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STRATEGIC COST MANAGEMENT IN TELECOM SECTOR

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

37th Cost Conference 2016

Organised by

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

EASTERN INDIA REGIONAL COUNCIL

Theme :

Managing cost and taking successful business decisions – Competency of CMAs

on 11th & 12th June, 2016
at Science City, Mini Auditorium,
Kolkata

Behind Every Successful Business Decision, There is always a CMA

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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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EDITORIAL

Greetings!!!

The telecom services have been recognized as an important tool for socio-economic development for a nation. It is one of the prime support services needed for rapid growth and modernization of various sectors of the economy. Indian telecommunication sector has undergone a major process of transformation through significant policy reforms, particularly beginning with the announcement of NTP 1994 and was subsequently re-emphasized and carried forward under NTP 1999. It defined certain important objectives, including availability of telephone on demand, provision of world class services at reasonable prices, improving India's competitiveness in global market and promoting exports, attractive FDI and stimulating domestic investment, ensuring India's emergence as major manufacturing and export base of telecom equipment and universal availability of basic telecom services to all villages. It is also announced a series of specific targets to be achieved by 1997. Latest NTP-2012 has been framed to facilitate the general public by making available affordable, reliable and secured telecommunication and broadband services across the nation. Driven by various policy initiatives, the Indian telecom sector witnessed a complete transformation in the last decade. It has achieved a phenomenal growth during the last few years and is poised to take a big leap in the future too.

The Telecom Regulatory Authority of India (TRAI) is a statutory body set up for regulating the Telecom and Broadcasting Sectors. TRAI was created by enacting the TRAI Act 1997 (as amended in the year 2000). This Act, along with the notification of the Government dated 9th January 2004, empowers TRAI to recommend conditions for entry of new telecom service providers as well as ensure compliance of the terms and conditions of the license. Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT) was set up to adjudicate any dispute between a licensor and a licensee, between two or more service providers, between a service provider and a group of consumers, and to hear and dispose of appeals against any direction, decision or order of TRAI. The Act also empowers TRAI to lay down the standards of quality of service and ensure compliance, specify the tariff policy and make recommendations. TRAI's scope of work also includes issues relating to telecom and cable tariff policy, commercial and technical aspects of interconnection, free choice and equal ease of access for the public to different telecom services, resolution of conflicts that may arise due to market developments and diverse network structures for various telecom services. TRAI also facilitates development of forums for interaction amongst service providers and interaction of the Authority with consumer organizations to promote consumer interest.

India will emerge as a leading player in the virtual world by having 700 million internet users amongst 4.7 billion global users by 2025, as per a Microsoft report. With the government's favourable regulation policies and 4G services hitting the market, the Indian telecommunication sector is expected to witness fast growth in the next few years.

This issue also presents a good number of articles on the cover story theme 'Strategic Cost Management in Telecom Sector' 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.

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

When life is sweet, say thank you and celebrate. And when life is bitter, say thank you and grow.

Shauna Niequist

My Dear Professional Colleagues,

Namaskar.

You are aware that the Ministry of Corporate Affairs had given the task of developing 15 Standards on Cost Auditing (SCAs) upto 31st March 2016 and submitting the same to Government for its approval. I am happy to inform you that the 'Cost Auditing and Assurance Standards Board' of the Institute has completed the task and the standards have been sent to the Central Government for its vetting and approval. Compliance of the approved SCAs will be mandatory under section 148(3) of the Companies Act 2013 by the cost auditors auditing the cost records. It is necessary on the part of the Institute to create awareness of the SCAs among the members of the Institute so that they will be able to carry out their professional assignment properly. It is pertinent to mention that Cost Accounting Standards (CASs) developed by the Institute are also mandatory for being applied by the Cost Auditor. In order to impart knowledge and discuss the technicalities, practical aspects and implications of SCAs and CASs, the Institute is organizing seminars, webinars and programs on pan India basis.Details of these programs, seminars and webinars can be obtainedfrom the website of the Institute. I urge members of the profession to attend these programs, seminars or webinars to update professional skills and enrich knowledge.

Representation to expand the coverage of Cost Rules

You are aware that many sectors of economy are still excluded from the coverage of Cost Rules. In order to expand the coverage of Cost Rules, the Institute has submitted representations to various ministries to include companies engaged in food processing, producing packaged food products, motor vehicles, Textiles etc. so as to maximise the benefits of Cost Audit system to the Government. Many companies engaged in producing goods that yield high tax revenues, are not covered under the notified Rules for cost records and audit. This limited coverage does not provide complete data to the government agencies and tax authorities. In order to help the government and corporates to reconcile the revenue receipt &payment and improve efficiency, productivity, cost competitiveness, profitability and sustainability, CBEC and Competition Commission of India have been requested by the Institute to recommend that all companies engaged in the strategically important sectors should be covered for maintenance of cost records and audit.

Criterion to select Cost Auditor in PSUs

I wish to inform that the Institute has requested Department of Public Enterprises and SCOPEto consider forwarding to all the PSUs,the standard criterion to select firms of Cost Accountants for Cost Audit and other related services for improving the company's efficiency, productivity, cost competitiveness, profitability, and sustainability. Regular follow up is going on and a meeting to discuss the issue is expected to take place early next month.

Introduction of Peer Review System

I am pleased to inform you that the Council of the Institute has finalised the long awaited Peer Review System (PRS).PRS is a mechanism of evaluating the professional/audit and assurance activities/ services carried out by a Firm by peers by looking into the systems and procedures adopted and records maintained while carrying out professional/ audit and assurance activities with the objective to evaluate and suggest improvements of systems, procedures and quality of reporting. The purpose of PRS is to audit the quality of service rendered by Firms leading to enhanced credibility, transparency, adopting best practices and imparting knowledge and skills. The objective of PRS is to ensure that in carrying out the professional/audit and assurance activities/services, the members of the Institute comply with Technical, Professional and Ethical Standards as applicable including compliance of other regulatory provisions and requirements thereto and have in place proper systems including documentation thereof, to adequately exhibit the quality of the professional/audit and assurance activities/services. The objective is also to ensure that they are compensated properly.

World Earth Week

The Committee on Corporate Laws, Governance and Corporate Sustainability celebrated the World Earth Week from 16th to 22nd April 2016 by organizing programs on climate change, sustainability, environment accounting and auditing and integrated reporting at various places in the country. Knowledge pack titled "Contemporary Issues in Environmental Accounting & Auditing" was released at the start of the week on 16th April 2016 by Shri Anil Shirole, Hon'ble Member of Parliament at Pune. Several Chapters and Regional Offices have actively participated and made the program a grand success.

Initiatives by various departments of the Institute

Advanced Studies Department

I am sure the students of three Diploma Courses viz Diploma in Business Valuation, Diploma in IS Audit and Control and Diploma in Internal Audit must be watching the webinars conducted by the department in order to disseminate the necessary knowledge and information.

CASB Initiatives

Cost Accounting Standards Board (CASB) has released the exposure drafts for public comments/ suggestions on Cost Accounting Standards on "Overburden Removal Cost" and Guidance Note on 'Treatment of Costs Relating to Corporate Social Responsibility (CSR) Activities'. CASB has approved the Exposure Drafts for Guidance Note on CAS-13-Service Cost Centre, which is being exposed shortly to public for comments/ suggestions.I request all stakeholders to send the views/ suggestions/ comments within the stipulated time on the exposure drafts hosted on the Institute website, so that these draft standard/guidance notes may be improved by the Board before these are finally issued for stakeholders.

CAT Initiatives

The success story of CAT with the ASAP, Government of Kerala continues and based on our past performances, ASAP has assigned another batch of students for imparting CAT Course in Kerala. I am happy to share that campus placement program for CAT qualified students has been scheduled in Jaipur/ Delhi and Thiruvanathapuram in the month of May 2016 and I wish all the participating CAT students success in these campus placement programs.

CPD Initiatives

You may be aware that it is mandatory for the members holding Certificate of Practice (COP) to undergo minimum mandatory training of 15 hours per year commencing from 1st April to 31st March. If the COP is not renewed for the year 2016-17 owing to shortfall in CEP hours, it might cause hardship to those members who thrive exclusively on practice notwithstanding the fact that compliance of prescribed minimum requirement of CEP hours is mandatory for renewal of Certificate of Practice. Therefore, it is decided by the Council to grant an extension upto30thJune 2016 to complete the requirement of CEP credit Hours for renewal of COP of the members for the year 2016-17.

I am pleased to know that the webinar on 'CENVAT Credit Rules, 2004 – Critical Issues' was well received by the members. For those who could not attend the webinar, recording is available on Institute's website under Featured Links.I sincerely appreciate the efforts of Regional Councils and Chapters in organizing various programs, seminars and discussions on the topics of professional relevance and importance for the members. The presentations of these programmes are available in Knowledge bank on the website of the Institute.

Examination Directorate

The Examination Directorate is engaged in preparation for holding June 2016 examination for Foundation,Intermediate and Final courses. I wish to inform that from this term Foundation course examination will be conducted in descriptive (pen and paper mode) with each Paper of 100 marks with 3 hours duration. I advise all the examinees to prepare hard and excel in the examinations. I wish them all the best.

International Affairs

I attended the SAFA Board meeting at Mumbai along with CMA Sanjay Gupta, Chairman, WTO, International Affairs & Sustainability Committee and CMA Dr. PVS Jagan Mohan Rao, CCM & Chairman PAIB Committee of SAFA on 24th April 2016. As part of SAFA Events, meeting of the PAIB Committee of SAFA was conducted on 22nd April 2016 wherein the Book titled "Contemporary Issues in Sustainability Accounting & Reporting", developed by the Research and Journal Department of the Institute, was released by Mr. Stathis Gould, Head of PAIB and Integrated Reporting Lead, IFAC. To commemorate the World Earth Day, Chairman of the Committee presented the sapling to Mr. Stathis Gould. I also presented this book to SAFA President and Vice President during the SAFA Board meeting which was very well received by the SAFA Board members. The next CAPA Events are schedules from 16thto 19th May 2016 at Kuala Lumpur, Malayasiawhich shall be duly represented by the Institute.

Membership Department:

Members in practice are kindly aware that Certificate of Practice (CoP) is valid till 31stMarch each year. Membership fees fall due on 1stApril each year and I request all members to clear their dues of 2016-17 at an early date and continue to enjoy the benefits of membership.

Placement Initiatives

I am happy to share that the first round of Campus Placement Program conducted for December 2015 qualified students has been successfully completed with the participation of 36 companies. 129 CMAs could find their future during the placement program. The campus placement program is a continuous process and I am sure maximum students will find placements through this initiative. I wish all the young CMAs a great success in their new assignments and expect them to contribute to the growth of their respective organisations. I also invite them to become members of this great Institute and thereby continue to guide the future CMAs.

Professional Development

PD Directorate is sending representations to various organisations for inclusion of cost accountants for providing professional services in the area of Accounts, Internal/ Concurrent Audit, Taxation, Stock audit and other assignments. Please visit the PD portal for more details. Other initiatives are listed out in the following lines:

- PD Directorate represented before the Chief Minister and Deputy Chief Minister of NCT of Delhion the issue of formulating and determining the ideal cost structure of Private school tuition fees and appealed for inclusion of Cost Accountants for providing professional services in the similar area of other assignments.
- Ministry of Road Transport and Highways has included Cost Accountants for their empanelment in NHAI as Concurrent Auditor/ Internal Auditor in Model Concession Agreement (MCA) on infrastructure for PPP Projects in Highways.
- PD Committee is in process of preparing the Guidance Note on the Concurrent Audit of Commercial Banks, Monograph on Internal

Audit of Treasury Functions of Commercial Banks and Monograph on Risk Based Internal Audit of Commercial Banks. The publications are expected to be released soon.

- PD Committee, in association with PHD Chamber of Commerce and Industry, organized Seminar on the theme "Impact of Changes in Service Tax, Excise, and Customs vide Union Budget, 2016" on Thursday, 21stApril at New Delhi.Seminar was first of the Annual Workshop Series on Indirect Taxation with specific relevance to GST for the year 2016-17 covering Service Tax, Excise, Customs, FTP, etc., and Draft Business Reports on GST along with the upcoming GST Law.

Research and Journal Department

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 acclaimed.

Tax Research Department

Taxation Committee has requested members for their valuable suggestions on the draft rules on "Grant of Foreign Tax Credit" issued by CBDT. Committee has successfully completed yet another training program tailored for revenue officials. Taxation committee has come out with the Guidance Note on application of the provisions under Rule 6 & 7 of CENVAT Credit Rules 2004, which is expected to provide necessary guidance to the members of the profession. Ministry of Finance in its Press Release dated 28thApril 2016 prescribed the framework of book profit for the purpose of levy of MAT under section 115JB of Income Tax Act, 1961 for Indian Accounting Standard (Ind-AS) compliant companies. I request the members to participate through the process of constructive discussion and facilitate Taxation Committee to make appropriate representations before the authorities.

Initiatives by Members

I wish to inform that the following matters were brought to the notice of the Institute by the members and Institute offered wholehearted support to resolve the issues:

- My sincere appreciation to the Karnataka CMAs Association on successfully appealing for the right to Audit the Cooperative Societies of Karnataka State, in the court;
- On personal meeting of Vice-President of the Institute with the officials of Bihar State Power Holding Company Ltd. (BSPHCL), BSPHCL has revised the recruitment criteria for 52 posts of Accounts Officers to include Cost Accountants with other professionals. The last date for applying has also been extended.

I advise all the members to interact with the local corporates and state government officials for enhancing the scope of CMA fraternity within the framework of law and bring it to the notice of the Institute so that necessary support can be extended by our end in order to achieve allround development of the profession and the Institute.

Other Initiatives

- In a welcome move, BSNL inviting expression of interest for Internal Audit is accepting Cost Audit experience as part of statutory audit experience. This will benefit the participating CMAs.
- Bangalore chapter of the Institute organised Karnataka CMA Convention on 30th April 2016 at Bangalore on the theme "Role of CMAs in Socio-Economic Growth".

I wish prosperity and happiness to members, students and their families on the occasion ofGuru Rabindranath Tagore Jayanti and Budh Purnima. I also urge them to take good care during the prevailing summer season.

With warm regards,

PBhattad

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

FROM THE DESK OF

Members in Industry, Training & Placement, ICAI

Dear Professional Colleague,

Greetings!!!

It gives me immense pleasure to reach you all through this communication. I am indeed grateful to the President, Vice-President and all my Council Colleagues, for wholeheartedly supporting the initiatives of this new Committee in honing the professional capabilities of the budding CMAs and the members in Industry to serve the profession in a better way.

April 2016 has been a crucial month in our calendar of events, as the budding CMAs are expecting more Companies to visit our campus placement programmes scheduled during this month to take first professional step into the corporate world. Preparing the final qualified students for the campus placement programme has been top of our agenda. We are extremely elated that the 15 days Pre-Placement Orientation Programme conducted in 9 locations- Ahmedabad, Bhubaneshwar, Chennai, Delhi, Jaipur, Hyderabad, Kolkata, Jaipur, Mumbai and Vijayawada was highly successful. 550 students who attended this programme would reap the benefits when they face interviews in future. The Chapters and Regional Councils in the above locations played a pivotal role in grooming the students.

The response from the companies for the ensuing campus placement programme has been encouraging and as you read this communication we had completed half of the campus placement program and I am happy to share that around 40% of CMAs from Dec 15 final batch opted for placement have received offer letters from 22 companies. I am confident that with the support of all the four Regional Councils, when we will be completing then campus placement programme on a highly successful note and many of the Dec 2015 pass outs would have found their future.

The contributions from the Members working in the industry for the growth of the Profession cannot be underestimated. In order to sustain their contribution, many outreach programmes covering latest topics impacting their day to day workings were organized in 21 locations across the country. The feedback from these programmes is really encouraging and we plan more such programmes in the coming months.

We are glad to share here that one mega-all India event to bring all the members working in the Industry under one roof, to deliberate the latest challenges faced by them in their professional life is, being planned in the month of July 2016, that is, National Convention for Members in Industry.

One of the popular demands by the membership was Webinar by the Institute. Webinar has become a powerful tool to reach many members and it enables to overcome time and distance barriers. As planned and decided we are pleased to organise more and more webinars on wide range of topics and the sessions will be handled by experts from the respective domains. The first of such series of webinars was conducted on 19/4/2016, then on 26-04-2016 and the response for this has been very positive and now you can expect many webinars on latest topics regularly.

We invite all the professional colleagues to share their thoughts and views with us for taking the agenda of Campus Placement, professional updating of knowledge to newer heights. You can reach us through email: ***membersinindustry@icmai.in***

We also extend all the professional members warm wishes for a profitable financial year 2016-17.

We remain,

TEAM Members in Industry, Training & Placement, ICAI

CMA H Padmanabhan
Chairman, MI – T & P

Members
CMA Dr. I Ashok
CMA Ashok B Nawal
CMA Avijit Goswami
CMA Dr. Jagan Mohan Rao
CMA Vijender Sharma
Dr. Baiju Ramachandran

Permanent Invitee
CMA P V Bhattad, President, ICAI
CMA Manas Kumar Thakur, Vice President, ICAI

Secretary
CMA L Gurumurthy, Senior Director, ICAI

Glimpses of

43rd SAFA Board Meeting

held at Mumbai on April 24, 2016

CMA Vijender Sharma, Council Member and Chairman, Professional Development Committee- The Institute of Cost Accountants of India- Knowledge Partner ; Mr. Yogesh Srivastav, Director, PHD Chamber; Mr Hemant Kumar, Hon'ble Member Mechanical & Ex.Officio Secretary to Govt. of India, Railway Board, Ministry of Railways; H.E. Mr. Milan Hovorka ,Hon'ble Ambassador ,Embassy of the Czech Republic; Dr Mahesh Gupta, President, PHD Chamber; Dr Jitendra Singh, Hon'ble Union Minister of State (IC)for Development of North Eastern Region (DoNER); MoS of Science and Technology, Earth Sciences, Department of Atomic Energy, and Department of Space; Ministry of Personnel, Public Grievances and Pensions, Prime Minister Office -Chief Guest; Mr. Anil Khaitan, Vice President, PHD Chamber ;Mr Sandeep Aggarwal, Chairman, Railway Committee, PHD Chamber and Mr Saurabh Sanyal, Secretary General, PHD Chamber, at the PHD Global Rail Convention-2016, releasing the ICAI-CMA & PHD Chamber Knowledge Study Series in New Delhi on April 13 2016

Dignitaries on the dais at the two days Golden Jubilee Seminar, held on March 18 and 19, 2016 by Ahmedabad Chapter organized on the theme 'Challenges and Opportunities under Emerging India'.

From Left: CMA Ashwin Dalwadi , Chairman, Golden Jubilee Function, CMA Vinod Savalia, chairman of chapter, Dr. Jaynarayan Vyas (Economist & Thinker), Chief Guest of the seminar, CMA Manas Kumar Thakur, Vice President of Institute, Shri Kartikay Sarabhai, Director Center for Environment Education [CEE] the Guest of Honour, CMA P H Desai, RCM & Vice Chairman, WIRC, CMA Manish Analkat, Secretary of the chapter

Speech by CMA Manas Kumar Thakur, Vice President of Institute at the two days Golden Jubilee Seminar, held on March 18 and 19, 2016 organized by Ahmedabad Chapter on the theme 'Challenges and Opportunities under Emerging India'.

Professional Development Meet held on March 24, 2016 organized by Bangalore Chapter
From Left: CMA Abhijeet S Jain, CMA P. Raju Iyer, Council Member, CMA R. Asokan, Advisor (Cost), MCA, CMA Geetha. S, Chairperson, CMA A.K. Kapoor, Former Additional Chief Advisor (Cost), Ministry of Finance, CMA Y H Anegundi, Chapters' Co-ordination Committee, SIRC and CMA N.R. Kaushik, Chairman, PD, Bangalore Chapter

CMA Vijendra Sharma, Council Member, addressing the workshop on 'Impact of Changes in Service Tax, Excise, and Customs – Union Budget, 2016' held on April 21, 2016 at PHD Chamber, New Delhi

Dr. Kalyani Madhivanan, Former Vice Chancellor, Madurai Kamaraj University, Chief Guest, lighting the traditional lamp and inaugurated the 'All India CMA Woman Summit – 2016' organized at Chennai by SIRC Women's Wing on March 8, 2016.

CMA Manas Kumar Thakur, Vice President of the Institute addressing the gathering at the 'All India CMA Woman Summit – 2016' organized at Chennai by SIRC Women's Wing on March 8, 2016

Inaugural function of Kerala State Cost Convention organized jointly by the Cochin Chapter and SIRC of the Institute on March 28, 2016 on the theme 'CMA – DNA of Make in India's Cost Competitiveness. Seen are Vice President, Council Members, Regional Council Members and other dignitaries at the program.

From left: CMA Kailash Gandhi, CMA L.D. Pawar, CMA P.H. Desai, CMA Ashok B Nawal, Council Member, CMA Debasish Mitra, Chairman, WIRC, CMA Shriram Mahankaliwar and CMA Harshad Deshpande during 'Students Felicitation Programme' organised by WIRC on April 9, 2016.

CMA Niranjan Mishra, Chairman of Regional Council & Chapters Co ordination Committee, addressing the group of representatives from NIRC at the "Regional Council and Chapters Co ordination Meet" organised at Udaipur on 05th March 2016.

