (especially ownership) on completion of tourism projects was also absent.

Scope for improvement in accounting vis-a-vis operational performances

On study of the Annual Reports of the company and the benchmark performances of other companies[4] in the industry, it is suggested that the following accounting procedures/ actions depending on the circumstances of the case, may be adopted to improve the performance by tapping maximum revenue from the tourists - keeping in mind the tourist expenditure pattern as depicted above.

(i) Fix up occupancy norms of lodges and monitor room occupancy from Registered Office of the company on daily basis with the lodge managers and Tourism Centres to improve daily room sales. (ii) Carry out Impact analysis of operations to assess the reasons for low occupancy and to increase overall domestic/ International tourists' usage of its lodges/ hotels/ conference rooms/ vessels/ buses & other services of the company. (iii) Formulate & implement a systematic leasing policy with an assessment of profitability and operating efficiency considering present value factors of lease. Timely recovery of lease rentals should be ensured with regular monitoring of properties/ records from lessees. (iv) Service charges collected from tourists may be kept in the reserve fund for "Repair & Renovation" or "Project development" purpose. (v) Showcase location wise detailed budgeted tours in the Tourism Information Centre of the company and introduce annual calendar of festivals for the tourists and upload these on the website. (vi) Creation of marketing brand & sub-brands which can be focused around a particular region or a theme. (vii) Explore new product-mix (e.g. opening Off-shops, LTC packages, composite tour packages of accommodation cum sight-seeing, packages for corporate houses, special packages of sight-seeing & educational tours to students especially in lean season, rationalistion of tariffs for lean season with that of private operators etc.). (viii) Allocate standing charges/ fixed costs among different cost centres on equitable basis. (ix) Form a Project Monitoring Committee (PMC) with the members from engineering, finance, legal and administration side. This committee should quarterly report the status of progress of tourism projects to the Board of Directors and Government to ensure timely & effective completion, management and upkeep of the projects. (x) Consider Turn-key projects on case to case basis after viability/ feasibility study to avoid time and cost over-run of a Project. (xi) Introduction of Tourism Satellite Accounting in order to maintain Global accounting/ database on tourism. After all, the company has to take the challenges of competitiveness and professionalism.

Application of Operating costing will be effective when the tourism companies will offer standard tourism products and services to the tourists. These actions will ultimately add to the economic growth and employment generation of India. MA

References

1. *C & AG's Audit Report on PSUs for March 2012*
2. *Database including Annual Report of Tourism Department, GoI*
3. *Database of Tourism Department, GoWB*
4. *HVS Study on Tourism*
5. *Budget of India*

Foot Note

1. Operating costing is that form of Operation costing which applies where standardized services are provided either by an undertaking or by a service cost centre within an undertaking

2.Occupancy ratio is a measure of the actual utilisation of lodging facilities and is expressed as a percentage of actual number of bed – days occupied to the total number of bed – days available in a year i.e. total number of beds multiplied by 365.

3. Upset price is the price below which the Management Contractor could not be engaged.

4. Tamil Nadu Tourism Development Corporation Limited, Uttar Pradesh Tourism Development Corporation Limited, Rajasthan Tourism Development Corporation Limited, Karnataka Tourism Development Corporation Limited

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Krishi Kalyan Cess :

Legal Stand and the Accounting Treatment

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In Budget 2016, Honorable Finance Minister Mr Arun Jaitley has introduced a new 'Cess' which would be levied @ 0.5% on 'value' of all taxable services. It has been termed as 'Krishi Kalyan Cess'. It will be charged over and above the 'Service Tax' and 'Swachh Bharat Cess'. The KKC will be levied for the purpose of financing and promoting initiatives to improve agriculture. It will be effective from 1st June of 2016. So now effective rate of Service Tax including Cess is 15% (14% + 0.5% + 0.5%).

Budget Speech / Statutory Provisions

The Finance Minister made the following announcement (vide para 152 of Budget speech) on KKC-

"I propose to impose a Cess, called the Krishi Kalyan Cess, @ 0.5% on all taxable services, proceeds of which would be exclusively used for financing initiatives relating to improvement of agriculture and welfare of farmers. The Cess will come into force with effect from 1st June 2016. Input Tax credit of this Cess will be available for payment of this Cess."

Clause 158 in Chapter VI of the Finance Bill, 2016 contains the proposed statutory provision on KKC which is as under:

(*1*) This Chapter shall come into force on the 1st day of June, 2016.

(*2*) There shall be levied and collected in accordance with the provisions of this Chapter, a Cess to be called the Krishi Kalyan Cess, as service tax on all or any of the taxable services at the rate of 0.5 per cent. on the value of such services for the purposes of financing and promoting initiatives to improve agriculture or for any other purpose relating thereto.

(*3*) The Krishi Kalyan Cess leviable under sub-section (*2*) shall be in addition to any Cess or service tax leviable on such taxable services under Chapter V of the Finance Act,1994, or under any other law for the time being in force.

(*4*) The proceeds of the Krishi Kalyan Cess levied under sub-section (*2*) shall first be credited to the Consolidated Fund of India and the Central Government may, after due appropriation made by Parliament by law in this behalf, utilize such sums of money of the Krishi Kalyan Cess for such purposes specified in sub-section (2), as it may consider necessary.

(5) The provisions of Chapter V of the Finance Act,1994, and the rules made there under, including those relating to refunds and exemptions from tax, interest and imposition of penalty shall, as far as may be, apply in relation to the levy and collection of the Krishi Kalyan Cess on taxable services, as they apply in relation to the levy and collection of tax on such taxable services under the said Chapter or the rules made there under, as the case may be.

The 'statement of objects and reasons' provides that Clause 158 of the Bill seeks to insert new Chapter VI so as to levy a Cess to be called the Krishi Kalyan Cess, as service tax on all or any of the taxable service for the purposes of the Union for financing and promoting initiatives to improve agriculture or the for any other purpose relating thereto.

The CBEC's clarificatory letter on Budget clarification (vide DOF NO 334/8/2016 – TRU dated 29.02.2016) states that Clause 158 is the enabling provision for levy of KKC. It states as follows –

"Enabling provision for levy of Krishi Kalyan Cess:

Krishi Kalyan Cess is proposed to be levied with effect from 1st June, 2016 on any or all the taxable services at the rate of 0.5% on the value of such taxable services. Credit of Krishi Kalyan Cess paid on input services shall be allowed to be used for payment of the proposed Cess on the service provided by a service provider."

Point Of Taxation

Point of taxation means the point when a service shall be deemed to have been provided. KKC Shall be covered under Rule 5 of Point of taxation Rules 2011 (Hereinafter referred to as "POTR 2011"). It reads as follows:

*Payment of tax in case of new services- **Where a service is taxed for the first time, then,-***

(a) no tax shall be levied to the extent the invoice has been issued and the payment received against such invoice before the service became taxable.

(b) No tax shall be payable if the payment has been received before the service becomes taxable and invoice has been issued within fourteen days of the date when the service is taxed for the first time.

It is important to note that KKC is new 'levy' and not new 'service'. But the government has extended the scope of this rule by inserting two explanation provisions resulting which new levy is covered under the ambit of Rule 5.

Rule 5 of the Point of Taxation Rules, 2011 has been amended with effect from 1st March 2016 by Notification No 10/2016-ST dated 1st March, 2016 and two Explanations (Explanation 1 & 2) have been inserted in said Rule. After the amendment, Rule 5 reads:

Explanation 1: This rule shall apply mutatis mutandis in case of new levy on services.

Explanation 2: New levy or tax shall be payable on all cases other than specified above.

Rule 5(a) provides that when the issuance of invoice and receipt of payment is made before the date of taxability then the service shall be non-taxable.

Rule 5(b) stipulates that if the payment received before date of taxability and invoice is issued within 14 days from the service becoming taxable for the first time even then no service tax to be charged.

Further, new insertion by way of explanation has resulted in expanding the scope of rule 5 to new levy erstwhile limited to new services only.

So, from the above discussion it is clear that, for the purpose of chargeability, both 'New service' and 'New levy' has the same implication as per Rule 5 of POTR along with explanations 1 & 2.

Thus, in case of new levy of 'Krishi Kalyan Cess', the provisions of present Rule 5 needs to be referred.

As per Rule 5, KKC shall not be payable in the following cases:-

(i) Receipt of Payment and Issuance of Invoice prior to such event

(ii) Receipt of Payment prior to such event and Issuance of Invoice within 14 days of such event.

In all the other cases, i.e payment received after 1st June' 2016 or payment received prior to 1st June' 2016 but invoice issued after 14th June' 2016, KKC would be payable.

This can better be understood from the following illustration:

Illustration

Determine liability for Krishi kalyan Cess in following cases, if Krishi Kalyan Cess is applicable for the first time from 01-06-2016.

Date of Service	Date of Invoice (DOI)	Date of Payment (DOP)	Whether Service Tax Applicable?
10.06.2016	31.05.2016	30-05-2016	KKC not applicable, as both DOI and DOP are before 01-06-2016.
10.06.2016	14.06.2016	30-05-2016	KKC not applicable, as DOP is before 01-06-2016 and DOI is within 14 days from the date of change.
10.06.2016	15.06.2016	30-05-2016	KKC applicable, as DOP is before 01-06-2016 however DOI is not within 14 days from the date of change i.e. 01-06-2016
30.05.2016	30.05.2016	06-06-2016	KKC applicable, as payment received after the date of change.

Analyzing the above Rule and the example, two very important questions arises:-

When service has been provided by an organization and bill has been raised prior to 01.06.2016 but part payment has not yet been received, whether KKC will be applicable to such outstanding amount receivable. **It means whether KKC is applicable on outstanding Debtors on 01.06.2015 ?**

When service has been received by any organization from vendor and invoices has been processed prior to 01.06.2016 but part payment is still due, then whether KKC will be applicable on such unpaid amount. **It means whether KKC will be applicable on outstanding Creditors on 01.06.2016?**

For getting the answer to these questions we need to understand the provisions of Section 67A, its amendment and Rule 5B (no more in existence) and amendment in POTR in 2016. Let us understand one by one and come to the answer to the above questions.

Provisions relating to Rate of Tax (Section 67A and Rule 5B)

Provisions concerning the rate of service tax was first time introduced in Service Tax Law by inserting Rule 5B in Service Tax Rules, 1994 by Notification no ST 03/2011 dated 01.03.2011 w.e.f 1st April' 2011. This rule dealt with **"Date for Determination of Rate of Service Tax"**. Rule 5B is extracted below:

"5B. Date for determination of rate –

The rate of tax in case of services provided, or to be provided, **shall be the rate prevailing at the time when the services are deemed to have been provided under this rules made in this regard."**

Thus, Rule 5B gives the reference to POT Rules' 2011 for determining the date for taking rate of service tax. Any date prescribed by the POT Rules' 2011 is taken for the rate of service tax.

From 28.05.2012 a new Section 67A was introduced and from 01.07.2012 Rule 5B was omitted.

The title of section 67A stated as **"Date of determination of rate of tax, Value of taxable service and rate of exchange".** Section 67A is reproduced below:

"The **rate of service tax***,* **value** *of a taxable service* **and rate of exchange***, if any,*

Shall be the rate of service tax **or value** *of a taxable service* **or rate of exchange***, as the case may be,*

In force or as applicable **at the time when the taxable service has been provided or agreed to be provided."**

The present section specifies the date of actual provision of service as the relevant date for rate of service tax. It does not make any reference to the deemed provision of service.

So there is a conflict between Rule 5 as discussed above and the provisions of Section 67A with respect to the date from which the rate of new tax or levy will be applicable. In my opinion Section 67A should prevail over Rule 5. To overcome this controversy, both Sect 67A and POTR,2011 has been amended as follows

With effect from 14.05.2016, **Section 67A is being amended to provide specific rule making powers in respect of Point of Taxation Rules, 2011. In Section 67A, a new sub section (2) has been inserted which states as follows:-**

"(2) The time or the point in time with respect to the rate of service tax shall be such as may be prescribed."

Point of Taxation Rules, 2011 is also being amended accordingly. In the opening paragraph of Point of Taxation Rules' 2011, after the words "powers conferred under", the word "sub-section (2) of section 67A and" shall be inserted with effect from 14th May' 2016 i.e. from the date of enforcement of the Finance Act, 2016.

Thus, the rate of service tax shall now be taken from the Point of Taxation Rules' 2011. The present amendment would come into force from 14th May' 2016.

Conclusion: So, now it is clear that for determining the date from which rate of new levy will be applicable will be taken from POTR from 14.05.2016 and the same will be considered from Section 67A up to 13.05.2016 and the rate of tax will be applicable at the rate prevailing on the date of provisions of service or the date on which service has been agreed to be provided.

So now time has come to answer the two important questions raised in earlier paragraph. Considering the combined reading of PORT, Section,67A and its amendments, in my opinion service provided till 13.05.2016 will the taxed at the rate prevailing on that date. More specifically KKC will not be applicable on the 'Debtors' and 'Creditors' balance till 13.05.2016.

Applicability of KKC: Relevant Notifications

On 26th May,2016, following notifications were issued by Service Tax Department for applicability of KKC under various situations

1. Notification no ST 27/2016: KKC will be applicable under Reverse Charge mechanism calculated in terms of Notification No 30/2012 dated 20.06.2012.
2. Notification no ST 28/2016: KKC will not be applicable for services which are exempt from service tax. KKC would be levied only on that part of value of services which is taxable as per Notification no ST 26/2012.
3. Notification no ST 29/2016: Rebate benefit of KKC will be available to exporter.
4. Notification no ST 30/2016 : Refund of KKC will be available paid on specified services used in SEZ.

KKC and availability of CENVAT Credit

Unlike Swatch Bharat Cess (SBC), CENVAT credit of KKC can be availed and utilized for payment of KKC on Output services. It means, it's scope is wider than SBC but narrower than the CENVAT on normal Input services. One : One correlation is to be there between KKC input credit and KKC output Liability. The CENVAT Credit Rule,2004 has been amended vide Notification No 28/2016 of Central Excise dated 26.05.2016. The relevant portion is produced below.

A. Provider of output service shall be allowed to take the CENVAT credit of KKC on taxable services leviable under section 161of Finance Act,2016

B. CENVAT Credit in respect of KKC on taxable service leviable under section 161 of finance Act,2016 shall be utilized only towards payments of KKC on taxable service leviable under section 161 of Finance Act,2016.

C. CENVAT Credit of any other duties will be utilized for payment of KKC.

KKC CENVAT Credit : Areas of Concern

1. Rule 3(1) on CENVAT credit Rule states that a manufacturer or the producer of final products and provider of output service shall be allowed to take credit of specified duties paid on input, capital goods service tax paid on input services. Definitions on 'input services' specifically excludes certain services. It means CENVAT credit of the service tax paid on such services cannot be availed and utilized for payment of Out put Liability. For example, Rent a Cab service (provided for employees) is specifically excluded. So service tax paid on such service is not eligible for availment of CENVAT credit for discharging output liability. Amendment to CCR vide notification no 28/2016 CE. States that Provider of output service shall be allowed to take the CENVAT credit of KKC on taxable services leviable under section 161of Finance Act,2016. In this case, 'Rent a Cab' is 'Taxable service' but Service Tax paid on this is not eligible for 'Cenvat Credit. Now KKC is applicable on 'Rent a cab' service. **Now question arises whether this KKC paid on this service will be eligible for payment of KKC liability on output services provided**

2. As per Rule 6(2) of Cenvat Credit Rule ,2004, where a manufacturer or provider of output service avails of CENVAT credit in respect of any inputs or input services, and manufactures such final products or provides such output service which are chargeable to duty or tax as well as exempted goods or services, then, the manufacturer or provider of output service shall maintain separate accounts for receipt, consumption and inventory of input and input service meant for use in the manufacture of dutiable final products or in providing output service and the quantity of input meant for use in the manufacture of exempted goods or services and take CENVAT credit only on that quantity of input or input service which is intended for use in the manufacture of dutiable goods or in providing output service on which service tax is payable. There are certain input services which are common for both taxable and exempted services. For example, Service of a CA is common for both taxable and exempted output services. CA service is taxable service and service tax paid on this service is eligible for Cenvat Credit. **Now question arises, whether KKC paid on this services is eligible for CENVAT for paying output KKC Liability ? if so whether entire KKC is eligible or only the Proportionate of taxable service to total service value will be eligible for KKC? Let's understand with the following example**

Taxable Out put service value Rs 200000. Exempted service value Rs 100000. Value of CA service Rs 10000. Now KKC on CA service (Input service) is 0.5% on 10000 = Rs 50. KKC on Taxable service is 0.5% on 200000 = Rs 1000. KKC is not applicable on Exempted service.

Being a common input service, whether KKC of Rs 50 is eligible for paying KKC output liability ? If yes, whether entire Rs 50 is eligible? Or Proportionate amount of Rs 33.34 is eligible? [CA service was provided for Rs 300000(200000 + 100000). Proportionate amount will be 50 x 200000/300000 = Rs. 33.34.]

These are the areas of concern and chances of litigations are high.

Code for KKC : Separate Accounting Code for KKC is given below. Hence, KKC @0.5% needs to be shown in the invoice as separate line item.

KKC (Minor Head)	Tax Collection	Other Receipts (Interest)	Deduct Refunds	Penalties
0044-00-507	00441509	00441510	00441511	00441512

Accounting Treatment of KKC

Taxation aspects have been discussed above. We have seen that introduction of one small Cess can leads to so many complications and controversies. No we will take over the Accounting entry booking KKC and how it will utilized for paying output liabilities of KKC.It has been explained earlier that the KKC is to be calculated on the 'value' of services. As per Notification 27/2016, KKc would be applicable under Reverse Charge Mechanism. Where service tax in charged on 'abated' value, the KKC will also be charged under abated value (Notification No 28/2016).