Programme on

CELEBRATING WOMANHOOD: ENLIGHTENMENT THROUGH EDUCATION AND EMPOWERMENT THROUGH ENTREPRENEURSHIP

March 10, 2016, New Delhi

On March 10, 2016 the Institute jointly with Centre for Social Research organized a programme celebrating Women's Day based on the theme 'Celebrating Womanhood: Enlightenment through Education and Empowerment through Entrepreneurship' at New Delhi. The Key Note Speaker was Dr. Ranjana Kumar, Director, Centre for Social Research who deliberated on the topic 'Economic Violence: Visible or Invisible'. Among other speakers, Dr. Kiran Bedi, Former IPS officer briefed on the topic 'Prevention of Crimes against Women – 6 P Model', Ms. S M Swathi, Executive Director, Bharatiya Mahila Bank shared on 'Women Entrepreneurship- Role of Banking Sector', CMA S.K Gupta, Head – Group Internal Audit and Company Secretary, Spentex Industries Limited deliberated on the topic 'Women in Board Rooms', CMA B.B. Goyal, Advisor, ICWAI-MARF discussed on 'Gender Issues and Corporate Social Responsibility-Role played by CMAs', CMA Manas Kumar Thakur, Vice President of the Institute spoke on the topic 'Role of Education in Women Empowerment through Entrepreneurship with specific reference to CMAs' and CMA Kaushik Banerjee, Secretary of the Institute detailed on the theme 'Legal framework with relation to Women at Workplace'. CMA Dr. I. Ashok, Council Member graced the occasion with his presence. The programme was highly successful and an eye-opener to everyone on the concerned issues of women and their Role in Socio – Economic Development.

TELECOM SECTOR

REFORM IN INDIA

Telecommunication services are globally recognised as one of the driving forces for overall economic development of a nation. They are also one of the prime support services needed for rapid growth and modernization of various sectors of the economy. Globalisation, privatisation and liberalisation accelerated all round reform in the telecom sector of India. India have adopted a gradual approach to telecom sector reform through selective privatization and managed competition in different segments of the telecom market. The results of reform in telecommunications have been much better and this is an important factor underlying India's success in information technology. Indian telecommunication sector is come out as one of the key sectors that have put the economy on a revival path. Information and Communication Technology (ICT) benefits will spread among all and will promote innovation, entrepreneurship and growth. India will emerge as a leading player in the virtual world by having 700 million internet users of the 4.7 billion global users by 2025.

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Telecommunication services are globally recognised as one of the driving forces for overall economic development of a nation. They are also one of the prime support services needed for rapid growth and modernization of various sectors of the economy. Studies have shown that there is a positive correlation between Internet and Mobile services on GDP growth of a country. Globalisation, privatization and liberalisation accelerated all round reform in the telecom sector of India. Like many other countries of the world India have adopted a gradual approach to telecom sector reform through selective privatization and managed competition in different segments of the telecom market. As a result of reform, Indian telecommunication sector is come out as one of the key sectors that have put the economy on a revival path. Indian Telecom Sector has grown exponentially because of sustainable measures taken by the government and has become the second largest network in the world after China.

1. Objectives of the study

a) To understand the reform measures taken in Indian telecom Sector since 1991

b) To examine the present scenario of the Telecom Sector

c) To find the future opportunities for growth of the sector

2. Methodology

The research paper is based on the secondary data sourced from Department of Telecommunications, Telephone Regulatory Authority of India, Ministry of communication, reports from Government of India, Research Journals, Magazines, Articles and Media Reports, various websites & blogs. Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type which has greater accuracy and in depth analysis of the research study.

3. The Reform Measures

The entire evolution of the telecom sector can be classified into pre-liberalisation phase (1980-89), post-liberalisation phase (1990-99) and post 2000 phase. In the 1st phase a contract was signed in 1981 by the Indira Gandhi Govt. with Alcatel CIT of France with the state owned telecom company (ITI) but the policy was dropped due to political resistance. In 1984 private sector entered in telecommunications equipment manufacturing. Rajiv Gandhi Govt. invited Sam Pitroda, a US based NRI to set up Centre for Development of Telematics (C-DOT) which manufactured electronic telephone exchanges in India for the first time. Customer premise equipment manufacturing was delicensed, private operators were given licenses to operate public call offices and the overseas services were corporatized for better focus and resource mobilization. In the second phase, the New Economic Policy 1991 set the framework for liberalisation, including the telecom sector. The major reform process was started by delicensing telecom equipment manufacturing in 1991. The reform measures taken after that are discussed below.

3.1 Private participation in service provision (1992)

India introduced private participation in value-added services in 1992 followed by opening up of cellular and basic services for local area to private competition.

3.2. Formulation of National Telecom Policy, 1994

The National Telecom Policy, 1994brought changes in the area of ownership, service and regulation of telecommunications infrastructure. The policy introduced the concept of "telecommunication for all" and its vision was to expand the telecommunication facilities to all the villages in India.

3.3. Separation of Policy and regulation 1997

The Telecom Regulatory Authority of India (TRAI) was constituted in 1997 as an independent regulator in this sector. It reduced the interference of the government in deciding tariffs and policy making.

3.4. Formulation of National Telecom Policy 1999

In order to remove high license fee and operational bottlenecks, the National Telecom Policy, 1999 was announced. It allowed the operators to migrate from fixed license fee to revenue sharing regime and cost-oriented telecom tariffs.

3.5. Restructuring of TRAI (2000)

In 2000, Vajpayee Government constituted the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) through an amendment of the TRAI Act, 1997. The primary objective of setting up TDSAT by TRAI

Amendment Act, 2000 was to release TRAI from adjudicatory and dispute settlement functions in order to strengthen regulatory framework. Any dispute involving parties like licensor, licensee, service provider and consumers are resolved by TDSAT. There are scope for challenging any decision, order or direction of TRAI by making an appeal to TDSAT.

3.6. Private participation in National Long Distance (2000)

On the basis of new policy framework of NTP, 1999 National Long Distance services were opened to the private sector w.e.f. 13th August, 2000. Indian registered companies having a net worth of Rs. 20.5 crore and paid up equity of Rs. 2.5 crore were eligible to apply. As there was no restriction on number of operators competition increased and resulted in lowering of tariff.

3.7. Corporatisation of BSNL (2000)

The Regulatory function of DOT is segregated by constituting TRAI in 1997. In October, 1999 two new departments were created from Department of Telecommunications (DOT) named Department of Telecommunication Services (DTS) and Department of Telecommunication Operation (DTO) to provide better services. In October, 2000 these two departments were corporatized into a single entity named Bharat Sanchar Nigam Limited (BSNL) as a wholly owned government company under DOT.

3.8. Introducing Fourth Cellular Operator (2001)

As a result of NTP, 1999 DOT introduced the fourth cellular license by means of GSM standard through an auction, to initiate greater competition.

3.9. Development of a framework for Universal Service Obligation Fund(2002)

Government of India established a Universal Service Obligation Fund (USOF) in June 2002 to boost rural telephony. Various schemes have been launched by USOF for provision of telecom services at affordable and reasonable prices in rural and remote areas of the country. Subsequently the scope was widened to provide subsidy support to all telecom services including mobile services, broadband connectivity and creating infrastructure like Optical Fiber Cable in rural and remote areas.

3.10. Allowing limited local mobility operators as Cellular Operators (2003)

As per NTP, 1999, there was no restriction on licensing to fixed line operators. These operators are allowed to use Wireless in the Local Loop (WLL) using Code Division Multiple Access (CDMA) standard. Due to technological development, the distance covered by WLL was increased significantly. These operators then started providing mobile services using CDMA called WLL with Limited Mobility (WLL-LM). It became cheaper to provide mobile services through CDMA due to disparity in license fee and interconnection terms between CDMA and GSM (Global System for Mobile communication) operators. So conflict arose between these operators. Finally TDSAT allowed CDMA operators to continue providing services as it would facilitate growth in teledensity.

3.11 Unification of Access Licenses (2003)

To resolve the conflict between CDMA and GSM operators the disparity in licensing terms of providing WLL and cellular mobile services were removed. DOT came out with Unification of Access Service Licenses (UASL) regime. Under this regime, operators could provide either mobile or fixed line service using the same license.

3.12. Private participation in International Long Distance (2004)

On the basis of new policy framework of NTP, 1999 International Long Distance services were opened for private participation in 2004. It is basically a network carriage service, providing international connectivity to the network operated by foreign carriers. Indian registered companies having a net worth of 2.5 crore are eligible to apply.

3.13. Introducing Additional 2G Licenses (2008)

Taking into consideration the growth in mobile services, there were competing demands from existing operators for additional spectrum in addition to the start up and from new operators seeking to enter the sector. DOT followed Subscriber Linked Criteria (SLC) for allocation of additional spectrum to existing operators on priority basis. SLC is the criteria that allocated additional spectrum based on number of subscribers in the respective service area. But DOT had restricted the allocation of SLC for existing operators by increasing the qualifying number of subscribers for getting additional spectrum. In January, 2008, DOT declared that additional players could get UASL licenses with start up spectrum based on availability.

3.14. Bringing in wireless Broadband (2010)

The growth of broadband sector in India accelerated from the year 2005 but not at par with the estimates of government and related agencies mainly due to bottlenecks in wired line technologies. This bottleneck was removed in 2010 when DOT came up with a framework for 3G and Broadband Wireless Access (BWA) spectrum allocation in new bands. The auction of 3G wireless spectrum was announced in April, 2010 and 3G spectrum allocated to all private operators on 1st September, 2010.

3.15. Formulation of National Telecom Policy, 2012

Objectives of the National Telecom Policy, 2012 were as follows:

- Provide secure, reliable, affordable and high quality telecommunication services to all citizens.
- Increase rural teledensity from current level of around 39 to 70 by the year 2017 and 100 by the year 2020.
- Achieve 175 million broadband connections by the year 2017 and 600 million by the year 2020 at minimum 2 mbps download speed and making available higher speeds of at least 100 mbps on demand.
- Create a corpus to promote indigenous R&D, IPR creation,

entrepreneurship, manufacturing, commercialization and deployment of state-of-the-art telecom products and services during the 12th five year plan period.

- Provide preference to domestically manufactured telecommunication products.
- Strive to create One Nation-One License across services and service areas.
- Achieve One Nation-Full Mobile Number Portability and work towards One Nation Free Roaming.
- Reposition the mobile phone from a mere communication device to an instrument of empowerment.
- Make available additional 300 MHz spectrum for IMT services by the year 2017 and another 200 MHz by 2020.
- Recognize telecom as Infrastructure Sector to realise true potential of ICT for development.
- Adoption of green policy in telecom.
- Achieve substantial transition to new Internet Protocol Version-6 (IPv-6).

3.16. Universalizing broadband access (2012)

The optical fiber has reached mainly to state capitals, districts and blocks. To connect all 2.5 lakh Gram Panchayats in the country, government approved a project called "National Optical Fiber Network (NOFN)". Government of India used NOFN as a strategy to universalize broadband access. It envisaged that NOFN would transform governance, service delivery and unleash local innovation capacity through rural broadband. Non-discriminatory access to the network will be provided to all the telecom service providers like mobile, internet and cable TV in rural areas. The project is likely to be completed by 31.12.2016. in a phased manner as follows:

Phase I	*50000 Gram Panchayat*	*by 31.03.2015*
Phase II	*Another 100000 gram Panchayats*	*by 31.03.2016*
Phase III	*Remaining 100000 Gram Panchayats*	*by 31.12.2016*

3.17. Telecommunication Standards Development Society, India(TSDSI) (2014)

TSDSI was established on 7th January, 2014 as a society at New Delhi. It acts as telecommunication standards development organisation with an objective to develop, promote and maintain standardised solutions for India-specific requirements. It intends to contribute its work to the global telecommunication standardisation process and also acts as a catalyst for the local development of design and manufacturing expertise in the sub continent.

3.18. Roll out of 4G services (2014):

Some private sector companies like Reliance, Bharti, etc. introduced 4G services in 2014. The state-owned MTNL cannot introduce 4G before 2017 because they do not hold liberalized spectrum. Though, BSNL is planned to rollout 4G services in 2016.

3.19. Machine to Machine (M2M) Communication (2015)

A "National Telecom M2M Roadmap" was released on 12th May, 2015. It has been prepared putting together various standards, policy and regulatory requirements and approach for the industry on how to look ahead to M2M. It is expected to work as a reference document for all M2M eco-system partners and will enhance the policy goals of Make in India and Digital India.

4. Present Scenario of the Telecom Sector:

4.1. Trends in Teledensity

Teledensity denotes the number of telephone per 100 populations. It is an indicator of telecom penetration in the country. The total, urban and rural teledensity as of 30th September, 2015 were 80.98, 153.49 and 48.76 respectively, showing a phenomenal growth over last 15 years. A comparison since 1996 is shown in Figure-1.

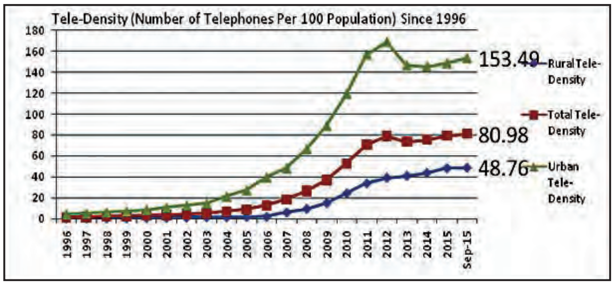

Figure 1

4.2. Wire line Vs Wireless

Wireless voice and data services continued to grow. But so far as high speed data services are concerned, landline provided remarkable support. The number of landline telephones are 25.95 million and wireless telephones has grown to 996.66 million at the end of September, 2015. As a result the share of wireless telephones increased to 97.46 per cent of total services. A comparison is shown since 1997 in Figure-2

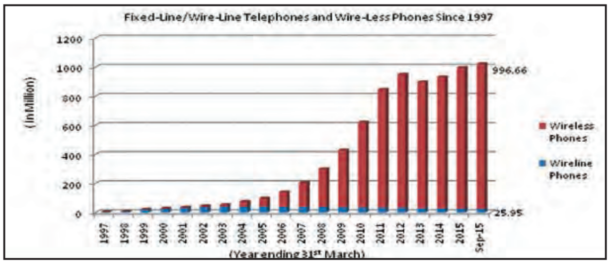

Figure 2

4.3. Broadband

It is necessary to increase broadband connectivity for the knowledge based society to grow quickly and for reaping consequent economic benefits. Broadband penetration and adoption in the country is unsatisfactory. In this backdrop TRAI carried out a suo moto consultation process on the issue on "Delivering Broadband Quickly". Figure-3 shows number broadband connections since 2004-05.

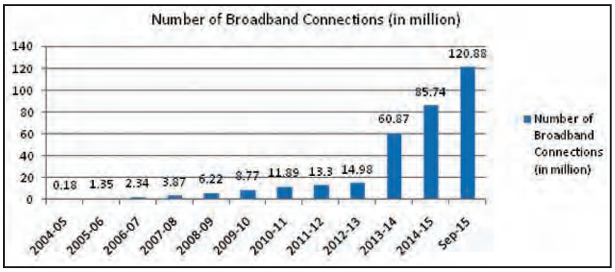

Figure 3

4.4. Public Vs Private Operators

In Indian Telecom sector the private sector is dominating. The total number of telephones increased to 10226.10 lakh for the period ended 30th September, 2015 mainly due to increase in the private sector network. There is a continuous rise in the number of telephones of private sector operators. The total number of telephones of the private sector operators increased to 9201.44 lakh, whereas number of telephones of public sector stood at 1024.66 lakh for the period ended 30th September, 2015. As a result, share of private sector increased to 89.98 percent and share of public sector stood 10.02 per cent during the same period. The growth of PSUs and Private Sector and Total since 1997 is shown in Figure-4.

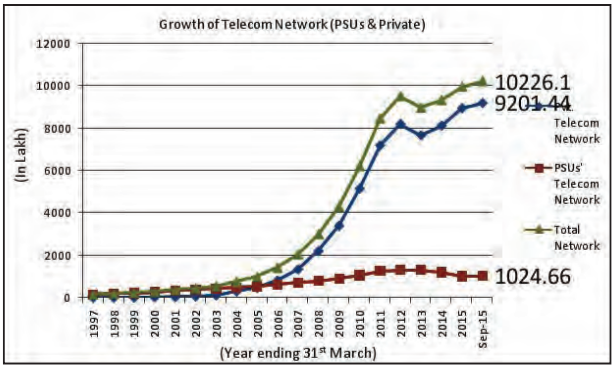

Figure 4

4.5. Reliability

Objective of DOT is to provide secure, reliable, affordable and high quality services anytime anywhere for an accelerated inclusive socio economic development. The reliability of calls improved on various parameters such as call completion rates, network downtime, etc. On the issue of call drop TRAI mandated to credit Re. 1.00 per dropped call to the account of the consumer upto a maximum of 3 calls per day with effect from 01.01.2016.

4.6. Tariff

Local call tariff of mobile phones in 1990's was Rs. 16.40 per minute by early 2000. National Long Distance (NLD) tariff had reduced from Rs 34.50 per minute to under Re. 1.00 per minute for distance over 100 km during the same period. So NLD tariff became cheaper like local calls. The International Long Distance (ILD) tariff also showed similar reduction. Mobile tariff in India are the second lowest (US $ 1.6 per month) in the world after Bangladesh as against world average prepaid tariff of US $ 10.1 per month. Low tariff is an innovation driven by intense competition, low purchasing power and strict regulatory environment. However, there was increase in tariffs in the recent years. There was also increased usage of data communication which was relatively more expensive. As per the telecom Tariff Order (TTO) Sixtieth Amendment, 2015, with effect from 1st May, 2015, following changes are brought in the tariff regime for national roaming services.

(Table-1) Telecom Tariff

Items	Ceiling tariff as per TTO(Fifty Fifth Amendment), 2013	Ceiling tariff as per TTO(Sixtieth Amendment), 2015
Outgoing local voice call	Re. 1.00 per minute	Re. 0.80 per minute
Outgoing long distance (inter-circle) voice call	Rs. 1.50 per minute	Rs. 1.15 per minute
Incoming voice call	Re. 0.75 per minute	Re. 0.45 per minute
Outgoing local SMSl	Re. 1.00 per SMS	Re. 0.25 per SMS
Outgoing long distance (inter-circle) SMS	Rs. 1.50 per SMS	Re. 0.38 per SMS

4.7. Full Mobile Number Portability

Mobile Number Portability allows any subscriber to change his service provider without changing his mobile phone number. With the announcement of guidelines for MNP, telecom service providers will be forced to improve quality of their service to avoid losing subscribers. National Telecom Policy 2012 envisages achieving of One Nation-Full Mobile Number Portability in the country. Total number of porting requests at the end of November, 2015 were 186.69 million (approx.)

4.8. Value Added Services(VAS)

Value added services in mobile phones include SMS, menu based services, downloading of music or ringtones, mobile TV, videos, streaming, etc. Before 2008, maximum revenue came from SMS. Presently, VAS also includes m-banking, m-education, m-governance, m-health, m-agriculture, etc. Recent trends show that m-banking, m-education, m-governance, m-health, m-agriculture, etc, has assumed significance due to rapid growth in wireless subscriber base. VAS other than SMS is gaining importance owing to availability of cheaper handsets, smart phones and consumer education. Consequently, the mobile phones have transferred into a persuasive medium to deliver information services spanning various usage areas such as governance, commerce, agriculture, education and health. Thus digital empowerment is playing an instrumental role in bringing about empowerment to all strata of society. It is further expected that, non-SMS VAS would became a dominant contributor to VAS revenue.

4.9. Creation of Large Companies

Department of Telecommunications was the only agency to provide telecom services in the country. In 1986 DOT created Mahanagar Telecom Nigam Ltd (MTNL), a wholly owned Government Company and Videsh Sanchar Nigam Ltd. (VSNL) to provide services in metros of Mumbai, Delhi and international segments respectively. The National Telecom Policies 1994 and 1999 allowed private entry into the telecom sector. Large telecom companies came out like Bharti Airtel, Reliance Communication Ltd., Vodafone India, Idea Cellular Ltd., etc. On 1st October, 2000 Government corporatized the Department of Telecom Operation and Department of Telecom Services by forming Bharat Sanchar Nigam Limited (BSNL) to perform the functions of DOT all over India excluding Delhi and Mumbai. The market share of different service providers are shown in Figure- 3.

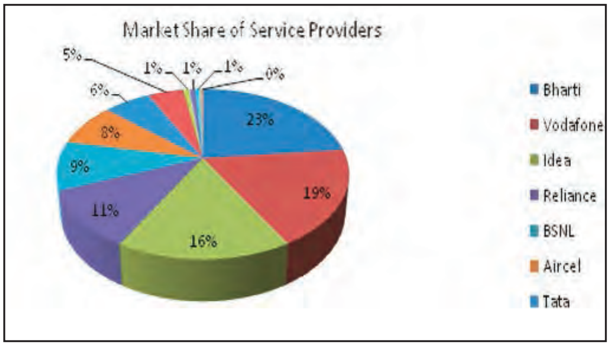

Figure 5

Source: TRAI, Telecom Services Performance Indicators Report; July-Sept 2015

4.10. Earnings to the Government

It is definitely said that the growth in telecom sector had increased the revenues for the service providers. On the other hand, it significantly added to the earnings of the government. Its contribution to the Gross Domestic Product (GDP) had increased from nearly 1.3% in 1995-96 to 2.0% in 2014-15 (Table-2). It had reached a peak of 2.9% in 2007-08 in an economy that was growing at 6 -7%. The share had declined after that due to the faster growing economy.

(Table-2): Share of Telecom Sector in India's GDP (Rs. '000 crore)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
GDP at current prices	3242	3693	4294	4987	5630	6478	7784	8736	9951	11273	12488
Total Telecom Revenue	72	86	105	144	152	158	172	195	212	233	255
Contribution of Telecom Sector to GDP (%)	2.2	2.3	2.4	2.9	2.7	2.4	2.2	2.2	2.1	2.2	2.0

4.11. Foreign Direct Investment (FDI)

Since telecom is a highly capital intensive sector and need huge investments for its expansion, FDI is very much essential for the sector. It is one of the important sources to meet the requirement of huge funds for rapid network expansion. The FDI policy provides an investor-friendly environment for the growth of the sector. Through the invitation of FDI in this sector the companies can access foreign capital markets to serve the country and brings in affordable telecom services. From the year 2005, the FDI limit is increased from 49% to 74%. FDI limit is raised from 74% to 100% for manufacturing of telecom equipment and various telecom services. Increasing FDI limit in the sector would allow telecom players to raise fresh capital for growth and development of telecom infrastructure. Actual inflow of FDI in telecom sector from April, 1991 to December, 2015 is Rs. 18130 million US $. FDI inflows in telecom sector from top host countries from 2011-12 to 2015-16 (Nov) are Singapore(8.6%), Mauritious(11.5%), Netherlands(0.3%), US(2%) and Japan(0.1%). Cumulative FDI inflows is shown in Table-3

Table-3: FDI Inflows

Year ending March, 31st	Cumulative FDI Inflows (in US million $)
1991-99	1212
2000-04	1326
2004-05	1455
2005-06	2079
2006-07	2557
2007-08	3818
2008-09	6376
2009-10	8931

Year ending March, 31st	Cumulative FDI Inflows (in US million $)
2010-11	10589
2011-12	12552
2012-13	12856
2013-14	14163
2014-15	17058
2015-16(Dec'15)	18130

Source: DOT, Annual Report 2014-15 and DIPP website.