Accounting Treatment: Now we will discuss the accounting entries under the following possible heads where service tax I s charged under different value in the books of B Limited.

A. Where service tax is charge at full rate on 100% bill value by A Ltd . Example Erection service, consulting engineering service. etc. Output Invoices is also raised by B Ltd at full rate on 100%.

B. Where service tax is charged at full rate on 40% value on bill amount by A Ltd to B Ltd . Example, Work Contracts for originals works. Output Invoices raises by B Limited on full value / abated value

C. Where service tax is charged at full rate on 70% value on bill amount by A Ltd to B Ltd. Example, Work Contracts for other than original works (Annual Maintenance service contract)

D. Where service tax is charged at full rate on 30% value of service. Example, Transport of goods by road services (GTA)

E. Service tax calculated on 100% value but payable by the recipient of service. Example, Legal Services

F. Service Tax calculated on abated value (40%) and 50% ST to be charged by the provider of services and balance 50% on ST to be paid by recipient of service. Example Work contract service provided by a non corporate entity to B Ltd.

G. Service tax is calculated under Reverse charge on 40% value and recipient has to pay 100% of Service tax. Example, Rent a cab service provided by an non corporate entity to B Ltd.

Case A : Let us take an example. Value of input service received by B Ltd from A Ltd is Rs 10000. ST rate 14%. SBC-0.5%. KKC – 0.5%. B Ltd raises Output Invoices for Rs 20000. rate of tax is same.

Books of B Ltd			
i) For booking of Expenses	Dr (Rs)	Cr (Rs)	
Expense A/C Dr	10000		Expenses booked
Service Tax A/C Dr	1400		ST amount 14% on 100% value
SBC A/C Dr	50		SBC 0.5% on 100% value
KKC A/C Dr	50		KKC o.5% on 100% value
To A Ltd A/C		11500	Gross Bill Value
ii) For booking of Income			
Customer A/C Dr	23000		Gross Bill Value
To Sales A/C		20000	Income booked
To ST Payable A/C		2800	ST liability on 100% value at 14%
To SBC Payable A/C		100	SBC payable.0.5% on 100% value
To KKC Payable A/C		100	KKC Payable. 0.5% on 100% Value

iii) Discharge of KKC Output Liability.
Firstly, KKC input credit of Rs 50 will be utilized to pay the output liability
and the balance amount of Rs 50 (100-50) will be paid through cash. Normally a separate
account is created for such adjustment and payment of KKC. Let KKC Adjustment A/C
is opened and following entries will be made for adjustment and payment

iii)(a) Transfer of KKC output Liability			
KKC Payable A/C DR	100		
To KKC adjustment A/C		100	
iii)(b) Transfer of KKC input credit			
KKC adjustment A/C	50		
To KKC A/C Dr		50	
iii) (c)Payment of balance amount in cash			
KKC adjustment A/C Dr	50		
To Bank A/c		50	

Other Important Points:

In all the situations, KKC adjustments will be like this and will not be discussed in subsequent discussions of all other cases.

There should not be 'Credit' balance in KKC adjustment account at the month end. Cr balance represents the undercharged liability and should be discharged immediately.

As Cenvat Credit is not available for SBC, SBC liability to be discharged in cash and SBC on input to be charged to Revenue.

Case B and F : Consider the previous example where original works provided by A Ltd / Mr A (Non corporate entity)

Books of B Ltd			
1. Where is service is provided by A Ltd (Corporate entity)			
a) For booking of Expenses at abated value	Dr (Rs)	Cr (Rs)	
Expense A/C Dr	10000		Expenses booked
Service Tax A/C Dr	560		ST amount 14% on 40% value
SBC A/C Dr	20		SBC 0.5% on 40% value
KKC A/C Dr	20		KKC 0.5% on 40% value
To A Ltd A/C		10600	Gross Bill Value
b (i) For booking of Income by B LTD at full value : Already discussed in A above			
b(ii) For booking of Income by B Ltd where output liability is discharged at 40% value			
Customer A/C Dr	21200		Gross Bill Value
To Sales A/C		20000	Income booked
To ST Payable A/C		1120	ST liability on 40% value at 14%
To SBC Payable A/C		40	SBC payable.0.5% on 40 % value
To KKC Payable A/C		40	KKC Payable. 0.5% on 40 % Value

2. Where Service in provided by Mr A (Non corporate entity) . Reverse Charge will be applicable			
a)(i) For booking of Expenses : both recipient and provider of service will bear 50% of ST Liability			
Expense A/C Dr	10000		Expenses booked
Service Tax A/C Dr	560		ST amount 14% on 40% value(both share)
SBC A/C Dr	20		SBC 50% on 0.5% on 40% value (Provider's share and receiver share)
KKC A/C Dr	20		KKC 50% on 0.5% on 40% value (Provider's share and receiver share)
To A Ltd A/C		10300	Gross Bill Value
To SBC payable under RC A/C		10	SBC 50% on 0.5% on 40% value (Receiver's share)
To KKC payable under RC A/C		10	KKC 50% on 0.5% on 40% value (Receiver's share)
To ST payable under RC A/C		280	RC liability of service tax (50%)
a)(ii) For payment of ST under RC (to be paid in Cash only)			
SBC payable under RC A/C Dr	10		
KKC payable under RC A/C Dr	10		
ST payable under RC A/C Dr	280		
To Bank		300	(receiver's share paid in cash)
b. Income booking : Same as above discussed in b(i) and b(ii)			

Case C : All are same like above. ST ,SBC and KKC to be calculated on 70% value

Case D : GTA Service : In this case , Recipient of the service is to bear the Service Tax under Reverse Charge. Value for this purpose is 30% on the Invoice Value. Status (corporate or non corporate) of the service provided is immaterial.

Example : A Ltd provide the GTA service to B Ltd .Value of service is Rs 100000. A Ltd will raise a bill for Rs 100000 and the Sevvice tax on 30% value to be borne by B Ltd. Journal Entry will be as follows.

Books of B Ltd			
For booking of Expenses with ST uner RC	Dr (Rs)	Cr (Rs)	
Expense A/C Dr	100000		Expenses booked
Service Tax A/C Dr	4200		ST amount 14% on 30% value
SBC A/C Dr	150		SBC 50% on 0.5% on 40% value (Provider's share)
KKC A/C Dr	150		KKC 50% on 0.5% on 40% value (Provider's share)
To A Ltd A/C		100000	Gross Bill Value
To SBC payable under RC A/C		150	SBC 50% on 0.5% on 40% value (Receiver's share)
To KKC payable under RC A/C		150	KKC 50% on 0.5% on 40% value (Receiver's share)
To ST payable under RC A/C		4200	RC Liability of service tax 100%

Case E :Service tax calculated on 100% value but payable by the recipient of service. Example, Legal Services : Journal entries will be same as case D above. ST, SBC and KKC will be calculated on 100% value

Case F : Service tax is calculated under Reverse charge on 40% value and recipient has to pay 100% of Service tax : Journal entries will be same as case D above. ST, SBC and KKC will be calculated on 40% value.

Conclusion

In any law, the intention on the lawmaker is something but due to various interpretations by various experts, the actual outcomes are different. This difference in opinion leads to controversy and ultimately settled in the court of law. In our cases also, the whole industry is in dilemma whether the outstanding debtors and creditors are subject o KKC or Not ? If it is yes, then which and how documentations will be done for claiming and paying off KKC. Because CENVAT credit will be available on the basis of documentary evidence. We need to use the provisions judicially and have to wait for the actual situation to come and the explanation given by the department. Hope the above discussion will help the readers to understand the legal stand and the controversies regarding KKC along with the Accounting entries. MA

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Eastern India Regional Council

The Institute of Cost Accountants of India - Bhubaneswar Chapter

On May 22, 2016 the chapter organized one Personality & Communication Skill Development programme for pursuing final students at its premises. Shri Amit Kumar Tripathy, one of the best Soft Skill Trainers at Odisha guided the students. On May 28, 2016 to mark the celebration of Annual Day, a student's seminar had been organized by the Chapter on the theme 'Stress Management'. Dr Ashok Kumar Sahu, former ED (HR & Administration), NACO Ltd. & one of the soft skill trainers guided the students as resource person regarding management of stress. CMA B.K. Pattnaik, one of the founder members of the chapter being the chief guest handed over the trophies to the students. On May 30, 2016 the chapter conducted the 47th Annual General Meeting in reference to the provisions of Chapter Bye Laws. On the occasion the 4th quarter newsletter had also been inaugurated by CMA N. Mishra, Council Member & Chairman, RCs and Chapters Coordination Committee of the Institute, CMA S.P. Padhi, Chairman, EIRC and founder members CMA D.K. Das, CMA K.K. Sastri & CMA N. Mohapatra in the presence of the members of the managing committee and members of the Chapter. As per the instruction of Govt. of India and subsequent information received by the Institute, students and employees of the chapter participated and took pledge in the Swachh Bharat Aviyan from May 16 till May 31, 2016.