4.12. Employment

As per a study in 2011, direct employment under the service providers was expected to be 400000, of which 280000 was from the government. Telecom Skill Development Group (Telecom Sector Skill Council) conducted an in-house study and submitted its assessment to National Planning Committee, NITI Aayog. It states that the telecom industry is expected to generate 7 lakh new job opportunities in the next five years.

5. Opportunities for future growth

India will emerge as a leading player in the virtual world by having 700 million internet users of the 4.7 billion global users by 2025. With the government's favourable regulation policies and 4G services hitting the market, more and more growth is expected in the Indian telecommunication sector in the next few years. The full extent of impact from Innovation of mobile phone and internet on business and consumers is probably still to come. For instance, e-commerce is still in relative infancy and is expected to boom in coming years as old economy firms reorient their business processes around it. Similarly the true potential of a mobile phone, as an integrated communications, entertainment and positioning device, is only beginning to be realized. DOT has planned to frame a separate exit policy for the country's telecom sector that will allow companies to leave the business without losing out on the value of the assets. The move is being seen as part of GOI's endeavour to make the country's telecom sector investor friendly and enhance the ease of doing business in India. Also, with developments in this sector, services such as security and surveillance, remote monitoring of ATM machines, home automation, traffic management, retail, logistics and grid energy could eventually facilitate optimization of resources. If past trends were any guide, it would be reasonable to hope that by 2020 India would complete transition into digital switching and transmission, VoIP broadband and 3G.

6. Conclusion

The vision of telecom depends on the vision of information technology in future. On the other hand, in an information society telecom will be the means of future expansion of IT. So they are complementary to each other. The results of reform in telecommunications have been much better and this is an important factor underlying India's success in information technology. Information and Communication Technology (ICT) benefits will spread among all, the rich and the poor, the young and the old, the men and the women, the organised and unorganized and the government and the governed, and will promote innovation, entrepreneurship and growth. An expanding domestic market will deepen the synergy between the domestic and the export market and strengthen India's presence in the high value segment of the global trade and investment. It is worth mentioning that in September, 2014 India participated in Asia Pacific Telecommunity (APT) Ministerial Conference and elected as a member of the International Telecommunication Union (ITU) Governing Council for the period 2015-18. We really feel proud when we come to know that in this conference India strives not only to maintain safe and secure society through ICT, but also maintain an enabling and sustainable ecosystem for an innovative economy. MA

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Universal Service Obligation Fund in Telecom Industry

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COVER STORY

Subsidy

The term 'subsidy' is derived from the Latin word 'subsidium' which means coming assistance from behind. In business context, this term is defined as a financial benefit provided to a business, industry or sector by a Government to achieve a specific economic or political goal. The subsidy is generally given to lessen the burden and also considering the public interest. The various types of subsidies are-

- Production subsidy;
- Consumer subsidy;
- Export subsidy;
- Employment subsidy;
- Tax subsidy; and
- Environmental externalities.

Subsidies can either be broad or narrow, legal or illegal, ethical or unethical.

Subsidy in India

In India Central Government as well as Stat Governments grant various types of subsidy. For the last financial year a sum of Rs. 2,27,387.56 crores was proposed as subsidy on food, petroleum and fertilizers. Telecom is not an exception to the subsidy scheme.

Telecom industry

In India the telecom service traveled at various stages. The liberalization policy of the Government from 1991 paved the way for the rapid development of telecom industry in India. Many private operators entered into the industry. The Government has also converted the Department into Public Sector Units. The National Telecom Policy of 1994, 1999 and 2012 urged the rapid development of the telecom industry. The target fixed has more or less achieved by the industry. The broadband policy initiated the use of internet abundantly by the people in India. The consumers are able to get the services at the lesser price while the price of goods and services in our country has reached the peak that the normal consumers could not able to purchase the goods and avail the services.

Subsidy in Telecom industry

The telecommunication services to the people living in remote and rural areas of the country in which the infrastructure of the communication had not developed because of the following reasons-

- Remoteness of areas;
- Low income habitants;
- Sparse population;
- Absence of supportive infrastructure;
- Insurgency;
- Difficult terrain.

Because of the above reasons ICT services cannot be provided to them. Further the telecom operators hesitate to establish services in these areas because of high involvement for the infrastructure and the low income generation because of less population. The Government's social obligation is to grant services to each and every citizen of the country irrespective of socio-economic considerations and geographical location. The Government is also to bridge the rural-urban digital divide.

To overcome these challenges the Universal Service Support Policy came into effect from 01.04.2002. The Indian Telegraph (Amendment) act, 2003 gives statutory status to Universal Service Obligation Fund (USO). The said Fund was set up in 2002 to provide access to telephony services to rural India at affordable prices. The corpus of the fund is raised by the Government through a universal levy (USL) fixed at 5% of the Adjusted Gross Revenue of telecom operators. The USOF is headed by the Administrator who is empowered to formulate procedures for implementation of USO and disbursement of funds from the USOF. His office functions have been attached to the Department of Telecom, Ministry of Communications and Information Technology. The USOF was established with the fundamental objective of providing access to 'basic' services. Subsequently the Indian Telegraph Act, 1885 was amended by the Indian Telegraph (Amendment) Act, 2006 to enable provision of all types of telegraph services.

The Indian Telegraph Rules have been amended to provide subsidy support to eligible operators for operators' sustainability of rural wire line household telephones installed prior to 01.04.2002 for a period of 3 years subject to a ceiling of Rs.2000 crores per annum. The amendment widened the scope of the USO Fund to include all telecom services including shared infrastructure, mobile services, broadband and optic fiber networks. Part X, dealing with Universal Service Obligation Fund was inserted in the Indian Telegraph Rules, 1951 after Rule 522.

Rule 523(m) defines the terms 'Universal Service Obligation' as the obligation to provide access to basic telegraphs services to people in the rural and remote areas at affordable and reasonable prices. Rule 523(n) defines the terms 'Universal Service Provider' as the person who has entered into an agreement with the Administrator for the purpose of implementation of Universal Service Obligation.

Till 2006, the fund was used to subsidize only fixed line services including the provisioning and maintenance of VPTs, Rural Community Phones (RCPs) and household telephones in rural areas and the replacement Multi Access Radio Relay (MARR) VPTs installed before April 2006. From November 2006 the Government extended the scope of the fund to subsidize wireless and broadband services. The fund is also started encouraging and supporting the adoption of innovative solution to overcome constraints such as lack of adequate power supply.

The USO fund is also planning to support initiatives on Research and development front. The fund also support submarine connectivity for islands like the Andaman and Lakshadweep as well as provide broadband connectivity on satellite for remote region.

Scope of the Fund

The financial support from the fund shall be provided to meet the net cost of providing the specified Universal Service Obligation as per the procedure specified by the Administrator from time to time and the period for which such support shall be provided and the services covered shall be governed by an agreement entered into with the Universal Service Provider.

Release of Funds to Universal Service Providers

The fund shall be released to the Universal Service Provider in a manner and at such intervals as may be specified in the agreement. The Universal Service levy is presently 5% of the Adjusted Gross Revenue of all telecom service providers except the pure value added service providers like internet, voice mail, email service providers etc., In addition the Central Government may also give grants and loans. The annual revenue share licence fee shall be reduced to the extent of reduction in contribution towards USOF levy if the licencee in service area(s) meets the prescribed qualification. The balance to the credit of the fund will not lapse at the end of the financial years. Credits to the funds shall be through Parliamentary approvals.

Since its inception the USO scheme has made significant progress in promoting rural telephony. As of December 2009 financial support was being provided for operation and maintenance for about 570000 existing VPTs, including the VPTs under the Bharat Nirman Scheme. The Bharat Nirman initiative of the government has been designed to provide subsidy support for provision VPTs in all the uncovered villages of the country (66822 according to 1991 census) excluding those that have a population of less than 100 or lie in deep forest and insurgency-prone areas. According to the scheme, this subsidy will be provided for a period of five years from the date of installation of the VPTs.

With respect of wireless services, the USO fund has launched a scheme to provide subsidies to private telecom operators for setting up and managing 7436 towers in 500 districts across the country and to roll out their services in the specified remote rural regions, which were previously not connected. To further encourage operators to roll out infrastructure in these areas, the Government has been promoting infrastructure sharing.

The first phase of the mobile infrastructure has been completed. There has been a capacity creation of about 24 million lines, which can also be used for providing wireless broadband services. The Government is commissioning base transreceiver stations (BTSs) so that mobile services could be started in a phased manner. In the second phase bout 11000 towers were installed in the uncovered areas of the country. While the fund was fairly ambitious in fixing the commissioning time for setting up towers as one year in the first phase of the scheme there were time overturns of at least three to four months in most cases. As a result the timeline for completion has been extended to two years.

National Telecom Policy, 2012

The National Telecom Policy, 2012 has the vision 'Broadband on demand' and envisage leveraging telecom infrastructure to enable all citizens and business, both in rural and urban areas to participate in the internet and web economy thereby ensuring equitable and inclusive development across the Nation. In respect of rural telephones, the objective of the National Telecom Policy, 2012 is to increase rural density to 70 by the year 2017 and 100 by the year 2020. The rural density in the year 2009 is 21% and 39% in the year 2012. As on 31.12.2015 the rural teledensity, according to Telecom Subscription data, released by Telecom Regulatory Authority of India is 49.53% as compared to urban tele density 147.12%.

The Policy indicates that the Government is to undertake the periodical review of methodology adopted for utilizing the USO Fund and benchmarking the same against the best practices followed in other countries and to provide continued support from the USO fund for telecom service including converged communication services in commercially unviable rural and remote areas.

Utilization of USO Fund

The collection of funds is on the increase since the number of operators is in the increase and the revenue is on the increase. The following table shows the details of collection, fund allocated, funds disbursed, reimbursements and balance of the fund available from the year 2002 – 03 to the current financial year.

Table – 1 : Statement showing the collection, funds allocated, funds disbursed, reimbursements and balance

(Rs. In crores)

Financial year	UAL Collections*	Funds allocated	Funds disbursed	Reimbursement of LF and spectrum charges	Balance
2002-03	1653.61	300.00	300.00	2300.00	-946.39
2003-04	2143.22	200.00	200.00	2300.00	-356.78
2004-05	3457.73	1314.59	1314.59	1765.68	377.46
2005-06	3215.13	1766.85	1766.85	582.96	865.32
2006-07	3940.73	1500.00	1500.00	0	2440.73
2007-08	5405.80	1290.00	1290.00	0	4115.80
2008-09	5515.14	1600.00	1600.00	0	3915.14
2009-10	5778.00	2400.00	2400.00	0	3378.00
2010-11	6114.56	3100.00	3100.00	0	3014.56
2011-12	6723.57	1687.96	1687.96	0	5035.61
2012-13	6735.46	625.00	625.00	0	6110.46
2013-14	6735.46	2163.45	2163.45	0	5732.94
2014-15	7538.70	2086.98	2086.98	0	5451.72
2015-16 (Provisional)	4001.99	1302.46	1302.46	0	2699.53
TOTAL	70120.03	21337.29	21337.29	6948.64	41834.10

● Booked figures as per DoT accounts.

Source: www.usof.gov.in

As per Ministry of Finance letter no F. 1 (20)-B (AC)/2007 dated 04.06.2008 the reimbursement of licence fees and spectrum charges to BSNL amounting to Rs 6948.64 crore over the period 2002-03 to 2005-06 for fulfilling rural obligation is required to be taken into account for arriving at the available balance. Still Rs.41834.10 crores is yet to be disbursed by the Government from the USO Fund.

The USO Fund is distributed to all the service providers getting Universal Access Lines. The following table shows the State wise disbursements of the USO Fund up to the year 2014 – 15:

Table – 2 : Service Areawsie Share in Total subsidy disbursed chart up to 2014 - 15

State	Disbursed amount (in crores)	Percentage
Andhra Pradesh	800.8	4%
Assam	215.02	1%
Bihar	414.84	2%
Chhattisgarh	287.67	1%
Gujarat	663.74	3%
Haryana	185.01	1%
Himachal Pradesh	267.65	1%
Jammu & Kashmir	95.2	0.34%
Jharkhand	86.27	0.33%
Karnataka	666.4	3%
Kerala	521.96	3%
Madhya Pradesh	833.37	4%
Maharashtra	1348.17	7%
North East - I	110.4	1%
North East - II	81.32	0.33%
Orissa	410.29	2%
Punjab	320.58	2%
Rajasthan	796.14	4%
Tamil Nadu	360.25	2%
Uttaranchal	161.35	1%
Uttar Pradesh - East	596.74	3%
Uttar Pradesh -West	264.92	1%
West Bengal	179.75	1%
USOF Headquarters	10367.37	52%
	20035.21	**100%**

Source: www.usof.gov.in

The above table shows that Maharastra state gets the higher distribution from the Fund. Next is the Rajasthan State, Andhra Pradesh, Uttar Pradesh – East, Gujarat, Karnataka and Kerala.

The following table shows the distribution of USO Fund to the service providers up to the year 2014 – 15:

Table – 3 : Universal Service Provider wise share in Total subsidy disbursal

Name of Company	Disbursed amount	percentage
BSNL	15823	78.97%
BBNL	2271	11.33%
RIL	751	3.75%
TATA	723	3.61%
TTML	317	1.58%
RCIL	25	0.12%
GTL	37	0.18%
KEC	39	0.19%
REST	13.21	0.07%
DWL	9	0.05%
VECL	9	0.05%
VESL	18	0.10%
	20035.21	**100.00%**

Source: www.usof.gov.in

The above table indicates that BSNL, the State owned Telecom Company is receiving the highest contribution from the USO Fund.

Universal service is an economic, legal and business term used mostly in regulated industries. It refers to the practice of providing a baseline level of services to every resident of a country. Universal service was widely adopted in legislation in Europe beginning in the 1980s and 1990s. Most countries fund their USO by requiring the incumbent operator to be the designated USO provider or USP. USPs often previously held a legal monopoly protection. The USO is thus funded by rates/tariffs, and also by scale and scope economies. In this article the subsidy given to Telecom Industry in the form of Universal Service Obligation Fund is discussed in detail.

The following table shows the disbursement of USO Fund scheme wise from the year 2009 – 10 to 2015 – 16:

Table – 4 : Subsidy Disbursement

Scheme wise Funds Provided By The USO Fund From 2009 - 10 To 2015-16

SCHEME	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16*
LWE	0	0	0	0	0	5965.06	0
MARR-A	1481.3	1321.8	1385.58	402.21	37.05	-4.79	0.3
MARR-B	527.83	135.46	4.23	0.02	9.64	-0.43	0
MOB-I	510.44	916.78	870.83	947.49	644.05	99.74	9.88
MOB-VAS-SS	0	0	0	0	4.14	3.53	1.97
New VPT -1	368.76	248.28	133.48	34.34	11.87	0	0
New VPT -2	384.01	207.27	205.73	82.57	220.39	63.55	5.66
NOFN	0	0	0	4250	5140	13518.65	3190
OFC	0	0	0	7.71	0	314.04	0
OFC NE-1	0	0	0	0	0	0	39.46
RCP	77.38	16.47	-7.58	-1.3	0.06	0	0
RDEL-A	1669.48	306.76	55.05	-1.16	2.81	2.63	8.29
RDEL-B	177.17	-39.72	0.84	-0.01	0.34	0	0
RDEL-D	0	0	0	0	0	0	0
RDEL-P	13776.09	26017.71	12706.21	0	15000	0	0
RDEL-X	3742.93	970.51	523.74	-1.34	-65.1	100.35	-2.97
SMCF	0	0	5.28	22.16	19.51	6.8	2.72
VPT-OPEX	858.88	250.47	86.06	0.71	4.79	-4.7	0
Wire line BB	425.73	648.21	910.17	706.6	604.77	805.37	284.36
Total	**24000**	**31000**	**16879.62**	**6450**	**21634.32**	**20869.8**	**3539.67**

*Upto 30.09.15

Source: telenet journal November 2015.

LWE - Left Wing Extremist Scheme; MARR - Multiple Access Radio Relay;

VAS - SS -Value Added Service Sanchar Shakti; VPT - Village Panchayat Telephone;

NOFN - National Optical Fiber Network; OFC - Optical Fiber Cable;

RDEL - Rural household direct exchange lines; SMCF - Solar Mobile Charging Facility

OPEX - Operating Expenses; BB - Broadband

The most crucial issue pertains to the revamping of the disbursement mechanism for the USO fund to make it more efficient, since a large part of these funds remains unutilized.

The DoT came under the scanner of CAG. The CAG criticized for DoT for not utilizing the funds.

Monitoring Mechanism

The Department of Telecom, the administrator of USO fund incorporated the following agreements with the Telecom operators for the purpose of monitoring and control of the activities:

- Agreement terms and conditions to guarantee adherence to Quality of Services;
- Self certification through an affidavit by Service Providers;
- Deductions for service interruptions;
- Roll out clause;
- Liquidated damages;

- Post payment sample verification;
- Physical inspection;
- Annual auditor's certificate;
- Recovery of overpayments with penal interest.

The Department of Telecom appointed Controller of Communication Accounts (CCA) across 22 service areas. The CCA has been delegated the power to distribute the fund and verify the claims. CCAs are assisting Department of Telecom in monitoring of the field level implementation of the USO agreements. They also liaise with State Governments and local authorities for this purpose.

Achievement

The rural broadband segment is witnessing increasing interest from operators which have been helped by the extension of USO fund's scope to cover broadband services. As on 31.12.2015, 16.51 million wire lines broadband connections are provided and 120.02 million wireless broadband connections are provided all over the country. The following table will show the subscription data as on 31.12.2015 in respect of landline and mobile connections provided to urban and rural areas and also the teledensity:

Table – 5 : Telecom Subscription Data as on 31.12.2015 **(inmillion)**

Details	Wireless – Mobile	Wireline - Landline	Total connections
Urban	579.67	20.99	600.66
Rural	431.22	4.54	435.75
Total	**1010.89**	**25.52.**	**1036.41**
Teledensity			
Urban	147.12	5.33	152.45
Rural	49.53	0.52	49.94

Source: www.trai.gov.in

The National Telecom Policy, 2012 fixed the target of rural teledensity 70 by the year 2017 and 100% by the year 202. As on 2015 the rural teledensity is 49.94. It is evident that a large section of the rural population remains unserved. In order to reduce the disparity between the rural and urban areas and improve the telecom infrastructure, the Government has been implementing several projects having rural focus. The projects have been rather slow and the deadlines fixed for the targets have been missed. The slow disbursal of funds, delays in procuring key equipment and the lack of participation from private players are some other major issues have been impeding project execution.

Due to non proper utilization of USO fund, the TRAI have requested the Government to gradually reduce the levy on telecom service providers. TRAI also stated that relieving operators from paying high fees would ensure the availability of more funds, which in turn would facilitate the financing of rural work net expansion. TRAI has recommended reducing the USO Fund levy from 5% of AGR to 3%.

As of March 2015, 20000 gram panchayats had been connected through broadband as against the target of 50000 gram panchayats. The Government's move to expedite broadband network roll outs under Bharat Net is in the right direction, its execution within the proposed timeline will be imperative for ensuring benefits to rural customs.

Conclusion

There is a need to make these funds available to not just for telecom operators but also other stakeholders in the rural telecom value chain. Although the fund is working on several schemes and projects to facilitate rural telephone, without the co-ordinated effort of the telecom industry it is going to be difficult to achieve complete connectivity and infrastructure development in remote parts of the country. The Government believes that the telecom sector can serve as a medium to bridge the rural-urban divide. With the mobile phone penetrating remote corners of the country, the Government expects it to be the future vehicle for taking banking services, education, health care and other facilities in rural area. The Government also needs to lower the USO Fund levy in telecom operation to ensure higher investments in rural areas. MA

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STRATEGIC ANALYSIS

A Case Study of Indian Telecom Industry

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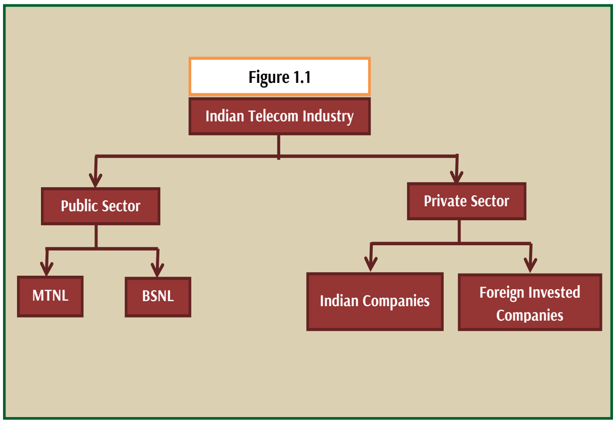
Telecommunication has witnessed an exponential growth in India in the last two decades. It is a critical infrastructure constituent and plays a significant role in a country like India, where the infrastructure is still an issue. It contributes to GDP, tax revenue, employment, digitisation, bridging the divide between urban and rural, data revolution, logistics and supply chain management, e-commerce, e-governance, payment banksand the list goes on. The present case study dwells on the strategic analysis of telecom industry in India. It has four sections. The first section deals with overview of the Indian telecom industry. The second section takes through the growth drivers and challenges of Indian telecom industry. The third section deals with revenue, costs and key performance indicators (KPIs)of the industry. The fourth and the last section sums up the study.