The Institute of Cost Accountants of India – South Odisha Chapter

The Chapter conducted the 58th ICAI Foundation Day celebration on May 28, 2016 at its premises. CMA Narasingha Chandra Kar, Treasurer of the Chapter deliberated about the genesis and development of the institution. CMA Ch. Venkata Ramana, Member, EIRC of the Institute reiterated about the cost analysis which is an important factor for fixing attractive sale prices of any product in the market. He highlighted that the present ruling Govt. is giving utmost importance to CMAs in national corporate development and emphasized about the importance of Cost Audit for all manufacturing units.

Northern India Regional Council

The Institute of Cost Accountants of India - Jaipur Chapter

The Chapter organized a full day seminar on Income Computation & Disclosure Standards (ICDS) on May 15, 2016 at its premises. Key Speaker of the seminar was CA Anoop Bhatia. Shri Bhatia explained in detail the various aspects of these Standards which have been made applicable by the Income Tax Department from April 1, 2015 under Section 145 (2). These standards are applicable for 'Income from Business & Profession' and 'Income from other Sources'. CMA P.R. Jat, secretary of the chapter explained the usefulness of the theme of the Seminar.

On May 28, 2016, the chapter celebrated the 57th Annual Day of the Institute. On this occasion a program on Tree Plantation was organized in which senior members of the chapter, management committee members and staff took part with great enthusiasm. Also as per the direction of Govt. of India and subsequent communication received from the Secretariat of the Institute, Cleanliness Drive (Swach Bharat Abhiyan) was also held by the chapter by administering Swachhta Shapath (Pledge).

Southern India Regional Council

The Institute Of Cost Accountants of India-Hyderabad Chapter

On May 1, 2016 a programme on National Company Law Tribunal - Law & Opportunities for CMAs and Standards on Cost Auditing had been held by the chapter where CS R. Venkataramana, Vice Chairman, ICSI, Hyderabad Chapter suggested to go through the draft rules released by MCA to update their knowledge. CMA D. Zitendra Rao, Member & Chairman – SC for members in practice, SIRC of the Institute highlighted the standards on cost audit such as SCA-101-Planning an Audit of cost statements, SCA-102-Cost Audit Documentation, SCA-103-Overall objectives of the Independent Cost Auditor and the conduct of an audit in accordance with Cost Accounting Standards and SCA-104-Knowledge of Business, its processes and the Business Environment. On

May 14, 2016 a half day seminar on Practicing CMAs of AP and TS had been organized where CMA A.N. Raman, past president, SAFA, the speaker highlighted that with changing times, the requirements of the organizations, expectations from the accounting fraternity particularly the CMAs are the need of the hour. On May 17, 2016, CMA Dr. R. Chandra Sekhar, secretary of the chapter met Director of Sri Prathiba Degree College for women in order to discuss on CMA support centre. On May 21, 2016 as per the directions of the Institute, the chapter observed Anti Terrorism Day. On May 28, 2016 the Institute observed a week long programme commencing from May 16, 2016 to May 31, 2016, a mandate on Swachh Bharat Abhiyan announced by Government of India. The objective of the programme is to keep the premises clean and green. CMA D. Suryaprakasam, chairman of the chapter, Sri N. Krishna Moorthy, Registrar of Companies, CMA D. Zitendra Rao, SIRC Member, CMA PAP Murthy, Past Central Council Member, Former Chairmen CMA G. Appa Rao, CMA M. Kameswara Rao and CMA Dr R. Chandra Sekhar, secretary of the chapter participated in the programme. On the same day the annual day celebrations of the Institute was organized by the chapter where CMA D. Surya Prakasam , the chairman of the chapter highlighted the importance of the day. Chief Guest Mr. Sandeep Kumar Sultania, IAS, Transport Commissioner in his valuable address, stressed the importance of CMA course, how CMAs are rendering valuable services in Government undertakings. CMA D. Zitendra Rao, Member SIRC indicated that the profession is marching ahead with growth in the economy by achieving the cost competitiveness. CMA N. Krishna Moorthy, Registrar of Companies, Hyderabad mentioned about the transparency, accountability and responsibility of the professionals while they are in practice or employment. On May 20, 2016, CMA Dr. R. Chandra Sekhar, secretary of the chapter met Director of the Cognizant College of Commerce, Ameerpet, Hyderabad to discuss about the CMA support centre and highlighted the importance of CMA course, its career growth , opportunities either in employment or in practice. On the same day CMA Dr. R. Chandra Sekhar, secretary of the Chapter met principal of the Sujatha Degree College for Women, Chapel Road regarding the CMA Support Centre and enlightened them about career as a CMA and discussed about its usefulness in getting a good job in the industry. On May 23, 2016 CMA Dr. R. Chandra Sekhar, secretary of the chapter met Mr. Krishnaiah Goud,

Principal of the Annie Besant Degree College for Women, Dilsukhnagar regarding the CMA Support Centre. On the same day CMA Dr. R. Chandra Sekhar, secretary of the chapter met principal of the DVM College of Commerce, Dilsukhnagar regarding the CMA Support Centre. The college has shown interest to take this support centre in order to give some value addition to the degree students in different streams.

The Institute of Cost Accountants of India - Madurai Chapter

On May 28, 2016 the foundation day celebration for the year 2016 had been organized by the chapter and inaugurated by the chief guest, Shri N Senthilnathan, Director, Nataraj Oil Mills P Ltd, Manufacturers of Anjali brand Gingili oil etc and he emphasized that costing is very much needed for all as price is being fixed/offered by buyers and the profit available to entrepreneur is the difference between the selling price and the cost of production. CA P Rajavel, Practising Chartered Accountant & Chairman, The Institute of Company Secretaries of India, Madurai Chapter in his speech applauded the efforts by the Institute in creating opportunities for practicing cost accountants. CMA S Rajaguru, Practicing Company Secretary, CMA R. Sarathbabu, Treasurer of the Chapter, CMA V. Hari Hara Prasad- Member working in Oman, CMA M. Raja Pandian, Practicing Cost Accountant had been given felicitation speech. On the same day the Chapter conducted a half day programme on the theme 'National Company Law Tribunal' on the occasion of NCLT month celebrations announced by the headquarters of the Institute. CMA S Kumararajan, practicing cost Accountant, the speaker explained law relating to 'National Company Law Tribunal and National Company Law Appellate Tribunal' in Sec 407 to Sec 434 of the Companies Act, 2013 and also touched upon the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, Companies (Prevention of Oppression and

Mismanagement) Rules, 2016 and the provisions of the National Company Law Tribunal Rules, 2016. Following the seminar on NCLT, a professional development programme had been organized by the chapter on 'Cost Auditing Standards' on May 28, 2016. CMA D. Kalaichelvan, Practicing Cost Accountant briefly explained the Cost Accounting Standards & Cost Auditing Standards with reference to Section 148 of Companies Act and the standards issued by the Institute and approved by the Government.

The Institute of Cost Accountants of India - Visakhapatnam Chapter

On May 21, 2016 as per the direction of Govt. of India and subsequent communication received from the Secretariat of the Institute, the chapter observed Anti-Terrorism Day. The objective behind the observance was to wean youth from terrorism and violence. The day had been observed to create awareness among the students, staffs and members of the chapter about the danger of terrorism, violence and its effect on the general people, society and the country as a whole. On May 22, 2016 the chapter inaugurated Smart Class Room-1 at CMA Bhawan by Dr K Hari Babu, Member of Parliament and stated that this will help the students to enrich more knowledge. CMA K. Sanyasi Rao, SIRC Chairman requested the students to utilize the smart class in a better approach. CMA P.V.N. Madhav, chairman of the chapter, CMA M. Ramakrishna, secretary of the chapter, CMA C.S. Sundara Murthy, CMA S. Ramprasad, CMA U.Lakshmana Rao and other members of the Institute were present on the occasion. The Chapter celebrated Annual Day as per the guidelines of the Institute on May 28, 2016 at CMA Bhawan. CMA P.V.N. Madhav, chairman of the chapter, CMA M. Ramakrishna, secretary of the chapter, CMA C.S. Sundara Murthy and CMA V.J. Gupta participated in the celebration.

The Institute of Cost Accountants of India -Tiruchirapalli Chapter

On June 9, 2016 the Chapter conducted PD Meet for CMA Members. Chief Guest of the Meet was CMA R Asokan, Advisor/ Cost, Ministry of Corporate Affairs on the theme 'Standards on Cost Auditing and Practical Issues'. CMA P Raju Iyer, Chairman/CAASB of the Institute & CMA K Suryanarayanan, Chairman/PD-SIRC of the Institute were the speakers and CMA I Ashok, Council Member, CMA A Mayilmuragan, Secretary, SIRC of the Institute were the invitees of the Meet.