Section 1

1. Overview of Indian Telecom Industry

1.1 Structure of Indian Telecom Industry

Indian telecom network is the second largest in the world after China[1]. Telecom industry has witnessed a sea change in the last two decades. The industry has many players – government, private and foreign telecom companies. The competition amongst the players is intense. The structure of the industry is provided in Figure 1.1.



Source: D&B Research

Additional Note to Figure 1.1:

a. Videsh Sanchar Nigam Limited (VSNL) was established in 1986 to provide international long distance (ILD) services. Subsequently, VSNL was privatised in February 2002 with the sale of a strategic stake.

b. MTNL was established to take care of Mumbai and Delhi and BSNL was set up to take care the rest of India.

1.2 Telecom service providers

The major Indian private sector listed telecom companies are Bharti Airtel, Idea, Reliance Communications and Tata Communications. Aircelis an Indian but not listed telecom company and Vodafone is a foreign telecom company. MTNL is a PSU listed telecom company. BSNL is a fully government owned telecom company. The list of telecom service providers is provided in Appendix 1. The list of services providers across the services is available on TRAI website[2]. The various services offered by telecom companies are provided in the Appendix 2. The market share of the companies in terms of customer base is given in Appendix 3.

1.3 Regulatory framework of Indian Telecom Industry

Till 1994, government of India was having the monopoly. It was in 1994, when the National Telecom Policy (NTP), 1994 was brought out by the government, private sector participation began in the basic services. The other enactments that followed were New Telecom Policy 1999, Cable Television Network (Regulation) Act 1995, Broadband Policy 2004 and National Telecom Policy 2012. The brief account of telecom reforms in India is given in the Table 1.1. The important regulating authorities/agencies are TRAI[3], DoT[4] and TDSAT[5].

Table 1.1 Reforms in Telecom Sector

- Telecom equipment manufacturing was completely deregulated in 1991.
- Value added services including cellular phone services thrown open to private sector in 1992.
- National Telecom Policy (NTP) was announced in 1994 allowing private sector participation in basic services.
- Telecom Regulatory Authority of India (TRAI) was set up in 1997.
- A new policy for Internet Service Providers (ISPs) was announced in 1998 opening the area to private sector providers. The policy was promotional in nature. No licence fee is to be paid by the ISPs for the first five years and then it is Re 1 per annum.
- A new policy called New Telecom Policy (NTP), 1999 was announced replacing the 1994 policy.
- Migration of the existing licencees from the regime of fixed licence fee to a new regime of revenue share was permitted in October, 1999.
- The regulatory mechanism has been further strengthened through the TRAI (Amendment) Act, 2000. The Act provides for establishment of a separate dispute settlement mechanism called Telecom Dispute Settlement and Appellate Tribunal.
- ISPs permitted to set up sub-marine cable landing stations for international gateways for Internet.
- National Long Distance Service was opened for competition in Aug. 2000.
- Corporatization of DoT into public company called Bharat Sanchar Nigam Limited from 1st October 2000 approved.
- International Long Distance Services to be opened for competition from 1st April 2002 ending monopoly of Videsh Sanchar Nigam Limited

Source: Chapter 26, Communications, Planning Commission of India, p. 2

1.4 FDI in Telecom

To attract FDI inflow and to make the sector more attractive and investor friendly, Government raised FDI limit for the telecom services from 74 per cent to 100 per cent[6]. The FDI is critical as the industry is both capital and technology intensive. The FDI into the telecom industry in the recent past is provided with in the Appendix 4.

Section 2

2. Growth driversand challenges

2.1 Growth drivers

In fact, telecom industry itself is a growth driver of Indian economy. E-commerce, net banking, mobile banking, payment banks, digitisation, benign policy framework, demographic advantage, affordable voice and data services, competition, DTH digitisation, mobile broadband etc. are contributing for the growth of telecom industry in India. The following aspects (sourced from Annual reports of telecom companies and research reports of consulting firms) drive and propel the telecom industry in India.

Favourable demographics:

India enjoys favourable demographics for internet penetration than many countries of the world; around 75% of its online population are aged between 15 and 34. [Source: Bharti Airtel Annual Report 2014-15, p. 79]

Consolidation and Policy certainty:

The proposed telecom policy environment through M&A rules, spectrum sharing guidelines and 20-year spectrum positions for the telecom operators emerging post the recently concluded auctions not only provide for business certainty, but also encourage industry consolidation and robust growth. [Source: Bharti Airtel Annual Report 2014-15, p. 80]

Compelling price:

In an environment of intense competition and significant regulatory pressures, the price of mobile services has tended to reduce over time. [Source: Vodafone Group Plc Annual Report 2014, p. 18]

Digital India:

It is a program to transform India into a digitally empowered society and knowledge economy. Firstly, the Government has clearly identified the 3 key areas -'Digital Infrastructure as a Utility to Every Citizen', 'Governance & Services on Demand' and 'Digital Empowerment of Citizens' which are supported by 9 pillars with the aim of connecting 250,000 Gram Panchayats in phased manner and providing most of the government services via digital platform. [Source: Idea Cellular Annual Report 2014-15, p. 36]

Spectrum Allocation:

DoT has offered additional spectrum under 800 MHz, 1800 MHz and 2100 MHz band which can be used for the advanced technologies like 3G or 4G; along with the added efforts initiated by DoT towards spectrum harmonization. [Source: Idea Cellular Annual Report 2014-15, p. 36]

Internet of things:

These are transforming the lives of 1.25 billion people as they rely on it for various purposes from online shopping, entertainment, education to healthcare, payment mechanisms and so on. Such a scenario is driving mobile commerce. [Source: Bharti Airtel Annual Report 2014-15, p. 79]

Broadband penetration:

India's broadband penetration is among the lowest in the Asia-Pacific with only 15.5 million wireline broadband subscribers and 83.7 million wireless broadband subscribers using above 512 kbps as of March, 2015. This can be attributed mainly to low personal computer penetration due to its high cost, and lack of widespread 3G and BWA services. Now with the proliferation of 3G & HSD services, and availability of a variety of smartphones, phablets and tablets at affordable pricing levels, broadband penetration is expected to increase at a much faster rate. [Source: Reliance Communications Annual Report 2014-15, p. 33]

Rural demand potential:

Lower penetration in rural India indicates the growth opportunity for the voice business going forward. [Source: Idea Cellular Annual Report 2014-15, p. 46]. Also, 100 per cent village electrification by May 2018 can help promote telecom services throughout the country. [Source: KPMG - Telecommunications Union Budget 2016 Post-budget sectoral point of view].

2.2 Challenges

Telecom companies face challenges like higher licence fees and annual spectrum user charges. The lack of clarity on tax implication of spectrum trading is another issue. Poor infrastructure in rural areas is an impediment for growth in rural region. Stiff competition, price war, drop in ARPU (Average Revenue Per User), incremental investment in ever changing technology etc. are bothering the industry. The bargaining power of the customers is high due to the mobile number portability (MNP). The Mobile Number Portability (MNP) was implemented nationwide on January 20, 2011 and nearly 124 million customers have availed the MNP facility offered by Indian Mobile Industry[7].

As per KPMG[8], the issues / challenges of telecom sector are:

- High cost of spectrum and capital investments
- Complex tax structures resulting in multiple tax levies
- Debt and costs of funding
- Uncertainty over Over-the-Top (OTT) players and implications of net neutrality on revenue models
- Difficulties in Capital Expenditure (CAPEX) deployment including Right of Way (RoW) norms.

Section 3

Revenue, costs, and KPIs of the industry

The business model is captured by the revenue verticals and cost structure. The performance evaluation and analysis is done through the key performance indicators (KPIs).

3.1 Revenue

Total Revenue = f (Subscribers' base, products mix, realisation from each offering, regulations, volatility in currency exchange rates, Net gain or loss due to MNP)

The number of subscribers represents the market pie. The appendix 3 provides the data on market share of each telecom company in

India. The product mix is the ratio of each revenue segment to the total revenue. The segments or the verticals are important as each segment's resource utilisation differs and hence the segments' mix determines the contribution to the bottom line. The realisation from each segment is crucial. The regulations of TRAI would impact on the revenue (roaming charges, inter connect fees) earned by telecom companies. For companies operating in foreign countries, the respective country'sregulations will impact the revenue earned from abroad operations. The volatility in the currency exchange rate will have its impact on the margin. As said in para 2.2, the bargaining power of the customers is high due to MNP The revenue segments of telecom companies are provided in the following table.

Table 3.1 Revenue Segments of telecom companies

Segments	Explanation
Telecom & Telemedia	Wireless and fixed line technology, national and international long distance connectivity. It comprises voice revenue, SMS, data revenue, VAS revenue, Broadband, wired and wireless, 2G, 3G & 4G
DTH	Digital TV andInternet Protocol television (IPTV) services
Mobile Commerce	Mobile Banking Services: Business correspondent business, payment bank, Mobile wallet, money transfer, utility bills payments, NEFT, IMPS
Passive Infrastructure	Infrastructure Services, tower sharing on lease basis
Network	End-to-end telecom solutions to big firms, network integration, data centres, managed services, enterprise mobility applications and digital media

Source: Compiled from Annual reports of telecom companies

3.2 Costs

Network expenses, access fees, license and spectrum changes are major costs. In case of government enterprises like MTNL and BSNL, employee costs are significant. The regulations of TRAI would impact on the costs such as spectrum usage charges and license fees incurred by telecom companies.Capex mainly includes spectrum buying and network equipment.

The costs incurred by telecom companies are provided in the following table.

Table 3.2

Costs of telecom companies
License Fee and spectrum usage charges
Roaming and Access charges
Network expenses
Subscriber acquisition and service cost
Employee cost
Sales and promotion expenses

Source: Compiled from Annual report of telecom companies

3.3 KPIs

The key performance indicators (KPIs) help in analysing the performance of the business enterprises. KPIs provide performance metrics for assessment and evaluation. Apart from the traditional ratios such as profitability ratios, solvency ratios, liquidity and turnover ratios, the following KPIs are used in the telecom industry.

Table 3.3 : KPIs

KPI	Explanation
EOP Subs (in 000's)	Number of subscribers at the end of the period under review
Teledensity	Number of telephone connections for every hundred individuals living within an area.
MOU (in mins/sub)	Minutes of Usage per subscriber
RPM (in Rs)	Revenue Per Minute in rupees
ARPU (in Rs)	Average Revenue Per User
MOUs (in mn)	Minutes Of Usage
Net MNP gain (Mobile Number Portability)	Testimony of end to end quality offering
Consumer mobile net promoter score (NPS)	It measures the extent to which present customers would recommend the telecom service provider to friends and family.
Capex productivity	Utilisation of capital investment
Opex productivity	Operating efficiency

Note: For micro analysis one can have Voice RPM, Non-Voice RPM, Data Usage in MBs, SMS+VAS revenue in rupees etc

Source: Co.mpiled from TRAI publications, Annual reports of telecom companies

For the performance evaluation, KPIs of a company may be compared with the industry average (the industry average is available in Appendix 5) and also may be benchmarked with the piers.

Section 4

Conclusion

Telecom industry in India is poised for an interesting journey. This is true in a tech savvy country like India. The factors like digitisation, internet penetration, internet of things, data revolution, disruptive innovations etc. augur well for the revolution in the telecom industry. The liberalisation, favourable FDI norms, rationalisation of regulations, make in India initiative, customer centric approach, etc. pave the way for growth, consolidation and maturity of the industry. Telecom is the greatest enabler of inclusive growth.

Appendix 1
List of Cellular Mobile (GSM & CDMA) Service Providers currently providing service [As on 30th Sept 2015]

Sl No.	Service Provider	Area of Operation
1	Bharti	All India
2	Aircel Group	All India
3	Reliance Communica-tions	All India (except Assam & NE)
4	Reliance Telecom	Kolkata, MP, WB, HP, Bihar, Orissa, Assam & NE
5	Vodafone	All India
6	Tata Teleser-vices	All India except Assam, NE & J&K
7	IDEA	All India
8	Sistema Shy-amTelelink	Delhi, Kolkata, Gujarat , Karnataka, Tamil Nadu (incl. Chennai) , Kerala, UP(W), Rajasthan & W.B.
9	BSNL	All India (except Delhi & Mumbai)
10	MTNL	Delhi & Mumbai

Source: TRAI, The Indian Telecom Services Performance Indicators, July-Sept, 2015, New Delhi, India, 16th Feb, 2016

Appendix 2
Types of Services offered by Telecom Companies

SL No.	Types of Services
1	Basic Service Licencees
2	Cellular Mobile Service Licencees
3	Internet Service Providers
4	National Long Distance Service Licencees
5	International Long Distance Service Licencees
6	PMRTS* Service Licencees
7	Unified Access Service Licencees
8	VSAT** Service Licencees

* Public Mobile Radio Trunked Service

** Very Small Aperture Terminal

Source: http://trai.gov.in/Content/ProviderListDisp/Listofspc.aspx

Appendix 3
Market Share in terms of Customers base

Companies	Subscribers as on Sep 2015		
	Number in Millions	% to total	Rank
Bharti Airtel	238.74	23.35	1
Vodafone	188.26	18.41	2
Idea Cellular	166.56	16.29	3
Reliance Commu-nications	111.55	10.91	4
BSNL	95.34	9.32	5
Aircel	84.00	8.21	6
Tata Communi-cations	63.73	6.23	7
TataTeleservice	47.78	4.67	8
MTNL	7.13	0.70	9
Others	19.52	1.91	10
Total	1,022.61	100.00	

Source:Compiled from TRAI, The Indian Telecom Services Performance Indicators, July-Sept, 2015, New Delhi, India, 16th Feb, 2016

Appendix 4
SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:
Amount in Rs. crores (US$ in million)

Rank	Sector	2013-14 Apr-Mar	2014-15 Apr-Mar	2015-16 Apr 15 -Dec 15	Cumu-lative Flows Apr '00 to Dec '15	% to Total Inflows
4 *	Tele-com	7,987 (1,307)	17,372 (2,895)	6,936 (1,072)	91,027 (18,130)	7%

Note: * The first three ranks were bagged by Services, construction and computer hardware & software sectors

Source: FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI), From APRIL, 2000 to DECEMBER, 2015, p.2

Appendix 5
Snapshot of KPIs of Indian Telecom Industry

Parameters	Data As on 30th Sept, 2015)
Usage Parameters	
Telecom Subscribers (Wireless +Wireline)	1,022.61 Million
Market share of Private Operators	89.98%
Market share of PSU Operators	10.02%
Teledensity	80.98%
Total Internet Subscribers	324.95 Million
Revenue & Usage Parameters	
Monthly ARPU GSM Full Mobility Service	Rs. 122
Monthly ARPU CDMA Full Mobility Service	Rs. 106
Minutes of Usage (MOU) per subscriber per month - GSM	374 Minutes
Minutes of Usage (MOU) per subscriber per month - CDMA	256 Minutes
Data Usage per subscriber per month - GSM	109.89 MB
Data Usage per subscriber per month - CDMA	316.37 MB
Data Usage per subscriber per month – Total(GSM+CDMA)	120.11 MB

Source: TRAI, The Indian Telecom Services Performance Indicators, July-Sept, 2015, New Delhi, India, 16th Feb, 2016

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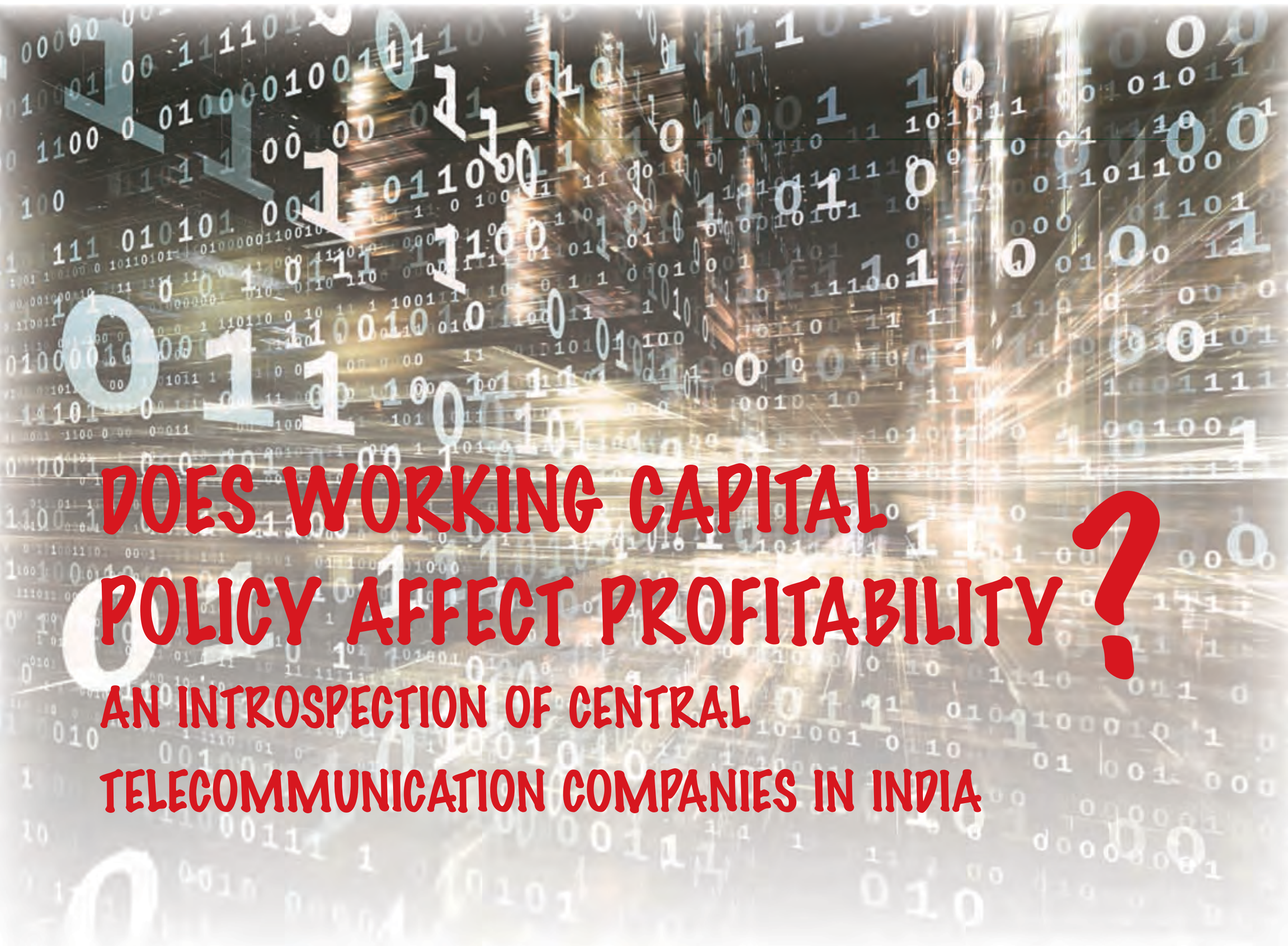

DOES WORKING CAPITAL POLICY AFFECT PROFITABILITY? AN INTROSPECTION OF CENTRAL TELECOMMUNICATION COMPANIES IN INDIA

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Prabhat Kumar College, Contai

1. Theoretical Underpinnings

Management of working capital plays an important role for the firm's profitability and its value. In fact, efficient management of working capital is a part of the overall corporate strategy to create shareholder's value. By understanding the role and determinants of working capital properly, companies can reduce their level of risk and improve the overall scenario of profitability.

In practice, a firm may adopt aggressive / conservative working capital investment policy (i.e., low level / high level of current assets in relation to total assets respectively) or it may adopt aggressive / conservative working capital financing policy (i.e., high level / low level of current liabilities in relation to total assets respectively). High level of current assets may have negative impact on profitability, whereas a low level of current assets may have low level of liquidity. Hence, there should be an optimum investment in both current and fixed assets for maximization of the value of a firm. An optimum level of working capital is one where there is a trade-off between liquidity and profitability.

Considering the importance of working capital policies in the context of profitability, the present study is an attempt to examine whether working capital policy affect profitability of the central telecommunication companies in India.

2. Prior Evidence And Identification Of Research Gap

Some of the notable studies that have been carried out in the area of working capital are briefly summarized as follows:

2.1 Empirical Studies

Gupta and Ronald (1972) studied the differences in the average financial ratios between industries. They concluded that there were differences in the average activity, liquidity and profitability ratios between industry groups.

Pinches, et al. (1973) employed factor analysis for classification of ratios and found that the classifications were stable over the time period from 1951 to 1969.

Chu, et al. (1991) examined the differences of financial ratio groups between the hospital sectors and industrial firm sectors. They concluded that there were significant differences in the financial ratio groups between the two sectors.

Soenen (1993) examined the relationship between net trade cycle and return on investment of U.S. firms. The study results revealed a negative relationship between the length of net trade cycle and return on assets. Further, this negative relationship was found to be different across industries depending on the type of industry.

Lamberson (1995) observed that there was a very small relationship between changes in economic conditions and changes in working capital.

Jose, et al. (1996) examined the relationship between aggressive working capital and profitability of U.S. firms. The study results revealed a significant negative relationship between the cash conversion cycle (representing working capital management) and profitability.

Weinraub and Visscher (1998) examined the relative relationship between aggressive / conservative working capital policies of U.S. firms during 1984 to 1993. The researchers concluded that the selected industries had significantly different working capital management policies during the period under study.

Filbeek and Krueger (2005) analyzed the working capital management policies of 32 non-financial industries in U.S.A. The findings of the study revealed that there were significant differences between the industries in working capital practices over time.

Similar other studies have been carried out by *Howorth & Westhead (2003), Ghosh & Maji (2004), Eljelly (2004), and Lazaridis & Tryfonidis (2006).*

2.2. Research Gap

Although, several studies have been carried out in the area of working capital management, little empirical research has been done to examine the relationship between working capital policy and profitability. Hence, the present study is expected to contribute to the better understanding of working capital policy and its affect on profitability in the liberalized and highly competitive telecommunication market in India.

3. Research Objectives

The prime objective of the study is to examine whether working capital policy affect profitability of the central telecommunication companies in India. To achieve this prime objective, the following incidental objectives are sought to be achieved:

To examine working capital policy in terms of working capital investment policy and working capital financing policy.

To examine the relationship between working capital investment policy and working capital financing policy.

To examine the impact of working capital policy on profitability.

4. Hypotheses Development

In conformity with the objectives of the study, the following testable hypotheses are formulated as under:

1st Hypothesis:

H_0 (1): There is no significant relationship between working capital investment policy and working capital financing policy.

H_A (1): There is significant relationship between working capital investment policy and working capital financing policy.

2nd Hypothesis:

H_0 (2): There is no significant impact of working capital policy on profitability.

H_A (2): There is significant impact of working capital policy on profitability.

5. Research Design

5.1 Sample Selection

The sample of the study covers all the central telecommunication companies operating in India. The list of central companies falling within telecommunication industry is presented in Table – I below:

Table – I: List of Central Telecommunication Companies

SL. No.	Name of the Company
1	Mahanagar Telephone Nigam Ltd. (MTNL)
2	Bharat Sanchar Nigam Ltd. (BSNL)
3	Millennium Telecom Ltd. (MTL)
4	Railtel Corporation of India Ltd. (RCIL)
5	Bharat Broadband Network Ltd. (BBNL)

5.2 Study Period

The study has been carried out for a span of ten years i.e., from the financial year 2004-05 to the financial year 2013-14. The chosen study period is long enough to indicate the financial conditions of the companies passing through various stages of business cycle.

5.3 Data Source

For the present study, secondary data have been used which are collected from the published annual reports of Public Enterprises Survey.

5.4 Methodology

In this study, working capital investment policy and working capital financing policy are used as proxy for working capital policy. Aggressive working capital investment policy indicates low level of investment in current assets, while a conservative working capital investment policy involves high level of current assets. On the other hand, aggressive working capital financing policy is represented by high level of current liabilities, while a conservative working capital financing policy is represented by low level of current liabilities.

In this context, the performance indicators of working capital policy and profitability are measured by the following ratios (Table - II):

Table – II: Measures of Working Capital Policy and Profitability

Performance Indicators	Performance Drivers	Performance Measures
Working Capital Policy	Working Capital Investment Policy (WCIP)	Total Current Assets ÷ Total Assets
	Working Capital Financing Policy (WCFP)	Total Current Liabilities ÷ Total Assets
Profitability	Return on Total Assets (ROTA)	Profit after Tax ÷ Total Assets
	Return on Capital Employed (ROCE)	EBIT ÷ Capital Employed
	Return on Equity (ROE)	Profit after Tax ÷ Shareholders Equity

Karl Pearson's correlation coefficient is used to measure the relationship between working capital investment policy and working capital financing policy. The Karl Pearson's correlation coefficient is computed as follows:

Karl Pearson's Correlation Coefficient

$$(r_{xy}) = \frac{n\sum x_i y_i - \sum x_i \sum y_i}{\sqrt{n}\sum x_i^2 - (\sum x_i^2)\sqrt{n}\sum y_i^2 - (\sum y_i^2)} \text{--------}eq.\ (1)$$

The significance of the correlation coefficient is tested by t- test which is shown below:

$$t = \frac{r}{\sqrt{\frac{(1-r^2)}{(n-2)}}}$$

Where: r = correlation coefficient; n-2 = degrees of freedom.

The impact of working capital policy on profitability (represented by Return on Total Assets, Return on Equity, and Return on Capital Employed) has been analyzed by the technique of regression equations. The regression models applied in the study are shown below:

$$ROTA = a + b_1 (WCIP) + b_2 (WCFP) + e \text{-------------------}eq.\ (2)$$

$$ROCE = a + b_1 (WCIP) + b_2 (WCFP) + e \text{-------------------}eq.\ (3)$$

$$ROE = a + b_1 (WCIP) + b_2 (WCFP) + e \text{--------------------}eq.\ (4)$$

Where:

a and b = parameters indicating intercept and coefficient respectively;

e = error term of the models;

ROTA = Return on Total Assets;

ROCE = Return on Capital Employed; and

ROE = Return on Equity.

To detect the problem of autocorrelation, Durbin-Watson (D.W.) d statistic is applied in the study. The presence of autocorrelation (if any) is adjusted by the technique of first difference operator. The D.W. statistic is computed as follows:

$$d = \sum_{t=2}^{t=n} (\hat{U}_t - \hat{U}_{t-1})^2 \div \sum_{t=1}^{t=n} \hat{U}^2_t \text{--------------------------}eq.\ (5)$$

The above ratio indicates the sum of squared differences in successive residuals to the RSS.

Apart from the above, simple statistical measures like mean, standard deviation and coefficient of variation are applied in the study. Moreover, the study uses aggregate data in order to arrive at a meaningful conclusion. For testing of hypothesis, 1% and 5% levels of significance are considered in the study. Necessary calculations have been done with the help of SPSS and Microsoft Excel software packages.

6. Research Findings And Analysis

6.1 Analysis of Working Capital Policy

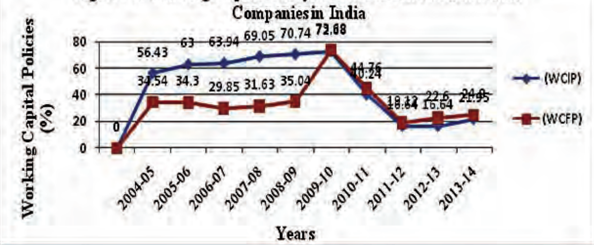
Working capital policy represented by WCIP and WCFP of central telecommunication companies in India are shown in Table – III and graphically in Figure – 1.

Table – III: Working Capital Policy of Central Telecommunication Companies (in aggregate)

Year	Working Capital Investment Policy (WCIP) (%)	Working Capital Financing Policy (WCFP) (%)
2004-05	56.43	34.54
2005-06	63.00	34.30
2006-07	63.94	29.85
2007-08	69.05	31.63
2008-09	70.74	35.04
2009-10	72.88	73.68
2010-11	40.24	44.76
2011-12	16.64	19.12
2012-13	16.64	22.60
2013-14	21.95	24.80

Year	Working Capital Investment Policy (WCIP) (%)	Working Capital Financing Policy (WCFP) (%)
Average	49.15	35.03
S.D.	23.15	15.42
C.V.	47.10	44.02

Figure- 1: Working Capital Policy of Central Telecommunication Companies in India



With respect to investment policy (WCIP), Table – III and Figure – 1 reveals a relatively conservative investment policy during the first six years, while aggressive investment policy is observed in the remaining years under study. On the average (49.15%), the Indian telecommunication companies (in aggregate) have maintained almost a moderate (i.e., neither aggressive nor conservative) investment policy during the period under study.

On the hand, the telecommunication companies in India have shown a relatively conservative financing policy (WCFP) during all the years (except the year 2009-10) under study with an average of 35.03%.

The Coefficient of Variation (C.V.) of WCIP and WCFP is found to be 47.10% and 44.02% respectively during the study period.

6.2 Relationship between Working Capital Investment Policy and Working Capital Financing Policy

To measure the relationship between WCIP and WCFP, correlation technique is used in the study. Table – IV shows a positive correlation coefficient (0.583) between WCIP and WCFP, although the relationship is found to be statistically insignificant. This implies that working capital investment policy does not corroborate to the working capital financing policy during the period under study. This also leads to the acceptance of the first null hypothesis of the study.

Table – IV: Correlation Coefficient between WCIP and WCFP

Performance Indicators	Correlation Coefficient (r_{xy})
WCIP and WCFP	0.583[i] (2.030)

Key Notes:

1) [i] marked value indicates insignificant.

2) Figure in the bracket indicates t – value.

6.3 Impact Analysis of Working Capital Policy on Profitability

In this section, the impact of working capital policy (i.e., WCIP and WCFP) on profitability has been analyzed through commonly used accounting based measures of profitability i.e., Return on Total Assets (ROTA), Return on Capital Employed (ROCE), and Return on Equity (ROE).

As reported in Table – V, the value of R^2, and Adjusted R^2 indicates a moderate fit of the regression equation (*eq. 2*). Table – V shows that working capital investment policy has a positive impact (b = 0.339) on profitability represented by ROTA, which is significant at 5% level, thereby leading to the rejection of the second null hypothesis of the study. However, the result is observed to be insignificant in case of working capital financing policy.

Table – V: Regression Analysis of Working Capital Policy and ROTA

R^2 = 0.599; Adjusted R^2 = 0.484; D.W. = 0.906			
Working Capital Investment Policy (WCIP)		Working Capital Financing Policy (WCFP)	
Beta Coefficient (b)	t - value	Beta Coefficient (b)	t - value
0.339**	3.230	-0.317[i]	-2.010

Key Notes:

*1) ** marked value indicates significant at 5% level (2-tailed).*

2) [i] marked value indicates insignificant.

As observed in Table – VI, the value of R^2 and Adjusted R^2 indicates a good fit of the regression equation (*eq. 3*). Profitability performance represented by ROCE has been positively influenced by working capital investment policy which is significant at 1% level, while the same is negatively influenced by working capital financing policy which is found to be significant at 5% level. This leads to the rejection of the second null hypothesis of the study.

Table – VI: Regression Analysis of Working Capital Policy and ROCE

R^2 = 0.855; Adjusted R^2 = 0.814; D.W. = 0.715			
Working Capital Investment Policy (WCIP)		Working Capital Financing Policy (WCFP)	
Beta Coefficient (b)	t - value	Beta Coefficient (b)	t - value
0.517***	6.386	-0.377**	-3.100

Key Notes:

*1) *** marked value indicates significant at 1% level (2-tailed).*

*2) ** marked value indicates significant at 5% level (2-tailed).*

The value of R^2 and Adjusted R^2 as observed in Table – VII indicates a moderate fit of the regression equation (*eq. 4*). Working capital investment policy has a positive impact (b = 0.472) on profitability represented by ROE, which is found to be significant at 5% level, thereby leading to the rejection of the second null hypothesis of the study. In case of working capital financing policy, the result is observed to be insignificant.

Table – VII: Regression Analysis of Working Capital Policy and ROE

R^2 = 0.589; Adjusted R^2 = 0.472; D.W. = 1.201			
Working Capital Investment Policy (WCIP)		Working Capital Financing Policy (WCFP)	
Beta Coefficient (b)	t - value	Beta Coefficient (b)	t - value
0.472**	3.136	-0.330[i]	-1.461

Key Notes:

*1) ** marked value indicates significant at 5% level (2-tailed)*

2) [i] marked value indicates insignificant.

7. Concluding Observations

On the average, it may be stated that central telecommunication companies in India follow conservative financing policy (also in all the years) and moderate investment policy (although conservative policy for the first six years) during the period under study. Moreover, the study found no significant relationship between working capital investment policy and working capital financing policy.

It is further observed that working capital investment policy has a significant positive effect on profitability in all the cases (i.e., ROTA, ROCE, and ROE), which implies that an optimum level of current assets has been maintained by the telecommunication companies during the study period. Finally, working capital financing policy has a significant negative effect on profitability (represented by ROCE), while in rest of the cases, the results are found to be insignificant.

8. Limitations And Research Opportunities

The study is based on secondary data i.e., published annual reports. So, it is subject to all the limitations that are inherent in secondary data. Apart from it, the study employed accounting based measures of profitability.

In spite of these limitations, further research may be undertaken by including private sector companies within the telecommunication industry and using other market based measures of profitability. To arrive at a more meaningful conclusion in the context of this research problem, an in-depth study may be explored for different industries over a longer period of time. MA

A firm may adopt aggressive working capital policy (i.e., low level of current assets in relation to total assets) or it may also be used for financing decisions of the firm in the form of high level of current liabilities in relation to total assets. In this backdrop, the present study is an attempt to examine whether working capital policy affect profitability of the central telecommunication companies in India during the period 2004-05 to 2013-14.
On the average, the study found that central telecommunication companies in India follow conservative financing policy and moderate investment policy during the period under study. Moreover, no significant relationship is observed between working capital investment policy and working capital financing policy. Finally, working capital investment policy has a significant positive effect on profitability, while working capital financing policy has a significant negative effect on profitability (represented by ROCE).

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- Total Quality Management
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- Capacity building approaches & its importance
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- Capacity building as a strategic plan for development
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- Capacity building for enhancing value and creating opportunities
- Engaging Communities to create sustainable change
- Skill development for capacity building
- Capacity building for CMAs

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Subtopics

- Strategies for staying Cost Competitive
- Building Market Share by Cost Competitiveness
- Cost Competitiveness for Sustainability
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IFRS 15

IN TELECOMMUNICATION INDUSTRY

IFRS 15 (Revenue from contract with customer) is being applied with effect from1st January, 2017. The new standard is making a significant impact on telecom industry, because of its nature of business, where the industry profusely enters into bundle contract with the customers. Revenue is to be recognised when (or as) the entity satisfies each performance obligation. IFRS 15 is not limited to accounting treatment, but wisely impact on strategical business decision, marketing channel and internal system and processes. Currently the industry is in consolidation phase across the world, the new standard enrich this trend much faster and competitive.

COVER STORY

CMA Shashikant Choubey
Assistant Finance Controller
Aljazirahford, Riyadh Saudi Arabia

IFRS 15 (Revenue from Contract with Customer)is becoming a reality with effect from 1st January, 2017 across the world. Revenue is a key and judgmental economic parameter for an entity or industry. Recognition, measurement and discloser of current pattern of revenue are changing under the new standard.Telecom industry iscorroborates to be one of the most affected and venerable on implementation of IFRS 15.Other industries too like Real Estate, Software and long term contracts would be affected equally. This happens, mainly because of 'bundle' transaction and multiple obligations under one single contract and time value of money. A unique feature used in the telecom industry is 'bundle' offer to customer. Bundle transaction refers, (product + Service) offered to customer under a single contract expires within a year or more. The bundle transaction offered from a telecom entity may include and / or not limited to,

Combination of Voice & Data,

Voice, Data &Hardware (Handset, Setup box, modem etc.),

Hardware& data,

Voice &Hardwareand so onoffered by the telecom operators to their customers.

Presently telecom operators accustomed to report their revenue based on real/existing sale price. If the handset standalone price is INR, 6,000 offered free along with network services, handset revenue will be treated as zero. But under new standard, a price to be allocated to handset too along with others, based on standard criteria, makes significant difference from present standard.Transactions are also to be adjusted in accordance with 'time value of money'if it has significant financialcomponent.Accordingly, if the telecom entities receive money in advance from customer, where contractual obligation expires for more than of 12 months,amount to be discounted with net present value of money while recognizing revenue in subsequent period.

Though accounting of overall cash receipts from the customer has no any difference from IAS 18 over a period of contract, but because of time differences and allocation of amount to different obligations, IFRS 15 requires significant changes in a particular financial year. Because of such changes in Revenue, EBITDA and Net Profitalsoget affected significantly.In the Balance sheet part, contractual assets and liabilities will have larger impact, leads changes in working capital changes and covenant compliance.Along with that, the entity must consider significant change in Tax liabilities, Budget & Planning, Costing,Strategic decisions and reporting to stakeholders and stock exchange.

The dynamic telecom industries passing through a global consolidation phase. The new standard will enrich this trend much faster in such a competitive scenario. Therefore, following IFRS 15, if an entity loosing customer market share, will lose revenue more rapidly as compared to old revenue standard because high revenue amount recognized at the beginning and comparatively lower revenue in subsequent periods. IFRS 15 is not limited to accounting activities, but it has consequential changes in shape and size of income statement and balance sheet. It witnesses a long lasting impact on investments, compliances, covenants, software changes and reporting for the telecom entities.The new standard compels the industry to apply different strategy and approach of marketing, pricing and other factors to meet the new requirement without much affecting their financials. Let us discuss the new standard in brief and how it affects the industry.

IFRS 15 – a five model test to recognize revenue

1. Identify the contract(s) with customer

leads an enforceable agreement of right and obligations between two or more parties.

2. Identify the performance obligations in the contract

is a promise to the customer to transfer goods / services to the customer.

3. Determine the transaction Price

the amount of consideration, to which an entity expects to be entitled in exchange for transferring goods or services to the customer, excluding amount collected on behalf of a third parties.

4. Allocate the transaction price to the performance obligations in the contract

Under a contract that has more than one performance obligation, an entity should allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation.

5. Recognize the revenue when the entity satisfies the performance obligations.

Out of above, number (4), allocation of transaction price is very relevant as far as telecom industry is concern. Under IAS 18, revenue is defined as gross inflow of economic benefits arising from ordinary operating activities of an entity. Thus, if a telecom entity offers, free handset along with mobile connection to a customer, revenue recognized from handset is zero (0 or else). Full amount received from the customer treated as service revenue. In general the entities treat cost of handset (less residual value of cash income over services) as 'cost / commission of acquiring a customer'.

Illustration

Just to understand above, let us take a practical example. A telecom service provider, named XYZ Limited offers to their customers a mobile handset, voice network services and data network services. On 1st July, 2017, the entity entered into a contract with a customer TTK, offering him all three product and services for INR 13,500, though individual selling price for these are INR 16,800 as mentioned below.Further it is known that inventory cost of handset is INR 3,500. Based on above assumptions, revenue recognition, cost and EBITDA is summarized in the following table along with related journal entries under IAS 18 and IFRS 15:

Goods and Services offered by XYZ Limited	Standalone selling price of each item	% of Total	Bundle selling price for all the three	Revenue Recognition and Accounting Treatment			
				IAS 18		IFRS 15	
				2017-18	2018-19	2017-18	2018-19
Handset	6,000	36%	-	-	-	4,821 (36% of 13,500)	-
Network- Voice	3,600	21%	-	1,800 (3,600/2)	1,800 (3,600/2)	1,446 (21% of 13,500/2)	1,446 (21% of 13,500/2)
Network- Data	7,200	43%	-	7,200 (3,600/2)	7,200 (3,600/2)	2,893 (43% of 13,500/2)	2,893 (43% of 13,500/2)
Total	**16,800**	**100%**	**13,500**	**5,400**	**5,400**	**9,161**	**4,339**
Cost							
Handset	3,500	-	3,500	-	-	3,500	-
Customer acquisition cost	-	-	-	800	-	-	-
Network-Voice	2,178	-	2,178	1,080	1,098	1,080	1,098
Network -data	4,788	-	4,788	2,736	2,412	2,736	2,412
Total Cost	**10,,466**	**-**	**10,466**	**4,256**	**3,510**	**6,956**	**3,510**
EBITDA	6,334	-	3,034	1,144	1,890	2,205	829
EBITDA % to Revenue	-	-	-	21%	35%	24%	19%

Revenue recognition and related journal entries for the item sold as bundle					
1.On receiving of cash from customer					
Cash /Bank/Debtors	Dr.	13,500	-	13,500	-
Unbilled / Deferred Revenue	Cr.	13,500	-	13,500	-
2. On delivery of Handset to Customer					
Cost of Handset	Dr.	3,500	-	3,500	-
Inventory	Cr.	3,500	-	3,500	-
3. Charging the differential value to cost of acquisition of customer					
Unbilled / Deferred Revenue	Dr.	2,700	-	-	-
Cost of acquisition of customer	Dr.	800	-	-	-
Cost of Handset	Cr.	3,500	-	-	-
4. On allocating of revenue towards handset and network services					
Unbilled / Deferred Revenue	Dr.	5,400	5,400	-	-

Handset Revenue	Cr.	-	-	4,821	-
Network Services-Voice Revenue	Cr.	1,800	1,800	1,446	1,446
Network Services- Data Revenue	Cr.	3,600	3,600	2,893	2,893

For making the explanation simple, it is assumed that the customer has availed the services of networks equally during 2017-18 and 2018-19. In general it never happens and the practical adventure is much more complex than that. Also time value of money is ignored in above situation since contract expires within 12 months period.

Under IAS 18, cost of acquisition of customer is 800 = Cost of handset – Residual value of economic benefits = 3,500- 2,700.

Residual value = Total Economic benefits – Network Revenue - (13,500-3,600-7,200). In this example, cost handset is less than the residual value, where if the cost of handset exceeds residual value, such excess difference transfers as handset revenue. For example, if the cost of hand set is only INR 2,500, than, 200 (2,700-2,500) transfers as handset revenue.

Have a look at the above table, under IAS 18, the revenue is 5,400, where under IFRS 15, the revenue recognized as 9,161 during 2017-18 (170% jump) and consequential EBITDA has 193% jump from 1,144 to 2,205.During next year (2018-19) it reduced drastically from 1,890 to 829 (44%). In telecom industry, where a number of options offered to customers with different time frame and value, things will become much more complex to get into and understand.In practice, when multiple similar contracts or other contracts analyzed together, revenue at beginning will much higher than the present standard. Consequently, revenue in subsequent years will be much lower as compared to IAS 18. In general corporate customers entered into the contract for more than a year or so, where time value of money becomesa significant component.

Applying IFRS 15

Certain salient point must be noted while applying IFRS 15.

1. It must applied from 1st January, 2017, without any option and because of that following standard treated as abolished
IAS 18 - Revenue
IAS 11 - Construction Contracts
SIC 31 - Revenue – Barter transaction involving advertising services
IFRIC - 13 Customer loyalty programs
IFRIC - 15 Agreements for the construction of real estate and
IFRIC - 18 Transfer of assets from customers

2. Every revenue contract must be evaluated and pass through the 5 modelstests to define and recognize revenue.

3. Entity needs to collect, collate and summarized millions of statistical data about, type of contract, validity period, fair value, standalone selling price to each type of customer and period and so on.

4. IT system and existing software need a major change to meet the new requirement and maintain the data. Under current revenue recognition, system generates revenue information in line and consistent with cash inflow from the customer. But under new rule, there is need to bring a logic to identify what is the revenue and when and how much it is to be considered for accounting. This would be possible only when the system is able to maintain systematic portfolio data for revenue calculation.

5. Existing contract (s) should be re arranged in accordance with the new standard and differential journal to be passed during 2016 itself.