The Institute of Cost Accountants of India –Trivandrum Chapter

On May 10 and 11, 2016, the Chapter conducted campus placement for the students who completed Certificate in Accounting Technician course (CAT) or CMA Intermediate Course and Infosys visited the chapter for conducting the same. CMA Dr. I Ashok, Council Member, CMA L Gurumurthy, Sr Director, Training and Placement of the Institute, CMA Joseph Louis, secretary of the chapter along with officials from Infosys were present in the placement programme.

On May 28, 2016 the Chapter organized a programme on 'National Company Law Tribunal under Companies Act 2013' where the guest speaker was CS Bilu Balakrishnan, FCS, Company Secretary, Kerala State Electronics Development Corporation Ltd., Trivandrum elaborated the functions of NCLT and NCLAT and also discussed the openings proposed for CMAs as members, consultants representatives etc. CMA Joseph Louis, secretary of the chapter stated that NCLT is not a new concept, but incorporated in the Companies Act 1956 on the recommendation of Eradi committee and later by J J Irani Committee but cannot be implemented due to judicial interventions. In his speech CS Bilu Balakrishnan elaborated the functions of NCLT and NCLAT and also discussed the openings proposed for CMAs as members, consultants, representatives etc.

The Institute of Cost Accountants of India –Erode Chapter

On May 28, 2016 the Chapter celebrated Foundation Day. CMA S. Gopalakrishnan spoke about the importance of the day.

The Institute of Cost Accountants of India – Coimbatore Chapter

On May 14, 2016, the chapter organized the PDP Meeting where CMA K. Vidhya Shankar delivered a speech on 'Role of Professionals under the Companies Act, 2013' to the members. The inaugural function of 82nd batch of oral coaching was held on May 18, 2016 chaired by chairperson of the chapter, CMA Meena Ramji.

As per HQ Circular, the Chapter observed Anti- Terrorism Day on May 21, 2016. A meeting for members and students was arranged on the theme 'Terrorism eradication at Source'. Er. V.K.S.K. Senthil Kumar, the speaker emphasized the need to teach moral values to the youngsters and make everyone a responsible citizen. To assist the students in their preparation for June examination, the chapter conducted crash courses on various dates of May 2016. The Chapter celebrated NCLT month & Institute Annual Day and conducted a PD meeting for members and students on May 28, 2016. CS G. Balasubramaniam , Finance Controller - International Operations of Roots Group of Companies, Coimbatore deliberated on the theme 'Guidance on Good Practices in Corporate'. At the outset, he explained the evolution and definitions of corporate governance and went on analyzing the ways and means of achieving good corporate governance.

Western India Regional Council

The Region conducted three programmes on Automation of MVAT jointly with Department of Sales Tax, Government of Maharashtra. The first programme was conducted on May 8, 2016 at Pune jointly with Pimpri Chinchwad Akurdi and Pune Chapter. Dr. Doke, Joint Commissioner, Mr. Nitin Shaligram, Project Director, New Automation, Deputy Commissioner and Staff Officer, MAHAVAT, GOM, CMA Rajendra Adsul, Deputy Commissioner, MAHAVAT guided the participants in Pune. CMA B.M. Sharma, Past President of the Institute, CMA L.D. Pawar, Treasurer WIRC, CMA Neeraj joshi, RCM of the Institute, CMA Amit Apte council member were present on the occasion.

The second programme was conducted at WIRC office, Mumbai on May 17, 2016. Mr. Nitin Shaligram, Project Director, New Automation, Deputy Commissioner and Staff Officer, MAHAVAT, GOM, Mr. Gajanan Khanande, Deputy Commissioner, Returns SME, MAHAVAT, GOM, Mr. Kenvadekar, Joint Commissioner, LTU, MAHAVAT, GOM, Mr. Girish Nehete, Deputy Commissioner, MAHAVAT, GOM, CMA Rajendra Adsul, Deputy Commissioner, MAHAVAT, GOM guided the participants.

On May 28, 2016 the annual day celebration of the Institute had been held at WIRC. CMA V.C Kothari, the senior member informed the new areas available other than Cost Audit open to the members in practice and he requested the young CMAs to take up the same.

The Institute of Cost Accountants of India - Surat South Gujarat Chapter

On May 3, 2016 the chapter organized an industrial visit at the Surat District Co-Operative Milk Union Ltd (SUMUL). Mr P R Raval, junior executive arranged a plant visit and showed each and every production process and Mr. Manish Bhatt, Assistant General Manager, Marketing Department of the Surat District Co-Operative Milk Union Ltd (SUMUL) gave an excellent guidance and knowledge regarding dairy industry especially from process costing point of view. There was a questionnaire session and the students were enlightened by the session.

On May 28, 2016 the foundation day of the Institute was celebrated at the Chapter's office where CMA Manubhai Desai, Chairman of the Chapter provided the outline of the achievements of the earlier days of the Institute and also of the Chapter. The chapter on the same day also took part in cleanliness drive (Swachh Bharat Abhiyan) at its premises under the leadership of CMA Manubhai Desai, chairman of the chapter. Again a CEP on 'Income Tax with Special Reference to MAT (Minimum Alternate Tax) & AMT (Alternate Minimum Tax)' had been organized by the chapter at its office. CMA Ravi Chhawchharia, the well known professional educationalist from South Gujarat, the Faculty for the CEP dealt in details about the Income Tax with special reference to MAT (Minimum Alternate Tax) & AMT(Alternate Minimum Tax).

A Smart Education Expo 2016- Mega Education Fair was jointly organized at Convention Center of Veer Narmad South Gujarat University, Surat by the Southern Gujarat Chamber of Commerce and Industries, Surat Municipal Corporation, Veer Narmad South Gujarat University from May 19 till 22, 2016 and the chapter actively participated in the said event.

Various dignitaries viz. vice-chancellor of the university, president of the southern Gujarat chamber of commerce and industries and chairperson of the cultural activities committee of Surat Municipal Corporation, well known national faculties of different conclaves graced the various occasions organized at the Education Expo.

The Institute of Cost Accountants of India - Kolhapur Sangli Chapter

On March 20, 2016 the chapter conducted a four-hour CEP on 'Sugar Industry & SAP Applications' and 'Budget 2016-2017'. CMA Shashikant S. Patil, General Manager (Finance) of Renuka Sugars explained the SAP Applications in Sugar Industry giving simple but suitable examples. CA Sunil S. Nagaonkar, a senior practicing Chartered Accountant, explained in details the new provisions in the Central Budget 2016-17.

Role of CMAs in *Achieving Business Excellence*

Benchmarking Business Performance:

Benchmarking business is a way of measuring performance against similar size and nature of businesses. It gives essential information about how to improve business. Benchmarking helps to reduce costs and improve efficiency, assess the business productivity, identify opportunities for improvement, new ideas and innovative practices, highlight opportunities for making the business more competitive, forecast the impact of any changes and see how to prepare for growth and sustainability. The CMAs are well versed in benchmarking tools and techniques to make the benchmarking process more effective; ensure that internal and external performance data are normalized and analyzed using the correct data analysis tools to identify gaps and their root causes; create a system of financial and performance measures to monitor ongoing progress against internal and external benchmark-based standards; and incorporate benchmarking as a key ingredient in the strategic planning process and the enterprise's Total Quality Management (TQM) efforts.

Total Quality Management(TQM):

In today's global era of economic liberalization, quality has become one of the important factors for achieving competitive advantage. TQM focuses on continuous process improvement within organizations to provide superior customer value and meet customer needs. It is a combination of quality and management tools aimed at increasing business and reducing losses from wasteful practices. The CMAs are competent enough to effectively apply TQM method to improve organizational effectiveness, long-term profitability and financial returns. Also, higher intensity of TQM practices results in improved quality performance.

Enterprise Resource Planning (ERP):

One of the most important technological innovations of the last decade has been the emergence of ERP solutions. An ERP system is a platform for gaining and sustaining business excellence. Excellence in business is more imperative than ever in a global economy where international competition is intensifying and holding on to a competitive advantage is increasingly difficult. The main objective of implementing an ERP system is to integrate the organizations business processes and operations for improved business results. The CMAs play a critical role in the implementation and success of the ERP system. Internal cost accounting functions are immensely supported by ERP packages include cost accounting techniques, such as standard costing, variable costing, application of overheads, inventory valuation, activity-based cost management, balanced scorecard, resource-consumption accounting and customized-cost accounting techniques. Here CMAs can effectively apply ERP package for external reporting purposes. Cost accounting simulations and what-if abilities are also included in the ERP Package which is useful in optimizing supply chain costs.

Corporate Sustainability Report:

Integrated reporting is actively helping us to become a better and more accountable organization. It causes us to think beyond compliance and financial reporting to deeply examine all the ways in which we deliver sustainable value, and is a highly practical way of redefining how business is done. As an internal auditor, CMAs also play a crucial role in integrated reporting. The IR Framework requires that organizations address risk management and governance areas, here the CMAs can help to prepare an effective implementation of the IR Framework by meeting requirements in the Standards related to risk management and governance.