6. Time value of money to be applied in accordance with the general price index and / or cost of investments.

7. Under the new standard, telecom and software industries recognize revenue earlier than the IAS 18. As we saw, the telecom operator must allocate a part of revenue to the free handset.

8. Since it applies from 2017, the corresponding data and figures must be regrouped for the year 2016 also.

9. In general, telecom operators have different type of contracts with customer, each type is required to dealt and evaluate separately.

10. Telecom entities charge upfront fees, like activation charges- needs to be judged if the amount is nonrefundable, promised for which goods or services. If it is for future obligations, the amount must be kept under unbilled revenue.

11. Revenue to be charged on monthly basis in accordance with performance obligation delivered to customer.

Applying Strategy

Once we summarize all revenue contracts, it shall reveal, revenue curve moves in parallel to customer curve over a period of time under the new standard which is not the same under present standard.Whole data to be simulated and a comprehensive exercise to be carried out about changes in Revenue, EBITDA, EBIT, Net Profit and working capital. Accordingly a new strategy required to discussed and developed about marketing, price, sale, product dimension and channels. MA

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ACCOUNTING SEPARATION REPORT IN TELECOM INDUSTRY

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Telecom industry is a capital intensive nature industry and it requires huge investment before starting service. Telecom services are provided by using multiple telecom networks. Technological advancement has made complicated to identify the cost of different services.

Telecom Regulatory Authority of India (TRAI) has issued guideline in 2012 to comply "The Reporting System on Accounting Separation Regulation 2012". It is need of hour to rationalize the Accounting Separation in telecom industry because:

Technological advancement has resulted convergence of network elements as well as services

Accounting Separation of telecom network cost should be rationalized keeping in mind IFRS implementation.

Network elements need to relook its bifurcation because lots of elements separation is not adding value like bifurcation of networks into:

Accounting Separation Report (ASR) as per TRAI		
Telecom Service	Network Elements	Details of Telecom Networks
1	2	3
Access Service Wireless (Full Mobility)	Core Network	1. MOBILE SERVICE SWITCHING CENTER (MSC)/ GATEWAY MOBILE SERVICE SWITCHING CENTER (GMSC)
		2. MSC SERVER / VIRTUAL MSC
		3. MEDIA GATEWAY (MGW) / GATEWAY MEDIA GATEWAY (GMGW)
		4. VISITOR LOCATION REGISTER (VLR)
		5 SERVING GPRS SUPPORT NODE (SGSN)
		6 GATEWAY GPRS SUPPORT NODE (GGSN)
		7 VISITOR LOCATION REGISTER (VLR)
		8 HOME LOCATION REGISTER (HLR)
		9 AUTHENTICATION CENTER (AUC)
		10 TRANSPONDER
		11 SIGNALLING GATEWAY
		12 OTHERS
	Radio Access Network	1 NODE-B-RADIO ACCESS NETWORK (RAN)
		2 BASE TRANSCEIVER STATION (BTS)
		3 RADIO NETWORK CONTROLLER (RNC)
		4 BASE STATION CONTROLLER (BSC)
		5 OTHERS
	Transmission Media/ Equipments	1 TRANSMISSION MEDIA BETWEEN THE NETWORK ELEMENT OFC/CABLE/MICROWAVE
		2 TRANSMISSION EQUIPMENT
		3 OTHERS
	Other Network Elements	1 SHORT MESSAGE SERVICE CENTER (SMSC)
		2 MULTILEDIA MESSAGING SERVICE CENTER (MMSC)
		3 HOME SUBSCRIBER SERVER (HSS)
		4 APPLICATION SERVERS FOR VAS
		5 NETWORK MANAGEMENT SYSTEM (NMS)
		6 BILLING SERVERS
		7 IUC SERVER /ICB SERVER - INTERCONNECT BILLING SERVER
		8 IN SERVERS
		9 LAWFUL INTERCEPTION SERVER (LIS)
		10 FACILITATION FOR MNP
		11 OTHERS

TRAI has asked to bifurcate the asset cost as well as operational expenses into around **136 network elements against 11 Telecom services as per ASR 2012** but most of these do not add any value instead these make complex.

Difficulty to bifurcate employee cost for example one employee is engaged to maintain Core network GSM but core network itself bifurcated into 11 network elements as given above in point no 4.

Product/Component need to be relooked in present scenario due to technological advancement and these separation in such details level have been irrelevant for example:

Name of Telecom Service	Product/ Components
Access Service	Wholesale (Interconnection):
	Termination Voice call
	Termination Video call
	Termination SMS/ MMS
	Port charges including Co-Location
	Transit Carriage Charges
	Other interconnect charges
Internet Service	Internet – Broadband
	Internet – Narrowband
	Internet Telephony
	Internet Protocol (IP) TV
	Internet Content
	Webhosting and Web-collocation

Suggestion for improvement in Accounting Separation Records (ASR):

Network elements bifurcation should be upto broad level for example:

Telecom Service	**Network Elements**
1	**2**
Access Service Wireless (Full Mobility)	**Core Network**
	Radio Access Network
	Transmission Media/ Equipments
	Network Management System (NMS)
	Application Servers for VAS
	Billing Servers

Vendor invoice does not provide details of cost to comply the ASR and this may result presumptive/allocation basis of capitalization of telecom network cost.

To get cost on Asset for capitalization as per the desired level of network elements, it should be clear in tender level itself to get desired network elements level for example:

Telecom Service	Network Elements	Invoice itemized details
1	2	3
Access Service Wireless (Full Mobility)	Core Network	Separate items should be in invoice
	Radio Access Network	Separate items should be in invoice
	Transmission Media/ Equipments	Separate items should be in invoice
	Network Management System (NMS)	Separate items should be in invoice
	Application Servers for VAS	Separate items should be in invoice
	Billing Servers	Separate items should be in invoice

Vendor provides details in tender bids, efforts should be made that vendor should invoice suitably by grouping the same as desired so that at the time of capitalization of telecom network elements can be done precisely as much as possible.

Most of the telecom network is outsourced for maintenance and the outsourced operational expenses need to be captured in telecom network element wise.

Maintenance expenses should get bifurcated in tender level itself as desired in ASR so that vendor should provide invoice as telecom network elements wise and this will allow accounting for the maintenance expense correctly.

SAP Material Management Module has solution in single maintenance Purchase Order (PO), user can bifurcate the maintenance expenses as desired level of network elements subject to Cost Centers have been created for the telecom network elements.

Product/Components should be generic because in present scenario lots of services got converged due to technological advancement for example: *MA*

Name of Telecom Service	Product/ Components	Remarks
Internet Service	Internet – Broadband	Efforts are being made to have Broadband speed more than 512 kbps and technology getting neutral. Bifurcation of Internet will not add value in ASR
	Internet – Narrowband	
	Internet Telephony	
	Internet Protocol (IP) TV	
	Internet Content	
	Webhosting and Web-collocation	

Reference:

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'Make in India' is an initiative by Government of India, under the aegis of Prime Minister Shri Narendra Modi, launched in September 2014, to encourage companies to manufacture their products in India. The major objective behind the initiative is to focus on 25 sectors of the economy to facilitate investment, foster innovation, enhance skills, protect intellectual property and build world class manufacturing infrastructure. The sectors are automobiles, automobile components, aviation, bio-technology, chemicals, construction, defense manufacturing, electric machinery, electronic systems, food processing, IT-BPM, leather, media and entertainment, mining, oil and gas, pharmaceuticals, ports, railways, renewable energy, roads and highways, space, textiles and garments, thermal power, tourism and hospitality and wellness. The initiative hopes to attract capital and technological investment in India thereby increasing GDP growth and tax revenue. It also aims at high quality standards and environmental protection. The further initiatives of Digital India and Skill India launched in July 2015 are aimed at supplementing the larger Make in India initiative. Digital India initiative aims at empowering every citizen with access to digital services, knowledge and information. Skill India initiative is a call to make India the skill capital of the world. The article aims at a constructive and critical evaluation of 'Make in India' through the eyes of a cost accountant.

Visibility of Make in India

That the initiative of Make in India has kick started the Indian industrial climate is becoming gradually visible.

Start-up companies in India have now easy access to funds through angel networks. The participation of experienced entrepreneurs and experts in these networks is a healthy trend now and they also contribute to the mentoring for the start-ups. An Assocham study on start-ups has pointed out that India is expected to produce at least a dozen billionaires among the start-ups in the next

Need for an integrated approach

five years in e-commerce, financial services and technology driven fields and that India will be among the top Asian start-ups along with China and South-east countries.

The Nikkei Manufacturing Purchasing Managers' Index (PMI) in India showed that India was one of only four major economies (others being Brazil, Japan and South Korea), to record a growth in manufacturing in July 2015 in an increasingly gloomy global economy.

In the last week of July 2015,the Union Cabinet had approved the proposal of creating National Investment and Infrastructure Fund (NIIF) whichwill make equity investments of ₹ 20,000 crore every year in commercially viable long gestation projects which will help to kick-start the economy.

Airbus Helicopters and a private manufacturer have proposed a joint venture aiming to become the first private Indian helicopter manufacturer under the Make in India initiative.

Make in India vis-a-vis other factors:

Make in India is a special focus on select sectors. It covers a vast area of the economy within the general industrial climate prevailing in the country. Needless to emphasise that the subset of Make in India initiative and the superset of general industrial climate will have a contagious influence on each other. For example, at the recent Aerospace & Defence Manufacturing Summit organised by Bengaluru-based Society of Indian Aerospace Technologies and Industries (SIATI), Defence and aero PSUs had revealed the hurdles to 'Make in India'. They had stated that it may be a tall order in the near term to reverse the 70 per cent import of military hardware, though they have started changing production strategies to meet the challenge. Their refrain was that public defence manufacturing majors are ready to source more from small and medium industries to meet the government's Make in India mandate, but suppliers are falling short on facilities, quality and time lines.

This emphasises the need for broadening the focus and for having an integrated approach.

Consistency and compatibility

Calling for adoption of June, 21 , as the International Day of Yoga, in his address to the United Nations General Assembly , Hon'ble Prime Minister Shri Narendra Modi stated:

«Yoga is an invaluable gift of India›s ancient tradition. It embodies unity of mind and body; thought and action; restraint and fulfillment; harmony between man and nature and a holistic approach to health and well-being. Yoga is not about exercise but to discover the sense of oneness with ourselves, the world and the Nature. By changing our lifestyle and creating consciousness, it can help us deal with climate change. Let us work towards adopting an International Yoga Day."

The India-led resolution with a record 175 co-sponsors was adopted by the United Nations General Assembly in December 2014 and June 21 was declared as International Day of Yoga.

The presence of food processing industry in the sectors of Make in India is surprising in more than one way. If the budgetary allocation concept of Zero Base Budgeting (ZBB) had been followed, food processing would not have found a place in the focused sectors, when the Prime Minister is professing the importance of Yoga. In ZBB, projects are not given financial allocations based on previous period's figures. Each project has to justify its existence first of all. That is, projects are evaluated from the scratch. Then based on their evaluation and their relevance to current period, allocations are made.

Let us see the influence of food processing and preservatives in our daily life. Doctors coming in various TV channels advise against fast food to avoid obesity. Various TV channels prepare special clippings on the evil effects of fast food on human health. One such recent clipping asked a pertinent question as to how the processed foods stand for months where as the food we make in our home could not stand for more than few hours. The adverse effects of chemicals that are added as preservatives were highlighted. The clipping also objected to them a king of Ajino moto in Tamilnadu which is used in food processing in spite of its harmful effects.

Notwithstanding the fact that there is no recommended food for yoga, it is said that those who do regular practice of yoga resort to eating moderate and sattvic (serene, harmonious and balanced) food in due course. Thus they may prefer eating regional and seasonal food and may shy away from eating processed food!

Nobody is fantasizing that food processing industry should be banished altogether. But to give special focus to that sector is contradictory to the wellness concept. Just as carbon emission and climate change are matters of international concern now, processed food and health issues of mankind will come to the forefront sooner than later. At that time even to print a warning on the package isnot going to be easy. When an industry is allowed to thrive then it will be very difficult to exercise restraint over that later. Two examples can be given for this. In April 2015, Government expressed its commitment to increase the size of pictorial warnings on tobacco products to 85% as recommended by World Health Organisation. But immediately it had to defer the mandatory display of large pictorial health warning due to the influence of tobacco industry. The Parliamentary Committee on Subordinate Legislation recommended that that the issue should be decided after consulting industry stakeholders. In Tamilnadu, the size of revenue (of more than ₹ 21,000 crores) from liquor sales is stated to be one of the reasons which makes total prohibition not feasible in the State.

Is the focus really on?

Now, having found out a place in the focus list, how is the food processing industry contributing to Make in India initiative is another question. The food processing industry had not apparently come to the rescue of milk, sugar or food grains when they are facing the problems of plenty.

In May 2015, large number of farmers in many districts of Tamilnadu were pouring milk into the open and alleged that the cooperative societies through which Aavin(The Tamilnadu co-op milk producers' federation Limited) procures milk from them were stopping the milk collection from time to time without any prior notice.

Aavin procures about 30.2 lakh litres milk per day across the State, and there has been a spurt in the milk production of late. Further, previous showers facilitated green fodder growth, which resulted in increased milk production. The farmers were demanding setting up of more milk powder manufacturing units to increase demand for milk.

In another situation of problem due to abundance, surplus sugar stocks in the previous three sugar seasons led to an accumulated stock of 91.09 lakh tones as on 01.10.2014. It was reported that with the glut in production, farmers were on tenterhooks as to whether they would recover their input costs. There were huge arrears from sugar mills to farmers. The Union government on 10.11.2015 approved a ₹ 6,000-crore interest-free loan to the sugar industry to enable it to clear cane arrears to farmers that were standing at ₹ 21,000 crore. The move, however, did not go down well with the industry body, Indian Sugar Mills Association (ISMA), which said this did not address the basic problem of surplus sugar and depressed prices. An office bearer of ISMA contended, "To expect the industry to repay the loan after a year is expecting it to make profits to the tune of ₹ 6,000 crore within a year, which does not seem possible with a surplus stock of over 10 million tonnes and depressed sugar price". With sugar prices falling in global markets, the government again came to the rescue of local farmers, in the last week of April 2015, by hiking the import duty on sugar to 40 per cent from the existing 25 per cent to discourage sugar imports. But the woes of farmers continued and some distressed sugarcane growers destroyed their standing crop.

Wheat is another produce facing the irony of import amidst plenty in the local market.

On the problem of plenty in buffer stocks, there was a news

> *'Make in india' is an initiative by government of india to encourage companies to manufacture their products in india. The article aims at a constructive and critical evaluation of the initiative through the eyes of a cost accountant. The initiative is becoming increasingly visible.*
> *It is a special focus on select sectors. A broad focus and an integrated approach are needed.*
> *Focusing on wellness and food processing industries together is not consistent. ZBB would not have allowed this! On the other hand, the food processing industry had not apparently come to the rescue of milk, sugar or food grains when they are facing the problems of plenty.*
> *During problems of plenty in agriculture, they are consigned to mother earth. Problem of plenty in industrial stocks is not affordable. It should be avoided by following the Japanese just-in-time (JIT) manufacturing approach or equivalent approaches.*
> *Strengthening educational standards will bring great results. ISO standards should be followed not only in figures but in spirits too for real quality.*
> *Let us make use of the opportunities being created by government and strive hard for realising our dreams.*

item in January 2015, that India was holding excess foodgrains stocks worth nearly ₹50,000 crore, over and above the stipulated buffer limits. At close to 49 million tonnes, the stocks were more than twice the norm, a former chairman of the Commission for Agricultural Costs and Prices (CACP) had told .He pointed out that reducing the buffer stocks was crucial to reduce storage costs.

Excerpts from the editorial in Financial Express on 19.05.2015 : "Imagine the irony. India has 34 million tonnes of wheat stocks with the Food Corporation of India (FCI) already and another 3-4 million will get added to this by July 1, but the country is still importing wheat, albeit in very small quantities. By July 1, FCI's wheat and rice stocks will cross 60 million tonnes as compared to the buffer stock norm of 42 million—and even this is way too high—which translates into an extra cost of around ₹ 45,000 crore. Imagine what such funds could do for India's irrigation sector! Given the plunge in global prices—by over $100 per tonne over the last one year—it is actually cheaper to import grain into India, at least in coastal regions, than it is to buy it from either FCI or from the open market. .... There are various problems that arise. Since the current procurement of around 25 million tonnes of wheat by FCI has been damaged due to the unseasonal rain, it is not clear how much of this can be distributed through ration shops—if it has to be exported as cattle feed, this will also add considerably to FCI's costs."

Just-in-Time manufacturing approach will be helpful in Make in India

All countries (even if they are industrially developed) invite other countries (even if they are still in developing status!) to make in the territories of the former to give a fillip to their economy and to generate employment there. Every country thinks, "Let it be purchased anywhere. But it should be made here"! "Who has the purchase power?" is another big question in the current uncertain economic scenario in many countries.

During problems of plenty in agriculture, they are consigned to mother earth making her feel sorry for the wastage of resources! But if industrial goods result in problem of plenty or in excess stocks, will not that dumping result in environmental degradation and make mother earth wild? Piling of stocks should be avoided by following the Japanese Just-in-time (JIT) manufacturing approach or equivalent approaches.

Return to the basics

For making, money, men, material and methods are the four most important Ms.

Of the four Ms mentioned above men viz. manpower is an important factor. Education has not somehow found out a place in the focused sectors of Make in India. Perhaps the policy makers thought that plenty of educational institutions, graduates, post graduates, teachers, engineers, doctors etc. had already been made! And now many educational institutions portray their ISO status too. Consultants are abundant to prepare educational institutions to get ISO status. Many of the institutions do not hesitate to show other institutions' library books and professors as their own. Considerable number of students come out from these institutions with very high marks unheard of even two decades back. But studies reveal that a high percentage of fresh engineering graduates are not employable. And institutions boast about their campus placement records irrespective of the time lag or the reduced scale of pay with which students get to join their employer. Yes, now Quality is measured in terms of Quantity.

'State in measurable terms, viz numbers' is the motto of ISO (if followed in letters)! Not to find fault with ISO standards, but they should be followed in spirits too for real Quality.

Regarding the results of CTET conducted by CBSE in 2014, there is a newspaper report saying, "The test, introduced to bring in national standards in recruitment of teachers for classes I-VIII after the enactment of the Right of Children to Free and Compulsory Education Act, 2009, has consistently thrown up low scores with the highest pass percentage hovering around 10-11 per cent, nationally. In the September test conducted by CBSE, nationally, 11.95 per cent of the candidates cleared Paper I, meant for teachers intending to teach classes I-V.In Paper II, meant for those intending to teach classes VI-VIII, just 2.8 per cent of the candidates passed the muster nationally. Candidates have to score 60 per cent and above to get the eligibility certificate."

In the CTET examinations conducted in February 2015, out of a total of 6,77,554 candidates who had appeared only 80,187 candidates had qualified. The teacher eligibility tests conducted by respective States are also consistently showing poor pass percentage. Given the very poor pass percentage, it is obvious that many new teachers are teaching without passing these tests. It makes one wonder why not a preliminary aptitude test is conducted and later their course outcome is relied upon, instead of testing their suitability and aptitude for teaching after spending so much resources and time in the teacher training institutions.

Strengthening the standards of school and college education in the real sense will produce development in leaps and bounds in less than two decades.

Collective and individual responsibility

Just as periodic physical stock verification is necessary for industries, Government will also do well in taking stock of nation's resources, including its manpower, periodically. The existing infrastructure can be strengthened. Coming back to Quality standards, numerical values may be necessary to articulate them.But quality should be visualized and felt in the heart by the person responsible for the same. Our literature and subject books have successfully expressed standards in words.

For literary criticism, Greek philosopher Plato insisted on truth, goodness and beauty as standards. Satyam, shivam andsundaram is the Indian equivalent of that hallmark.

Expression of poetic standards of quality is obtained in ancient Tamil literature PuraNanooru. Poetess Avvaiyar makes us visualise how strong the leg of a chariot will turn out if it is concentrated upon for a full month by a carpenter who is capable of making eight chariots in a single day, the quote being "வைகல் எண் தேர் செய்யும் தச்சன் திங்கள் வலித்த கால்"

which may be read in English as

"vaikalenntherseyyumthachanthingalvalitthakaal"

and she cites that strength to illustrate the vlaour of a soldier.

In Kamba Ramayanam (Tamil), Kambar cites the passion with which a poor farmer would take care of and protect his small piece of land to illustrate king Dasaratha's care for his kingdom.

The quote is "வய்யகம் முழுவதும் வறிஞன் ஓம்பும் ஓர்செய்எனக் காத்து இனிது அரசு செய்கிறான்"

In Banking,'acting in good faith and without negligence'is the qualitative term which describes the discharge available to a paying bank.

The figures oriented subject Economics is defined by Lionel Robbins as "the science which studies human behaviour as a relationship between ends (unlimited wants) and scarce means (limited resources) which have alternative uses."

These are a few examples where qualities are comprehensively felt through words.

Let us make use of the opportunities being created by Government, visualise quality in heart and strive hard for realizing all our personal and national dreams. MA

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Swachh Bharat Cess

- A critical analysis

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Prime Minister Shri Modi ji has adopted the Swachh Bharat Abhiyan as one of the primary goals of his government that was aimed at improving the overall health and well-being of citizens of India. To ensure that Swachh Bharat Abhiyan will meet its desired goals, the government has introduced the Swachh Bharat Cess (SBC) for raising funds to meet mission objectives.
According to economists, this cess also prepares the ground for sudden jump in service tax rate under the goods and services tax regime. The GST will bring overall incidence of taxation down but tax rate on services will inevitably have to go up.
This article discusses the provisions of SBC and its impact on cost of various services and products.

The Government of India has announced the Swachh Bharat Cess (SBC) of .05% on all taxable services levied and collected with effect from 15 November 2015. The notification to this effect was issued by the Government on 6 November 2015 vide Notification No 21/2015 – Service Tax, covering Swachh Bharat Cess, under Chapter VI (Section 119) of the Finance Act 2015.

Origin of Swachh Bharat Cess (SBC)

Prime Minister Shri Modi ji took office in May 2014, he adopted the Swachh Bharat Abhiyan as one of the primary goals of his government that was aimed at improving the overall health and well-being of citizens. The mission was formally launched on 2nd October 2014.

Health and hygiene directly impacts people's lives but have been given very little attention towards improving personal hygiene and cleanliness in the surroundings that people live in. The Prime Minister started an awareness on the need to maintain cleanliness and appealed people to give up open air defecation that has been a common practice in India on account of lack of toilets at home.

This was taken up on mission mode and backed by an actionable plan to ensure that India build 12 crore toilets in rural and urban areas, and ensure that India became free from open air defecation and Swachh by 2019.

To ensure that Swachh Bharat Abhiyan will meet its desired goals, the government has decided to introduce the Swachh Bharat Cess for raising funds to meet mission objectives.

Meaning and Purpose of Swachh Bharat Cess (SBC)

It is a cess which is levied and collected in accordance with the provision of chapter VI of the Finance Act, 2015, called Swachh Bharat Cess.

The purpose of SBC is enumerated below:-

* To promote Swachh Bharat Initiatives.
* To Change people's attitude and create awareness among people towards the importance of Cleanliness and good sanitation system.
* To introduce, modern and scientific municipal solid waste management practices.
* For the betterment of Indian economy.
* To develop the rural areas by developing the sanitation system.
* To prevent infectious diseases like Diarrhoea, Cholera, etc.
* To construct toilets for community and houses to eliminate open defecation.

Benefit of SBC Imposed to promote Swachh Bharat

In addition to clean India drive, SBC is expected to provide many benefits which include the following major areas:

HEALTH:

As per WHO report, every Indian is losing thousands of rupees every year on medical treatment attributed to unhygienic conditions, which is a big financial loss to the people of India. Swachh Bharat Mission will help in improving health and will reduce this financial loss.

PRODUCTIVITY:

Improvement in health will result into improvement in productivity of every individual, and high productivity means high earning. We hope a healthy India will soon be turned into a developed nation.

FDI (FOREIGN DIRECT INVESTMENT):

Foreign companies are shying away while investing in India due to unhygienic conditions prevailing in the country. In today's scenario, our nation desperately needs 'Foreign Direct Investment'. Hence, Swachh Bharat Mission will help in attracting FDI.

TOURISM:

Tourism is contributing about 6% to the national GDP and providing about 8% of the total employment. India witness more than 5 million annual foreign tourist arrivals and 562 million domestic tourism visits. It supports about 40 million jobs in India. The sector is predicted to grow at an average annual rate of 8% till 2023 making India the third fastest growing tourism destination over the next decade. However as we all know, cleanliness is a big hurdle in development of tourism. Foreign tourists are very particular about cleanliness and hygienic conditions. With its improvements, we can attract more foreign travellers to India that will help in bringing foreign currency and employment in tourism sector, which will boost GDP of the nation.

Provisions Regarding Swachh Bharat Cess

Date of Implementation of Swachh Bharat Cess (SBC).

The Central government has implemented the provisions of Swachh Bharat Cess (SBC) w.e.f. 15 November 2015 (Notification No.21/2015-Service Tax).

Governed and Management of Swachh Bharat Cess (SBC).

All SBC collected will be credited to the Consolidated Fund of India Account and the Central Government may, after due appropriation made by Parliament, utilise such sums of money for Implementing the Swachh Bharat Abhiyan.

Separate accounting code for Swachh Bharat Cess.

For payment of Swachh Bharat Cess, a separate accounting code has been notified in consultation with the Principal Chief Controller of Accounts. These are as :-

Swachh Bharat Cess (Minor Head)	Tax Collection	Other Receipts	Penalties	Deduct Refunds
0044-00-506	00441493	00441494	00441496	00441495

Applicability and Rate of Swachh Bharat Cess (SBC)

It is applicable on all taxable services at the rate of 0.5% of the value of taxable service. It is not leviable on Services which are fully exempt from service tax or those covered under the negative list of services.

Please Note to:

It is charged @ 0.5% on value of taxable service, not on service tax.

For Example :

A Practising Cost Accountant firm issues invoice for cost audit to his client, then Swachh Bharat Cess (SBC) will be calculated like cost audit fee Rs 2,00,000 + 14% on 2,00,000 for service tax + 0.5% on 2,00,000 for Swachh Bharat Cess (SBC). Gross Invoice Amount is Rs 2,29,000.

As regards Point of Taxation, since this levy has come for the first time, all services (except those services which are in the Negative List or are wholly exempt from service tax) are being subjected to SBC for the first time. SBC, therefore, is a new levy, which was not in existence earlier. Hence, rule 5 of the Point of Taxation Rules would be applicable in this case. Therefore, Swachh Bharat cess will not apply on those services where payment has been received and invoice is raised before the service becomes taxable, i.e. prior to 15th November, 2015. In cases where payment has been received before the service became taxable and invoice is raised within 14 days, i.e. upto 29th November, 2015, even then the service tax liability does not arise. Swachh Bharat Cess will be payable on services which are provided on or after 15th Nov, 2015, invoice in respect of which is issued on or after that date and payment is also received on or after that date. Swachh Bharat Cess will also be payable where service is provided on or after 15th Nov, 2015 but payment is received prior to that date and invoice in respect of such service is not issued by 29th Nov, 2015.

No Swachh Bharat Cess on goods:

SBC is levied under Chapter VI of the Finance Act, 2015 and is applicable only on provision of taxable services. Hence, No SBC shall be imposed on the goods manufactured.

SBC would be required to be mentioned separately in invoice

SBC would be levied, charged, collected and paid to Government independent of service tax. This need to be charged separately on the invoice after service tax, as a different line item.

Service Tax Provision Applicability On Swachh Bharat Cess

The Ministry clarified that all provisions including those related to computation of taxable value, assessment, exemption, payment, penalty, etc. applicable to service tax would apply to Swachh Bharat Cess, e.g. the Cess is payable on or before 6th of the following month if it is paid through internet banking, or otherwise on or before 5th of the following month as that of service tax.

Impact of SBC on services under reverse charge mechanism

In case of reverse charge under section 68(2) of the Finance Act, 1994, the liability has been shifted from service provider to the service recipient. As per Finance Act, 2015 U/S 119 (5), the provisions of Chapter V of the Finance Act, 1994, and the rules made there under, are applicable to SBC also. But Remember Reversal of SBC is not required under Rule 6 of Cenvat Credit Rules, 2004.

In respect of reverse charge mechanism, SBC liability is determined in accordance with Rule 7 of Point of Taxation Rules, as per which, point of taxation is the date on which consideration is paid to the service provider. Thus, SBC liability in such case will be 0.5% x Value of taxable service.

Computation of tax on Restaurant and Outdoor catering services:

In terms of Rule 2C of the Service Tax (Determination of Value) Rules, 2006, tax needs to be applied on the value so arrived at the rate of 14.5%. Accordingly, effective rate of tax would be as under (SBC should be separately shown)

A) In case of Restaurant services: 5.8% (14.5%*40%); and

B) In case of Outdoor catering services: 8.7% (14.5%*60%)

Availability of Cenvat Credit of the SBC

SBC is not integrated in the Cenvat Credit Chain. Therefore, credit of SBC cannot be availed. Further, SBC cannot be paid by utilizing Cenvat credit of any other duty or tax.

Impact of SBC on cost of services:

All Services, except exempt and services in negative list, are getting costlier after applicability of Swachh Bharat Cess, basically due to imposition of additional cess @ 0.5%, and non availability of cenvat credit of SBC. Rather, there will be a cascading effect of SBC on cost of services. Some of the day-to-day services used by common man got costlier are given below:

Restaurant bills, Eating out	Banking Service – fund transfer, Credit Card, etc.
Telecommunication Service	Insurance
Travel Service -Air Tickets, Railway Tickets, etc.	Brokerage for transactions - buying and selling shares, futures and options.
Outdoor catering	Manpower recruitment agencies
Cinema, cable	Beauty Parlour

Impact of Swachh Bharat Cess on Product Cost

Element of cost related to product

There are many cost elements in manufacturing of the products and distributing the same to final consumers, like Raw material, Employee cost, depreciation and amortization, manufacturing overheads, administration overheads, selling & distribution overheads, etc. There will be impact of Swachh Bharat Cess on each elements of cost involving services:

- **Raw Material**

The cost of material consumed will increase by the SBC on transportation, handling, loading & unloading, transit insurance, etc.

•Employee/ Labour cost

The companies employ manpower on its payroll and also hire from the manpower agencies, like security guards, supporting staff, packing labour, maintenance staff, etc. The Employee/ labour cost will increase on the manpower hired by the companies from the Manpower recruitment agencies. If company does not hire any employee from the manpower recruitment agencies and employ all employees on its payroll, then employee cost will not be affected by Swachh Bharat Cess

•Manufacturing overheads

The manufacturing overheads involving provision of services procured from outside will increase due to applicability of SBC, like job work done from outside, repair and maintenance work, etc.

•Administration overheads

The Administration overheads will increase due to SBC like Telecommunication Service, Insurance, housekeeping work, Travel Service -Air Tickets, Railway Tickets, etc.

•Selling and Distribution overheads

Most of the Selling and Distribution overheads will increase due to SBC like goods transport services, railway freight, handling, loading & unloading, etc. used for distribution of the products in market. Further, travel cost of sales staff and commission of selling agents shall also be got costlier.

Impact on Product Cost

Since the Companies cannot get Cenvat credit for this cess, and they have to pay to their service providers, the SBC will have to be absorbed in the product costs resulting in increase of costs, and the overall impact of SBC will be inflationary on the economy.

Revenue from Swachh Bharat Cess

The Government is collecting good Revenue from Swachh Bharat cess.

The revenue estimated to be collected Between November 15, 2015 and March 31, 2016, is about Rs. 3,750 crore. The government has collected Rs. 329.6 crore in a month's time from the date of imposition of 0.5 per cent Swachh Bharat cess on all taxable services

Reaction of Industry

The industries, Businesses and other stakeholders are not feeling well with Swachh Bharat Cess. They are feeling 'aswasth' due to the Swachh Bharat cess. Indian industry hasn't taken too kindly to the imposition of a cess to help fund the Swachh Bharat initiative. The companies haven't been given enough time to implement the levy and it goes against the government's push to improve ease of doing business. The eight day's notice was too short for implementation of a new tax. The SBC needs to be charged separately on the invoice, needs to be accounted separately in the books of account and needs to be paid separately under separate accounting code notified separately. The Industry is apprehensive that the cess is not in line with the government's plan to roll out the Goods & Services Tax (GST), given that it is meant to subsume all surcharges and cesses.

Meanwhile, a new Cess by the name of **Krishi Kalyan Cess** has also been proposed in the union budget, 2016, to be imposed from 01.06.2016 @ 0.5% on value of all taxable services . (Chapter VI Clause 158 of Finance Bil, 2016)**.** Input credit of Krishi Kalyan Cess paid on services shall be allowed to set-off against output cess.

Conclusion

Swachh Bharat Cess is a good step taken by the government towards fulfilling the Swachh Bharat Abhiyan, if it is properly implemented. However, most of the services cost will be increased by 0.5%, and product cost shall also be increased, thereby ultimate consumer will suffer from Swachh Bharat Cess.

On the one hand, cess by the name of education cess was abolished and service tax rate was increased from 12% to 14%, and on the other hand Government has imposed another cess in the form of Swachh Bharat Cess. One more cess i.e. Krishi Kalyan Cess @ 0.5% has been proposed in the Union Budget 2016-17 on all taxable services to finance and promote initiatives to improve agriculture and welfare of farmers. On the one hand the country is waiting for GST, which will do away with multiplicity of taxes, and on other hand Govt. is imposing multiple cess. The efficacy of Education cess has not yet proved, it is to be seen whether imposition of Swachh Bharat Cess will be ***a Panacea for making Bharat Swachh, or a Money Spinner*** for Government and additional tax burden for common man. MA

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भारत इलेक्ट्रानिक्स लिमिटेड
(रक्षा मंत्रालय के अधीन भारत सरकार का उध्यम)
CIN: L32309KA1954GOI000787
BHARAT ELECTRONICS LIMITED
(A Govt of India Enterprise under the Ministry of Defence)

Outer Ring Road, Nagavara,
Bangalore – 560 045
Ph: 2503 9284, Fax: 2503 9233

Bharat Electronics Limited a Navaratna company , under Ministry of Defence, requests quotes from eligible Cost Accountant firms for selection as Cost Auditor for the Financial Year 2016-17 for conducting Cost Audit as per provisions of the Companies Act, 2013.

For further details of Request for Quote (RFQ) please refer our website: www.bel-india.com [click on Tender tab & select "Corporate"]

13 April 2016

NOTICE

Extension of time for CEP Credit Hours for renewal of COP

Dear Members,

As you are aware that in case of members holding Certificate Of Practice (COP), as per the Guidelines for Mandatory Training for all Members of The Institute under Continuing Education Programme, it is mandatory to undergo minimum mandatory training of 15 hours per year commencing from 1st April to 31st March. If the COP of members is not renewed for the year 2016-17 owing to shortfall in CEP hours, it might cause hardship to those members who thrive exclusively on practice notwithstanding the fact that compliance of prescribed minimum requirement of CEP hours is mandatory for renewal of Certificate of Practice.

In view of the above, it is decided by the Council of the Institute to grant an extension upto 30th June 2016 to complete the requirement of CEP credit Hours for renewal of COP of the members for the year 2016-17.

Kaushik Banerjee
(Secretary)

ARE STANDARDS ON COST AUDITING MANDATORY FOR AUDIT OF COST RECORDS?

CMA J K Budhiraja
Senior Director (Technical)
The Institute of Cost Accountants of India

The Companies (Cost Records and Audit) Rules 2014 notified by the Ministry of Corporate Affairs, Government of India on 30th June 2014, amended on 31st December 2014 provide that the auditor conducting the audit of cost records maintained under section 148 of the Companies Act 2013 shall comply with the *cost auditing standards*.

Sub-section (3) of section 148 of the Companies Act 2013 gives the following explanation:

Explanation.—*For the purposes of this sub-section, the expression "cost auditing standards" mean such standards as are issued by the Institute of Cost Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.*

The Central Government vide letter dated 10th September 2015 has approved the following 4 cost auditing standards which are effective for audit on or after 11th September 2015:

1. Cost Auditing Standard-101 on Planning an audit of Cost Statements;
2. Cost Auditing Standard-102 on Cost Audit Documentation;
3. Cost Auditing Standard-103 on Overall objectives of the independent cost auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards; and
4. Cost Auditing Standard-104 on Knowledge of business, its processes and the business environment

How Standards on Cost Auditing are formulated?

Standards on Cost Auditing are issued by the Cost Auditing & Assurance Standards Board (CAASB) under the authority of the Council of the Institute of Cost Accountants of India.The Cost Auditing and Assurance Standards Boardhas been set up by the Council of the Institute, entrusting withthe responsibility to formulate Standards on Cost Auditing and Assurance and develop guidance notes in the area of audit of cost records & related services and quality control.

The Council of the Institute on the recommendation of the Cost Auditing & Assurance Standards Board (CAASB) has decided to rename "*cost auditing standards*" to "*Standards on Cost Auditing- SCA*". Now standards to be issued by the CAASB shall be known with the said nomenclature.

While formulating the Standards, the CAASB takes into consideration the applicable laws, usage and business environment prevailing in India. CAASB also takes into account the relevant provisions of Cost and Works Accountants Act, Rules and Regulations, Code of Professional Ethics, Cost Accounting Standards and other Statements issued by the Institute of the Cost Accountants of India. The Standards issued by the CAASB are aligned, to the extent possible, with other recognised Standards issued in India and prevailing International Practices. If a particular standard or any part thereof is inconsistent with a law, the provisions of the said law shall prevail.

Standards formulated by the CAASB include paragraphs in ***bold italic type*** and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. Each Standard should be read in the context of the objective stated in that Standard and the Preface to CAASB which is available on the Institute website. Any limitation on the applicability of a specific Standard is made clear in the Standard itself.

Pending development of the Standards on Quality Control, the Guidance Manual for Audit Quality issued by the Institute of Cost Accountants of Indiawill prevail in respect of all services rendered by the Cost Accountants.

International standards on auditing (ISAs) vis-à-vis standards on cost auditing (SCAs)

The Institute of Cost Accountants of India is a founder member of the International Federation of Accountants (IFAC). The International Auditing and Assurance Standards Board (IAASB) established under the authority of the IFAC have issued series of International Standards on Auditing (ISAs), which primarily focus on the financial audit. As we know that there are fundamental differences between the scope and methodology of financial and cost audit, it shall not be appropriate by the CAASB to adopt in full or with modifications the International Standards on Auditing issued by the IAASB. However in formulating the standards, the CAASB will ensure that the framework and other aspects of the International Standards are considered, to the extent relevant and applicable to cost audit.

Composition of the CAASB

The composition of the CAASB is broad based to ensure participation of all interest groups in the standard setting process. Apart from six members of the Council of the Institute nominated in the CAASB, the following are also represented on the CAASB:

1. Head, Cost Audit Branch, Ministry of Corporate Affairs, Government of India
2. One member to be nominated by the Comptroller & Auditor General of India
3. Two members to be nominated by the Regulatory bodies
4. Two eminent members of the Institute in Public Practice
5. Two members representing Industry / Industry Associations / Professional Institutes

In addition, the President is authorised to include a maximum of two eminent persons having relevant knowledge and expertise not falling under the categories mentioned above.

The President and Vice President of the Institute of Cost Accountants of India are ex-officio members of CAASB.

Procedure to issue Standards on Cost Auditing

As per the laid down procedure defined under preface to CAASB hosted on the Institute website, which is consonance with the International Auditing & Assurance Standards Board of IFAC, the issue of any standard takes a minimum of 3 to 4 months. The steps involved are preparation of first draft; consideration of draft by the Board; exposure of the approved draft for stakeholders' comments for a minimum period of 30 days; consideration of comments by the Board; approval by the Board with or without amendments; followed by consideration & approval by the Council of the Institute.

Structure of Standards on Cost Auditing

Each Standard generally follows the following structure. In case of deviation, suitable explanation is provided by the Task Force / Study Group preparing the Standard.

1. **Introduction**
2. **Objectives**
3. **Scope**
4. **Definitions**
5. **Requirements**
6. **Application and other explanatory material**
7. **Effective date**
8. **Statement of modifications**

The above headings except heading at serial numbers 8 do not need explanation.As mentioned above that the standards on cost auditing are formulated by CAASB in consonance with the International Auditing & Assurance Standards Board of IFAC,which primarily focus on the financial audit, there are fundamental differences between the scope and methodology of financial and cost audit. Therefore, the Standards which are being issued by the Institute contain the "***Statement of Modifications***" in comparison to International Auditing Standards.

Is there any difference between Cost Accounting Standards (CASs) and Standards on Cost Auditing (SCAs)?

Many members of the Institute enquire why the Standards on Cost Auditing (SCAs) are being issued by the Institute when the Institute has already issued Cost Accounting Standards (CASs). "*Cost Accounting standards- CASs*" are guidelines for the companies that specify the cost accounting treatment for various cost elements, minimum disclosure requirements and ensure the comparability, consistency, and completeness of cost records.

Whereas the "*Standards on Cost Auditing- SCAs*" prescribe the norms of principles and practices, which the Cost Auditors are expected to follow in the conduct of cost audit. They provide minimum guidance to the cost auditor that helps determine the extent of auditing steps and procedures that should be applied in the cost audit and constitute the criteria or yardstick against which the quality of audit results are evaluated. SCAs aim to improve the auditing practices and provide a framework for the auditing steps and procedures. Conducting audit in accordance with standards gives necessary assurance to stakeholders making use of the cost statements and cost auditor's reports.

Why are Cost Auditing Standards required?

Question is why quality audit of cost statements is important? Quality audits are important not only to the effective functioning of financial markets, but also to the effective operation, monitoring and efficient use of the scarce resources of enterprises. The purpose of an audit is to provide reasonable assurance that an entity's cost statements present the true and fair view of the cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis and in accordance with the applicable cost reporting framework are free of material misstatements due to fraud or error. Cost Audit tends to increase the credibility of cost statements and help to improve efficiency in the use of materials, labour and plant, maximize production and realize greater profits. Data provided after cost audit helps analysis which is useful to the Regulators of public utilities and provide a basis for comparing claims and assessing the validity of issues arising out of international trade.

In view of importance of quality audit, the Government of India, Ministry of Corporate Affairs, on 3rd October 2007 constituted a "Quality Review Board (QRB)" of the Institute of Cost Accountants of India for promoting "Quality" considerations in rendering various professional (both statutory and non-statutory) services by the members of the Institute of the Cost Accountants of India. The Quality Review Board has a clear and earmarked function to raise the level of performance of the professionals to meet the demands of corporate India. The Quality Review Board of the Institute issued a "Guidance Manual for Audit Quality" which is a significant attempt to improve the quality of the CMA professionals.

How many Standards on Cost Auditing have been issued by CAASB?