Performance Management:

Performance Management can be regarded as a systematic process by which the overall performance of an organization can be improved by improving the performance of individuals within a team framework. It is a means for promoting superior performance by communicating expectations, defining roles within a required competence framework and establishing achievable benchmarks. In this context, the CMAs can apply Balanced Scorecard, which identifies both financial and non-financial measures to assess strategic performance. Further, CMAs are capable enough to prepare and submit a Performance Appraisal Report to the Company Management in addition to the assurance report. Performance Appraisal Report provides an actionable insight into costs and profitability for the management in the strategic and operational context. It would help the organizations: to improve profits and profitability, to optimize resource allocation and to optimize the product and services portfolio.

SWOT Analysis:

The CMAs are proficient enough to perform a strategic technique like SWOT Analysis to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective. It also helps to configure overall position of the business in the market place by seeking the best combination of strengths and opportunities that can optimize returns.

Risk Management:

Organizations today are forced to deal with multiple internal and external challenges. Stricter regulations, compliance requirements, and cut-throat competition have only put more pressure on the organizations leaving them with very less space for profit. This brings to the fore a high level of uncertainty, adding to the organization's risk exposure. CMAs can apply risk-mapping and managing techniques to manage unavoidable risks in a controlled and effective manner as well as make faster and better business decisions. Risk management if implemented effectively can help drive competitive advantage as well as ensure business sustainability and growth.

Internal Auditing:

Internal auditing helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Auditors' roles include monitoring, assessing, and analyzing organizational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws. Further, Cost Accountants have been empowered statutorily vide Section 138(1) of the Companies Act 2013 for conduct of Internal Audit of the Companies. The CMAs can focus on driving value and efficiency with improvement in audits in creating, enabling, preserving and reporting value. They can assist the management by detecting and preventing fraud, testing internal control, and monitoring compliance with company policy and government regulation.

THE JOURNAL FOR CMAs

THE MANAGEMENT ACCOUNTANT

-: PAPERS INVITED :-

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

August 2016

Theme

Capacity Building for Sustainability

Subtopics

- *Capacity building approaches & its importance*
- *Capacity building for competitive advantage and cost efficiency*
- *Capacity building as a strategic plan for development*
- *Capacity Building - the catalyst and constant fuel for a process of change*
- *Capacity building for enhancing value and creating opportunities*
- *Engaging Communities to create sustainable change*
- *Skill development for capacity building*
- *Capacity building for CMAs*

September 2016

Theme

Cost Competitiveness - Complexity to Confidence

Subtopics

- *Strategies for staying Cost Competitive*
- *Building Market Share by Cost Competitiveness*
- *Cost Competitiveness for Sustainability*
- *Economics of Cost Competitiveness*
- *Strategic Cost Analysis*
- *Case Studies*
- *Role of CMAs*

October 2016

Theme

Economic Innovations - the game changer

Subtopics

- *Innovations in Finance and its impact on economy*
- *Accounting Standards as a game changer*
- *New tools in Strategic Cost Management*
- *Innovations in production process*
- *Innovations in IT/ITES*
- *Innovative ideas on Cost Management - role of CMAs*
- *Innovations in different sectors of economy - case study*

November 2016

Theme

The Changing Role of Management Accountants

Subtopics

- *Traditional role to a more dynamic involvement in businesses*
- *Experiencing change from a strategic apex role*
- *Management Accountants as business partner and change agent*
- *New tools and techniques*
- *Performance measurements*
- *Corporate Governance and business ethics*
- *Achievement towards sustainability goals*
- *Case Studies*

The above subtopics are only suggestive and hence the articles may not be limited to them only.

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

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CAS 23

COST ACCOUNTING STANDARD ON OVERBURDEN REMOVAL COST

The following is the Cost Accounting Standard (CAS-23) on "**OVERBURDEN REMOVAL COST"** issued by the Council of the Institute of Cost Accountants of India. In this standard, the standard portions have been set in ***bold Italic*** type. These are to be read in context of the background material which has been set in normal type.

1. Introduction

The standard deals with the principles and methods of measurement and assignment of Overburden Removal Cost and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Overburden Removal Cost with reasonable accuracy.

3. Scope

The standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Overburden Removal Cost including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified. Any term not defined in this Standard shall have the same meaning and expression as set out in the Glossary of Terms issued by the Council.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operations.

4.2 Administrative overheads: cost of all activities relating to general management and administration of an organization.

4.3 Amortization: Amortization is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

4.4 Cost Object: This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained.[1]

Adapted from CIMA Terminology

Activity includes mining operations also.

4.5 ***Current Ratio: the ratio of overburden removed to mineral produced in a particular patch of mine during the year.***

Quantity of mineral includes production and mineable mineral lying exposed.

Quantity of overburden removed is the net quantity after adjustment of opening and closing advance stripping quantities.

4.6 ***Depreciation: Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the estimated useful life of the asset.***

4.7 ***Imputed Costs: Hypothetical or notional costs, not involving cash outlay, computed for any purpose at any time.***

4.8 ***Interest and Finance Charges: Interest, including any payment in the nature of interest for use of non-equity funds and incidental cost that an entity incurs in arranging those funds***

4.9 ***Mines overheads: indirect costs involved in the mining process for rendering services.***

This relates to the activities of both Mineral extraction and Overburden Removal.

4.10 ***Mining Plan: It is the plan expected to provide information required to measure the stripping activity with reasonable consistency.***

4.11 ***Overheads: Overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object.***

4.12 ***Overburden: It is the overlying materials generally having no commercial value.***

4.13 ***Overburden Removal cost: is the cost incurred to remove the overlying material from the mine site.***

4.14 ***Ratio Variance: It is the variance between current ratio and standard /average stripping ratio in terms of quantity of mineral produced during the period.***

4.15 ***Repair and Maintenance Cost: 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.***

4.16 Stripping Activity: It is the activity of overburden removal that benefits the identified component of an ore to be mined by the entity.

4.17 Stripping Ratio: Stripping ratio is ratio of excavation of overburden to ore.

Generally overburden is measured in cubic metres and ore in tonnes. Therefore, the Stripping ratio is equal to Volume of overburden (m3)/ Weight of ore (in tonnes).

4.18 Standard stripping ratio: this is the ratio between the total quantity of overburden to be removed (in cubic meters) and the total mineral to be extracted (in tonnes) during the Projected life of the project.

The term Standard stripping ratio and Average stripping ratio denote the same meaning and are used interchangeably.

The Ratio shall be reviewed periodically, at least every five years, to take into account changes in geological factors such as actual behavior of the soil and the Ore body. The ratio shall be reviewed immediately if the geological factors alter radically, for example due to earthquake.

The reported quantity of Overburden is considered in cost statement where the variance between the reported quantity and the measured quantity is within the permissible limits. Reported quantity is the quantity of overburden that is necessary corresponding to actual quantity of mineral raised.

For example, 3:1 stripping ratio means that mining one Ton of ore will require mining three cubic meters of waste rock (overburden).

4.19 Advance Stripping: Advance Stripping is the excess overburden removed in between the overburden bench and assumed angle of repose drawn from the starting of Mineral bench from the surface of Mineral than what is needed for extraction of Mineral.

5. Principles of Measurement

5.1. Overburden Removal Cost shall be the aggregate of direct and indirect cost relating to overburden removal activity.

5.2. Direct cost includes the cost of consumable stores, spares like machinery spares, explosives and detonators, manpower, equipment usage, utilities, payment made directly to contractors and other identifiable resources consumed in such activity.

5.3. Indirect cost includes the cost of resources common to various mining operation including overburden removal activity such as manpower,

administrative overheads, loading and unloading equipment usage and other costs allocable to such activities.

5.4. The overburden removal cost attributable to a development phase of a mine area shall be capitalised as non-current asset when it is probable that future economic benefits to the area will flow to the entity and such cost can be identified and measured separately.

5.5. The overburden removal cost attributable to developed area of mine shall be charged to production of ore at the Standard stripping ratio.

The cost of advance stripping activity whose economic benefit is likely to flow to the entity during the subsequent period, shall be capitalised and amortised.

If the removal of ore is more than the Standard stripping ratio, then the cost of short removal overburden shall be charged to the cost of production either by creating the reserve or by adjusting the earlier capitalized overburden removal cost.

5.6. Overburden shall be measured by multiplying the number of trips undertaken by equipment for Overburden removal or by any electronic mode. Measurement at regular intervals may be carried out by volume/ physical verification to arrive at fair quantity of overburden removed. Final assessment will be made based on scientific methodology.

5.7. Current ratio is determined by dividing the actual overburden removed (net quantity after due adjustment for opening & closing advance stripping quantity) with the actual production of mineral including adjustment for mineable quantity of mineral lying exposed during the period.

5.8. Cost of overburden removal activity carried out by outsourcing shall be determined at agreed price as per contract price including duties and taxes and other expenditure directly attributable thereto. The cost shall also include the cost of resources provided to the contractor by the company.

5.9. Cost of overburden removal activity of each mine shall be computed and considered separately.

5.10. Subsidy/ grant/ incentive or amount of similar nature received/ receivable with respect to overburden removal activity if any shall be reduced for ascertainment of the cost of the overburden removal for a patch/ plot to which the amounts are related.

5.11. Any overburden removal cost resulting from some abnormal circumstances if material and quantifiable shall not form part of the overburden removal cost.

Examples are fire, cave-in, flooding and other similar events of abnormal circumstances.

5.12. ***Fine, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overburden removal cost.***

5.13. ***Interest & Finance charges incurred in connection with the overburden removal shall not form part of the overburden removal cost.***

5.14. ***Any change in the cost accounting principles applied for the determination of the overburden removal cost should be made only if it is required by law or for compliance with the requirements of a cost accounting standard or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.***

6. Assignment of costs

6.1 ***Direct cost of overburden removal shall be assigned to the overburden removal activity.***

6.2 ***The cost for equipment shall be assigned in the ratio of machine hours actually engaged for mineral and overburden removal or any other appropriate method that apportions the cost in an equitable manner.***

6.3 ***Administrative overheads and other indirect expenses shall be apportioned to mineral and overburden on the basis of ratio of actual mineral produced and overburden removed during the period or on the basis of actual machine hours engaged for mineral extraction, and overburden removal or any other appropriate basis.***

7. Presentation

7.1. ***Overburden removal, absorption and cost details shall be presented separately for each mine.***

8. Disclosures

8.1 ***The cost statements shall disclose the following:***

- **i)** ***The basis of determining the overburden removal cost.***
- **ii)** ***Where cost of removal is considered on the basis of standard ratio, any variation positive or negative from the current ratio.***
- **iii)** ***Any subsidy grant/ incentive and any such payment reduced from the cost of overburden removal.***
- **iv)** ***Credit/ recoveries relating to overburden removal.***

v) ***Any abnormal cost excluded from overburden removal cost.***

vi) ***Penalties and damages excluded from the overburden removal cost.***

8.2 Disclosures shall be made only where material, significant and quantifiable.

8.3 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the overburden removal cost during the period covered by the cost statement which has a material effect on the overburden removal cost shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

9. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April, 2017 for being applied for the preparation and certification of the General Purpose Cost Statements.

CAS 24

COST ACCOUNTING STANDARD ON TREATMENT OF REVENUE IN COST STATEMENTS

The following is the COST ACCOUNTING STANDARD on "Treatment of Revenue in Cost Statements" (CAS-24) issued by the Council of the Institute of Cost Accountants of India. In this Standard, the standard portions have been set in ***bold italic*** type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

This standard deals with the principles and methods of classification, measurement, treatment and assignment of revenue and its presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods for treatment of revenue in cost statements with reasonable accuracy.

3. Scope

This standard shall be applied to cost statements which require classification, measurement, treatment, assignment, presentation and disclosure of revenue including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified. Any term not defined in this Standard shall have the same meaning and expression as set out in the Glossary of Terms issued by the Council.

4.1 By-product: Product with relatively low value produced incidentally in the manufacturing of the product or service.

4.2 Defectives: Materials, products or intermediate products that do not meet quality standards. This may include reworks or rejects.

4.3 Intermediate product: An intermediate product is a product that requires further processing before it is saleable.

4.4 Joint product: Products or services that are produced simultaneously, by the same process, identifiable at the end of the process and recognised as main products or services having sufficient value.

4.5 Net Sales Realization: is the revenue from operations net of discounts and indirect taxes.

4.6 Other Income: is the income that cannot be classified as revenue from operations.

Examples:

- Profit on sale of fixed assets and investments;
- Interest from investments or deposits outside the business;
- Insurance claims received, not adjusted against an item of cost;
- Penalties or liquidated damages received, not adjusted against an item of cost;
- Fees received, not adjusted against an item of cost;
- Rent or lease from properties leased (unless the primary activity itself is leasing);
- Grants received;
- Royalties received (unless it is a part of major activity of the entity);
- Credits for previous years' adjustments;
- Dividend income on investments (other than in a financial enterprise);
- Gain on foreign currency transaction and translation (other than considered as finance cost);

- Excess provisions written back;
- Credits on account of revaluation of capital assets;
- All items of abnormal revenue such as recoveries from book debts written off in the previous period; and
- Prior period income.

4.7 Reporting Period: is the period for which the cost statements are prepared.

4.8 Revenue: The term Revenue will have the same meaning as assigned in the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or in the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.

The terms Revenue and Sales Realisation denote the same meaning and are used interchangeably.

4.9 Revenue from operations: is the income arising in the course of the ordinary activities of an entity from the sale of goods or rendering of services.

Revenue from operations represents income arising from the sale of goods or rendering of services and includes other operating revenue, such as sale of scrap, government subsidies, or incentives received. Revenue from operations is generally recognised at the net value excluding indirect taxes. Sometime, revenue is presented at the gross value including excise duty and the excise duty is presented as deduction from such gross value of the revenue.

Other Operating Revenue is the incidental income arising in the course of ordinary activities of an entity but not arising from the sale of main goods or services, and it does not include Other Income.

Examples:

- Sale of By-products;
- Sale of manufacturing scrap;
- Export incentives received from Government; and
- Product related subsidies or grants received from Government.

4.10 Rejects: Defectives which cannot meet the quality standards even after putting in additional resources.

4.11 Scrap: Discarded material having no or insignificant value and which is usually either disposed off without further treatment (other than reclamation and handling) or reintroduced into the process in place of raw material.

4.12 Spoilage: Production that does not meet the quality requirements or specifications and cannot be rectified economically.

4.13 Waste: Material lost during production or storage and discarded material which may or may not have any value.

Example of waste is hard waste and soft waste in textile industry.

5. Principles of Measurement

5.1 Revenue from sale of goods or services provided during a reporting period shall be measured based on the net sales realization.

5.2 Revenue from sale of joint products shall be measured separately for each main product or service sold.

5.3 Revenue from sale of goods or services shall be measured separately for each unit or location of an entity for each type of goods sold or service provided. It shall be sub-classified into revenue from exports, domestic sales, manufactured goods, operations, and trading activities.

5.4 Revenue from sale of goods or services shall be measured separately for sale of each type of by-products, defectives, second grade products, rejects, scrap, spoilage, or wastes.

5.5 If a by-product is further processed before sale, sales realisation of such by-product shall be net of further processing cost. Its net sales realisation shall be adjusted against the joint cost of production of relevant main products.

5.6 Net Sales realization of defectives, second-grade products, rejects, scrap, spoilage, and waste products shall be adjusted against the cost of production of related goods sold.

5.7 Revenue from sale of inputs, utilities, intermediate products, and shared or support services shall be adjusted against the cost of purchase or cost of production of the related input, utility, intermediate product and shared or support service.

5.8 Other income shall not be considered in determining profit or loss as per cost accounts.

5.9 Revenue generated from utilization of assets created under the CSR program shall not be considered in determining profit or loss as per cost accounts.

5.10 ***Product or service related subsidies, grants, or incentives, received or receivable on sale of goods or rendering of services shall be part of revenue from operations and shall be identified with each product sold or service rendered.***

5.11 ***Any subsidy, grant, incentive or any such payment received or receivable to support the current operations of the entity other than those in the nature of capital grant and other than items referred in paragraph 5.10 above shall be treated as reduction in the related cost.***

Reference:

- para 5.6 of CAS-3, Cost Accounting Standard on *Production and Operation Overheads*;
- para 5.1.9 of CAS-6, Cost Accounting Standard on *Material Cost*;
- para 5.8 of CAS-7, Cost Accounting Standard on *Employee Cost*;
- para 5.8 of CAS-8, Cost Accounting Standard on *Cost of Utilities*;
- para 5.1.8 of CAS-9, Cost Accounting Standard on *Packing Material Cost*;
- para 5.7 of CAS-10, Cost Accounting Standard on *Direct Expenses*;
- para 5.5 of CAS-11, Cost Accounting Standard on *Administrative Overheads*;
- para 5.13 of CAS-12, Cost Accounting Standard on *Repair and Maintenance Cost*;
- para 5.6 of CAS-13, Cost Accounting Standard on *Cost of Service Cost Centre*;
- para 5.13 of CAS-14, Cost Accounting Standard on *Pollution Control Cost*;
- para 5.5 of CAS-15, Cost Accounting Standard on *Selling and Distribution Overheads*;
- para 5.4 of CAS-17, Cost Accounting Standard on *Interest and Financing Charges*;
- para 5.2 of CAS-18, Cost Accounting Standard on *Research and Development Costs*;
- para 5.6 of CAS-19, Cost Accounting Standard on *Joint Costs*;
- para 5.3 of CAS-20, Cost Accounting Standard on *Royalty and Technical Know-how Fee*;
- para 5.6 of CAS-21, Cost Accounting Standard on *Quality Control*; and
- para 5.19 of CAS-22, Cost Accounting Standard on *Manufacturing Cost*.

5.12 ***Any change in the cost accounting principles applied for the determination of revenue shall be made only if it is required by law or regulations or for compliance with the requirements of a cost accounting standard or the change would result in more appropriate preparation or presentation of cost statements of an entity.***

6. Assignment of Revenue:

Revenue for each type of product or service shall be assigned directly to that

product or service to the extent it is economically feasible.

Economic feasibility implies that it is practically feasible to assign the revenue to a particular product or service with reasonable cost and efforts. Reasonable cost and efforts are matters of judgement.

7. Presentation:

7.1 ***Net sales realization for each product or service shall be indicated separately for exports, domestic sales, manufactured goods, operations, and trading activities and matched against the cost of sales (net of duties) and margin of respective product or service.***

7.2 ***The quantity of goods sold or services provided, where applicable, and selling price per unit shall be presented under each product or service.***

8. **Disclosures:**

8.1 The cost statements shall disclose the following:

1. ***Revenue from sale of goods or services made to each related party with basis of determining the selling price;***
2. ***Revenue from by-products and costs of further processing after split-off point, reduced from cost of relevant product;***
3. ***Amount and nature of any subsidy, grant or incentive received or receivable and included in the revenue.***

8.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of revenue during the period covered by the cost statement which has a material effect on the revenue shall be disclosed. Where the effect of such change is not ascertainable, wholly or partly, the fact shall be indicated.

8.3 Disclosures shall be made only where material, significant and quantifiable.

8.4 Disclosures shall be made in the body of the cost statements or as a foot note or as a separate schedule.

9. Effective date:

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April, 2017 for being applied for the preparation and certification of Cost Accounting Statement for goods sold and services provided.

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A Journey towards Success

CMA CAREER AWARENESS PROGRAMME

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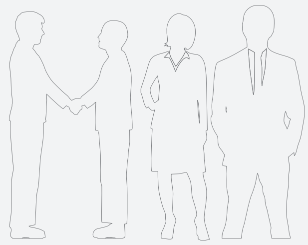
CMA 2016-17
CAREER AWARENESS PROGRAMME



The Institute of Cost Accountants of India, Nellore Chapter has conducted 106 Career Counselling Programmes between 1st April 2015 & 31st March 2016. A letter of appreciation for the year 2015-16 was presented to The Institute of Cost Accountants of India, Nellore Chapter for the initiatives and sincere efforts taken towards conducting Career Counselling Programmes effectively.

CAREER AWARENESS PROGRAMMES HELD DURING MAY-JUNE 2016*

Date	HQ/Region/Chapter	Venue
30 MAY 2016	Trivandrum Chapter	Govt. College, Nedumangad, Trivandrum
31 MAY 2016	Trivandrum Chapter	Govt. High School, Kamaleswaram, Trivandrum
23 JUNE 2016	SIRC	Alagappa Schools, Purasawalkam, Chennai
25 JUNE 2016	Aurangabad Chapter	In House Program, Training Hall, CMA Bhawan, The ICAI - Aurangabad Chapter
26 JUNE 2016	Nashik-Ojhar Chapter	Pandit Colony, Nashik
27 JUNE 2016	Erode	CSI Cristian College of Arts and Science for Women, Erode
27 JUNE 2016	Nellore Chapter	V. R. College, Trunk Road, Nellore
29 JUNE 2016	Nellore Chapter	Sri Venkataswara Degree & P.G. College, Nellore
29 JUNE 2016	SIRC	Agarwal Vidyalaya, Vepery, Chennai
29 JUNE 2016	Guwahati Chapter	St. Anthony's College, Shillong
30 JUNE 2016	Hyderabad Chapter	Badruka Junior College, Kachiguda, Hyderabad
30 JUNE 2016	HQ	WWA Cossipore English School, Kolkata

* *As reported till 01-07-2016*

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

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Research Bulletin, Vol. 42, No. III (ISSN 2230 9241)

Call for Research Papers/Articles

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

Research Bulletin is now a **Quarterly Publication** of the Institute. The next issue will be published in **October, 2016**.

Guidelines to submit full Paper

- Soft Copy of the full paper should be submitted in double space, 12 font size, Times New Roman, keeping a margin of 1 inch in four sides, MS Word (.doc) format.
- Each paper should be preferably within 5000 words including all.
- An abstract of not more than 150 words should be attached.
- The cover page should contain the title of the paper, author's name, designation, official address, contact phone numbers, e-mail address.

Theme Topic: Companies Act 2013

Papers are invited on the following topics, but not limited to:

- Corporate Governance
- Corporate Social Responsibility
- Independent Director
- Women Empowerment in the Corporate Sector
- Mergers and Amalgamations
- Internal Audit
- Corporate Fraud
- Companies Act 1956 Vs. Companies Act 2013
- NCLT & NCLAT

Papers must be received within 5th September, 2016 in the following email id:

research.bulletin@icmai.in

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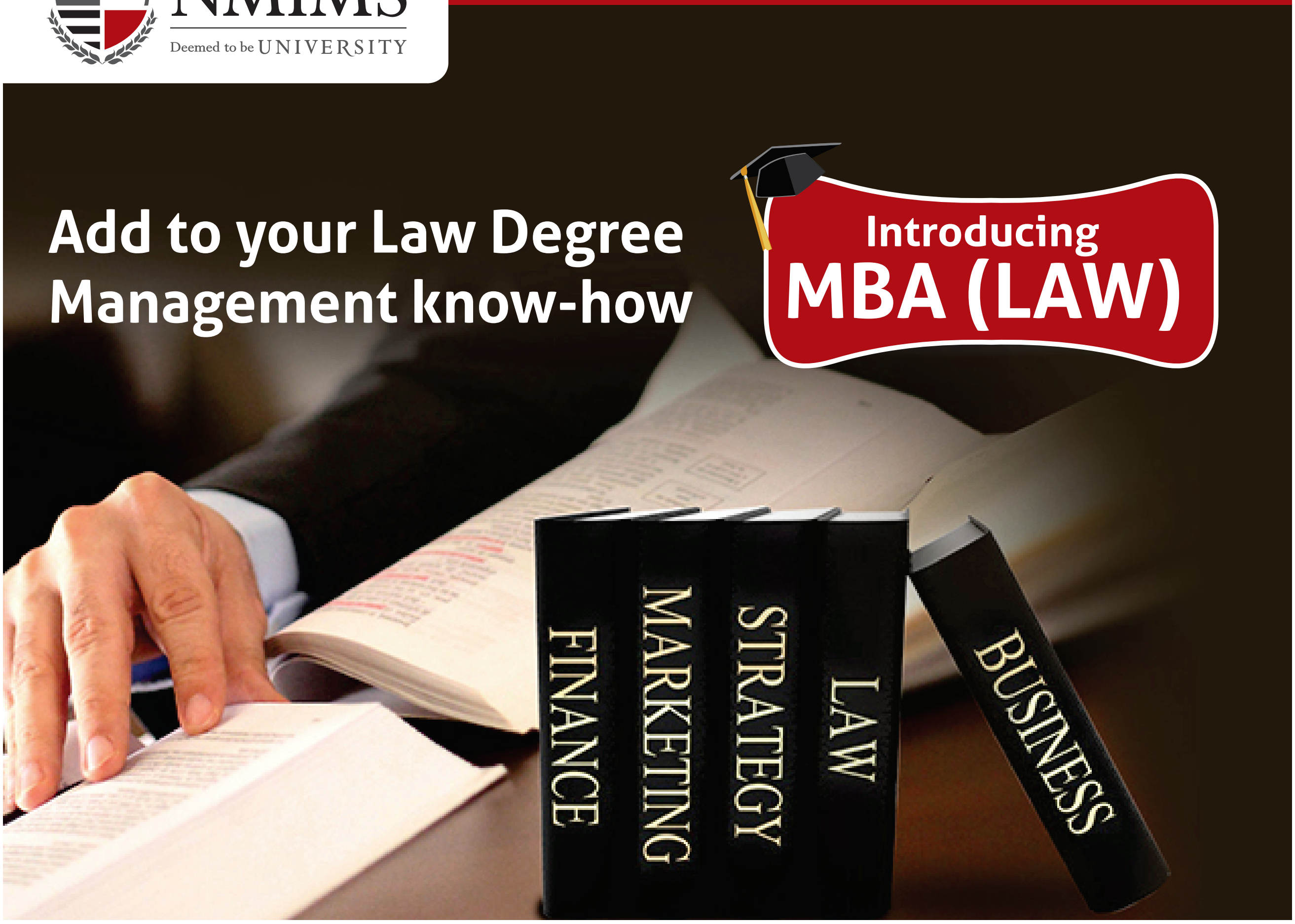

PROGRAM HIGHLIGHTS

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