As mentioned above that the standards on cost auditing can be issued by the Institute only after approval of the Central Government as provided in explanation to sub-section 3 of section 148 of the Companies Act 2013. The position of the standards on the cost auditing as on date are as follows:

Position of Standards on Cost Auditing (SCAs) vis-à-vis International Standards on Audit (ISAs)

S. No.	ISAs issued by IAASB of IFAC	SCAs issued by the Institute of Cost Accountants of India	Remarks
1	ISA 300, *Planning an Audit of Financial Statements*	SCA 101- "*Planning an Audit of Cost Statements*"	Approved by Central Government effective from 11th September 2015
2	ISA 230, *Audit Documentation*	SCA 102 –"*Cost Audit Documentation*"	Approved by Central Government effective from 11th September 2015
3	ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*	SCA 103 –"*Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Standards on Auditing*"	Approved by Central Government effective from 11th September 2015
4	ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*	SCA 104- "*Knowledge of Business, its Processes and Business Environment*"	Approved by Central Government effective from 11th September 2015
5	ISA 210, *Agreeing the Terms of Audit Engagements*	SCA 105- "*Agreeing the Terms of Cost Audit Engagements*", approved by the Council	Sent to Ministry of Corporate Affairs, Government of India for approval
6	ISA 530, *Audit Sampling*	SCA 106 –"*Audit Sampling*", approved by the Council	Sent to Ministry of Corporate Affairs, Government of India for approval
7	ISA 500, *Audit Evidence* ISA 501, *Audit Evidence-Specific Considerations for Selected Items*	SCA 107- "*Audit Evidence*", approved by Council	Sent to Ministry of Corporate Affairs, Government of India for approval

S. No.	ISAs issued by IAASB of IFAC	SCAs issued by the Institute of Cost Accountants of India	Remarks
8	ISA 320, *Materiality in Planning and Performing an Audit*	SCA 108- "*Materiality in Planning and Performing a Cost Audit*", approved by Council	Sent to Ministry of Corporate Affairs, Government of India for approval
9	ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*	SCA 109- "*Cost Auditor's Responsibility relating to Fraud in an Audit of Cost Statements*", approved by Council	Sent to Ministry of Corporate Affairs, Government of India for approval
10	ISA 580, *Written Representations*	SCA 110- "*Written Representations*", approved by CAASB. Sent to Council for approval	
11	ISA 450, *Evaluation of Misstatements Identified during the Audit*	SCA-111 "*Evaluation of Misstatements identified during the Cost Audit*", approved by CAASB. Sent to Council for approval.	
12	ISA 520, *Analytical Procedures*	SCA-112"*Analytical Procedures*", approved by CAASB in February 2016. Sent to Council for approval.	
13	ISA 610, *Using the Work of Internal Auditors*	SCA- 113 "*Using the Work of Internal Auditors*", approved by CAASB in February 2016. Sent to Council for approval.	
14	ISA 620, *Using the Work of an Auditor's Expert*	*SCA-114"Using the Work of an Auditor's Expert*", approved by CAASB in February 2016. Sent to Council for approval.	
15	ISA 260, *Communication with Those Charged with Governance*	SCA- 115 "*Communication with Those Charged with Governance*", approved by CAASB in February 2016. Sent to Council for approval.	
16	ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*	SCA-116"*Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*", approved by CAASB in February 2016. Sent to Council for approval.	
17	ISA 330, *The Auditor's Responses to Assessed Risks*	"*SCA- 117 "Cost Auditor's Responses to Assessed Risks*"being approved by CAASB in its March 2016 meeting.	
18	ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*	*SCA-118 "Identifying and Assessing the Risks of Material Misstatement*", being approved by CAASB in its March 2016 meeting.	It may be noted that other part of ISA 315 "*through understanding the Entity and its Environment*" has been covered in SCA-104 "*Knowledge of Business, its Processes and Business Environment*"
19	ISA 550, *Related Parties*	*SCA-119"Related Parties*", being approved by CAASB in its March 2016 meeting.	

Brief description of standards on cost auditing

Before, a brief about the standards on the auditing is given, it is emphasised that understanding of each standard is necessary. Each word and sentence of the standard should be read carefully. In the first instance the user may feel that the language of the standards is very difficult but reading again and again will help in understanding the intent of the standard properly. In most of the cases, the cost audit is done by audit team comprising the professional and non- professionals, it is suggested that the Audit Team engaged for cost audit should familiarize and have proper understanding of the requirements of the standards. It is needless to mention that the standards on cost auditing will help the auditors to plan, perform and to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the cost auditor to express an opinion in accordance with the applicable Cost reporting framework, Cost Accounting Standards(CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute, and give a true and fair view of the cost of a product, activity or service.

1.SCA 101- Planning an Audit of Cost Statements

Planning an audit of cost statements, records and other related documents is considered necessary to ensure achievement of audit objectives with available resources and securing coordination with the auditee on audit work. Planning also helps the cost auditor to perform in an efficient and effective manner. Audit planning shall also include establishing the overall audit strategy and audit plan for the conduct of the audit.

Before planning, the cost auditor is to ensure that appointment as auditor are proper and legal formalities, ethical requirements, understanding of the terms of reference including the units to be covered, products/services to be covered, and scope of coverage have been properly understood by him.

The nature and extent of planning activities will vary according to (a)size and complexity of the entity's activities, the number of products to be covered, the processes and operations involved; (b) the audit team members' previous experience with the entity and the industry and (c) changes in circumstances that occur during the audit.

Planning also helps the cost auditor in the risk assessment procedures. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures.

2. SCA 102- Cost Audit Documentation

In order to have proper evidence that the audit was planned and performed in accordance with Cost Auditing Standards and applicable legal & regulatory requirements, documentation is very much necessary for the cost auditor. The standards prescribes that the Cost Auditor shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:

(a) Conformance of audit procedures performed with legal and regulatory requirements;
(b) Conformance to Cost Auditing Standards;
(c) The results of audit procedures performed;
(d) The audit evidence obtained;
(e) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

The Cost Audit documentation will usually contain:

(i) Checklists

Example: Checklist of compliance with:-

(1) The Rules, regarding maintenance of Cost Records, as prescribed under the Companies Act,
(2) The Cost Accounting Standards (CAS) as prescribed by the Institute
(3) The Generally Accepted Cost Accounting Principles (GACAP) as prescribed by the Institute

(ii) Audit programs

Example: Audit Program for Material Cost, Employee Cost and others

(iii) Analysis

Cost Audit relies more on analytical review than on substantive testing to establish true and fair view.

Example: Calorific value of different fuels used and average Cost per unit of calorific value and Specific Heat Consumption.

(iv) Audit Query List

Contains a log of audit queries raised and their resolution

(v) Abstracts of significant contracts relating to costs and revenues

Example: Supply of materials indicating price, quality terms, O & M contracts, Terms of supply of contract labour and others

(vi) Letters of confirmation

Example: Stock of materials with subcontractors.

(vii) Letter of Representation from Management Correspondence (including e-mail) concerning significant matters.

Example: Correspondence regarding terms of supply of goods and services.

(viii) Abstract or copies of the entity's records

3. SCA 103-Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards

This Standard deals with the overall objectives of the independent cost auditor, the nature and scope of a cost audit, the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with Cost Auditing Standards. The cost auditor is to obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error, and to enable the auditor to express an opinion whether the Cost Statements are prepared, in all material respects, in accordance with the applicable Cost reporting framework, Cost Accounting Standards(CAS) and Generally Accepted Cost Accounting Principles (GACAP) as issued by the Institute of the Cost Accountants of India, and give a true and fair view of the Cost of a product, activity or service. Standard mentions that "*the provision of services for maintenance of cost records, design and implementation of Cost Systems and internal audit are considered to erode the independence of cost auditor*".

Further, the cost auditor is to report on the cost statements in the form required by law or by the Cost Auditing Standards in accordance with the auditor's findings. Where reasonable assurance cannot be obtained, the cost auditor should qualify the opinion and in extreme cases disclaim an opinion. The Cost Auditors objective may extend to making observations and suggestions where required by applicable regulations.

A cost auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the cost auditor's ability to detect material misstatements. These limitations result from factors such as: (1) *the use of sample testing; (2) the inherent limitations of internal control (for example, the possibility of management override or collusion); (3) the fact that most audit evidence is persuasive rather than conclusive.*

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

(1) *the gathering of audit evidence, for example, in deciding the nature, timing and extent of audit procedures; and*

(2) the drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the Cost Statements.

The cost auditor shall exercise professional judgment in planning and performing the audit. He shall plan and perform an audit with an attitude of professional scepticism.

Professional Judgment: The application of relevant training, knowledge and experience, within the context provided by cost auditing standards, cost accounting standards and ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional skepticism: An attitude of professional skepticism means the cost auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and be alert to audit evidence that contradicts or brings into question the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance.

An attitude of professional skepticism is necessary throughout the cost audit process for the auditor to reduce the risk of overlooking unusual circumstances, of over generalizing when drawing conclusions from cost audit observations, and of using faulty assumptions in determining the nature, timing and extent of the cost audit procedures and evaluating the results thereof. When making inquiries and performing other cost audit procedures, the cost auditor should not be satisfied with less-than-persuasive audit evidence based on a belief that management and those charged with governance are honest and have integrity. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the cost auditor's opinion.

4. SCA 104- Knowledge of Business, its Processes and the Business Environment

In performing an audit of cost statement, records and other related documents, the cost auditor should have the knowledge of the client's business to enable him to understand the processes and express his opinion on the cost statements.

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

The cost auditor should obtain an understanding of the following:

(a) The nature of the entity, (including its operations covering Business processes, major inputs, Joint & By-Products and Wastages and major outputs etc) and the entity's ownership and governance structure.

(b) Relevant industry, regulatory, and other external factors including the applicable cost and financial reporting framework.

(c) The entity's selection and application of cost accounting policies.

(d) The measurement and review of the entity's performance.

In addition to above the cost auditor is also required to obtain an understanding of internal controls, Control Environment, risk assessment process, Identifying business risks, assessing the likelihood of their occurrence, estimating the significance of the risks and deciding about actions to address those risks relevant to the audit. He shall also understand the IT (Information Technology) Environment and Control system of the entity.

5. SCA 105- Agreeing the Terms of Cost Audit Engagements

This Standard deals with the cost auditor's responsibilities in agreeing the terms of the cost audit engagements with management. This includes establishing that certain preconditions for cost audit rest with management. This standard deals with those aspects of engagement acceptance that are within the control of the cost auditor.

In order to establish whether the preconditions for cost audit are present, the cost auditor shall:

a) Determine whether the cost reporting framework to be applied in the preparation of the cost statements is acceptable; and

b) Obtain the agreement from management that it acknowledges and understands its responsibility:

i) For preparation and presentation of cost statements in accordance with applicable cost reporting framework that gives true and fair view of cost of production or cost of operations, cost of sales, and margin for each product or service or activity, produced or provided by the entity for the period under audit;

ii) For selection and consistent application of appropriate cost accounting policies;

iii) For implementation of cost accounting standards issued by the Institute, alongwith proper explanation relating to any material departures from those cost accounting standards;

iv) For such internal control as management determines is necessary to enable the preparation of cost statements that are free from material misstatement, whether due to fraud or error; and

v) To provide the Cost Auditor with:

a) Access, at all times, to all information, including the books of accounts, vouchers, cost records, other records, documents, and other matters of the company, whether kept at the head office of the company or elsewhere, of which management is aware that is relevant to the preparation of the cost statements;

b) Additional information that the cost auditor may request from management for the purpose of the cost audit; and

c) Unrestricted access to persons within the entity from whom the cost auditor determines it is necessary to obtain cost audit evidence.

Cost Reporting Framework:*Cost Reporting Framework means the framework adopted by the management and, where appropriate, by those charged with governance, in the preparation of the cost statements that is acceptable in view of the nature of the entity and the objective of the cost report, or that is required by law or regulation.*

6. SCA 106- Audit Sampling

This standard provides guidance on the use of audit sampling and other means of selecting items for testing the samples from the large population when designing the cost audit procedures to gather audit evidence in performing cost audit. It also provides the pre-requirements for the use of audit sampling methods (i.e.) statistical and non-statistical sampling and practical application guidance on selection of audit sample from large population, performing test of controls and tests of details to develop reasonable basis for cost auditor to draw conclusion and evaluation of results derived from the audit sampling.

"***Audit Sampling***"is an application of audit procedure to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the Cost Auditor a reasonable basis to draw conclusions about the entire population.

"*Population*"is the entire set of data from which a sample is selected and about which the cost auditor wishes to draw conclusions.

"*Stratification*" is the process of dividing a population into sub-population, each of which is a group of sampling units which have similar characteristics (often monetary value).

The requirements of this standard is to consider purpose of the cost audit procedures and the characteristics of population, sample size, selection of audit sampling, evaluation of audit sampling, tolerable rate of deviation, tolerable misstatement, designing of test of control and test of details and stratification. This standard also explains that if the cost auditor is unable to apply the designated cost audit procedures, or suitable alternative procedures, to a selected item, the cost auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details. The cost auditor shall also ensure that use of audit sampling has provided a reasonable basis for conclusions about the population tested and thereby shall evaluate the results derived from sample tested.

This standard also provides appendices to enable the cost auditor to select samples on the basis of principal methods i.e. random selection, systematic selection, monetary unit sampling, haphazard selection and block selection.

SCA 107- Audit Evidence

The objective of this standard is to enable the cost auditor to design and perform cost audit procedure in such a way to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusion on which cost auditor's opinion is based.

"Sufficiency (of audit evidence)" is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the cost auditor's assessment of the risk of material misstatement and also by the quality of such audit evidence.

The cost auditor shall determine means of selecting items for testing that are effective in meeting the purpose of cost audit procedures, when designing tests of controls and tests of details for obtaining audit evidence.

Audit evidence to draw reasonable conclusions that is used by the cost auditor to form his opinion, is obtained by performing:

(i) Risk assessment procedures; and

(ii) Further cost audit procedures, which comprise:

a) Tests of controls, and

b) Substantive procedures, including tests of details and substantive analytical procedures.

This standard also requires that cost auditor shall ensure the relevance and reliability information gathered internally or produced by management expert's to obtain sufficient appropriate audit evidence.

Substantive procedures *are intended to create evidence that an auditor assembles to support the assertion that there are no material misstatements in regard to the completeness, validity, and accuracy of the cost records of an entity. Thus, substantive procedures are performed by an auditor to detect whether there are any material misstatements in transactions. It comprises of:*

i) Tests of details (of classes of transactions, account balances, and disclosures); and

ii) Substantive analytical procedures.

Substantive analytical procedures are types of analytical procedures being used as a substantive procedure to obtain evidence about particular assertions related to account balances or classes of transactions.

Tests of controls:*At the assertion level certain audit procedures are designed in preventing, detecting and correcting, material misstatements to evaluate the operating effectiveness of controls.*

8. SCA 108- Materiality in Planning and Performing a Cost Audit

This standard deals with the cost auditor's responsibility to apply the concept of materiality in planning and performing audit of cost statements, cost records and other related documents. This standard explains how materiality is applied in evaluating the effect of identified misstatement on the cost audit and of uncorrected misstatement, if any, on the cost statements, cost records and other related documents.

The cost auditor's determination of materiality is a matter of professional judgment, and is affected by the cost auditor's perception of the cost information needs of users of the cost statements.

The concept of materiality is applied by the cost auditor both in planning and performing the cost audit, and in evaluating the effect of identified misstatements on the cost statements and in forming the opinion in the cost auditor's report.

The cost auditor shall revise the established materiality level or levels for the cost statements as a whole (and, if applicable, the materiality level or levels for particular items of cost) in the event of becoming aware during the audit that would have caused the cost auditor to have determined different level or levels initially.

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

9. SCA 109- Cost Auditor's Responsibility relating to Fraud in an Audit of Cost Statements

This Standard deals with the cost auditor's responsibilities in understanding, differentiating misstatements with fraud, its detection, and reporting it to the concerned authorities in case any fraud is detected in the audit of cost statements.

The primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the entity.

A cost auditor conducting an audit in accordance with Standards on Cost Auditing is responsible for obtaining reasonable assurance that the cost statements taken as a whole are free from material misstatement, either caused by error or fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the cost statements may not be detected, even though the audit is properly planned and performed in accordance with the Standards on Cost Auditing.

When obtaining reasonable assurance, the cost auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The requirements in this Standard on Cost Auditing are designed to assist the cost auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement.

10. SCA110- Written Representations

This Standard provides guidance to obtain written representations from management as audit evidence, the procedures to be applied in evaluating and documenting written representation, and the actions to be taken if management refuses to provide appropriate representations.

Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the cost auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.

The cost auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the cost statements in accordance with the applicable cost reporting framework, including, where relevant, their true and fair presentation, as set out in the terms of the cost audit engagement. Management written representation provides that "*It has provided the cost auditor with all relevant information and access as agreed in the terms of the cost audit engagement; and all transactions have been recorded and are reflected in the cost statements*".

The Appendix attached to this standard provides "***Illustrative Representation Letter***" from Management and will be very much helpful to cost auditors to obtain the written representation from the management for the items listed in this Appendix.

11. SCA111- Evaluation of Misstatements identified during the Cost Audit

This Standard assists the cost auditor in evaluating the misstatements identified during the audit. The standard requires cost auditor to assess whether an individual misstatement or aggregate of misstatements approaches materiality; if so, communicate the same with management for appropriate correction; evaluate the effect of uncorrected misstatements; communicate with those charged with governance; and appropriately document the conclusions and the basis for arriving at the conclusions.

Misstatements may result from:

(a) An inaccuracy in gathering, classifying and /or processing data from which the cost statements are prepared;

(b) An omission;

(c) An incorrect costing estimate arising from overlooking, or clear misinterpretation of, facts; and

(d) Judgments of management on cost estimates that the cost auditor considers unreasonable or the selection and application of costing principles, methods, and policies that the cost auditor considers inappropriate.

The correction by management of all misstatements, including those communicated by the cost auditor, enables management to maintain accurate cost records and reduces the risks of material misstatement in future cost statements because of the cumulative effect of immaterial uncorrected misstatements related to prior periods.

12. SCA 112- Cost Auditing on Analytical Procedures

This Standard deals with the cost auditor's use of analytical procedures as substantive procedures. It also deals with the cost auditor's responsibility to perform analytical procedures near the end of the audit that assist the cost auditor when forming an overall opinion on the cost statements, in risk assessment and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks.

"***Analytical Procedures***" *mean evaluation of cost information through analysis of possible relationship among both cost and non-cost data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.*

For meaning of "*Substantive procedures*" and "*Test of Controls*, please refer SCA-107 Audit Evidence above.

When designing and performing substantive analytical procedures, either alone or in combination with test of details, as substantive procedures in accordance with other SCAs, the cost auditor shall:

(a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;

(b) Evaluate the reliability of cost data from which the cost auditor's expectation of recorded amounts or ratios are developed, taking account of source, comparability, and nature and relevance of cost information available, and controls over preparation;

(c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the cost statements to be materially misstated; and

(d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation.

Analytical procedures include the consideration of comparisons of the entity's cost information with, for example:

(a) Comparable cost information for previous years or periods.

(b) Anticipated results of the entity, such as cost of production / operation, input –output norms of major items of cost, etc.

(c) Similar industry consumption norms or with industry averages of major items of cost or cost of goods sold or with other entities of comparable size in the same industry.

13. SCA-113 on Using the Work of Internal Auditor

The objectives of this standard, where the entity has an internal audit function and cost auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the cost auditor, or to use internal auditor to provide direct assistance, are:

(a) To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent; and having made that determination:

(b) If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit; and

(c) If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

It is choice of the cost auditor to use the work of internal auditor. If he uses it will help him to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the cost auditor; it remains a decision of the cost auditor in establishing the overall cost audit strategy.

The cost auditor shall not use an internal auditor to provide direct assistance if:

(a) There are significant threats to the objectivity of the internal auditor; or

(b) The internal auditor lacks sufficient competence to perform the proposed work.

Objectivity refers to the ability to perform tasks without allowing bias, conflict of interest or undue influences of other factors that may affect the cost auditor's evaluation.

14. SCA 114- Using the Work of a Cost Auditor's Expert

During the cost audit, cost auditor may encounter complex or subjective matters which are potentially material to the audit of cost statements. Such matters may require special skill or knowledge. This Standard deals with the cost auditor's responsibilities regarding the use of an individual or organization's work in a field of expertise *other than accounting or auditing*, when that work is used to assist the cost auditor in obtaining sufficient appropriate audit evidence.

The cost auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by use of the work of cost auditor's expert. The cost auditor is to determine that the work of that expert is adequate for the cost auditor's purposes, the cost auditor may accept that expert's findings or conclusions in the expert's field as appropriate audit evidence.

Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:

a. Determination of installed/ achievable capacity of plant, machineries, process, product etc.
b. Determination and or verification of consumption norms of various inputs like material, labour, machine hours, technical standards.
c. Impact on consumption norms of various inputs due to change in production process, change in technology, or substitute of major input material(s),
d. Efficiency of machines, boiler etc. which has significant impact on determination of machine hour rate, labour hour rate and or utilities consumption pattern.
e. The interpretation of contracts, laws and regulations.
f. The analysis of complex or unusual tax compliance issues.

15. SCA 115- Communication with Those Charged with Governance

The objectives of this standard are to enable the cost auditor:

(a) To communicate clearly with those charged with governance the responsibilities of the cost auditor in relation to the audit of cost statements, and an overview of the planned scope and timing of the cost audit;
(b) To provide those charged with governance with timely observations arising from the cost audit that are significant and relevant to their responsibility to oversee the cost reporting framework; and
(c) To promote effective two-way communication between cost auditor and those charged with governance.

This standard focuses primarily on communications from the cost auditor to those charged with governance. Effective two-way communication assists the cost auditor and those charged with governance in understanding matters related to the audit, and in developing a constructive working relationship. Those charged with governance may assist the cost auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific items of cost or events.

Although the cost auditor is responsible for communicating matters required by this standard, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the cost auditor does not relieve management of this responsibility. Similarly, communication by management with those charged with governance of matters that the cost auditor is required to communicate does not relieve the cost auditor of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the cost auditor's communication with those charged with governance.

16. SCA 116- Communicating Deficiencies in Internal Control to Those charged with Governance and Management

The purpose of this Standard is to establish requirements and explains that the cost auditor is required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of material misstatement. In making those risk assessments, the cost auditor considers internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The cost auditor may identify deficiencies in internal control not only during this risk assessment process but also at any other stage of the audit. This SCA specifies which identified deficiencies the cost auditor is required to communicate to those charged with governance and management.

This standard does not impose additional responsibilities on the cost auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of standards on cost auditing.

"Deficiency in Internal Control": exists when:

(a) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the cost statements on a timely basis; or
(b) A control necessary to prevent, or detect and correct, misstatements in the cost statements on a timely basis is missing.

If the cost auditor identifies deficiencies in internal controls designed to prevent or detect fraud during the audit of cost statements, the cost auditor should take into account those deficiencies when developing the response to risks of material misstatement during the statement of audit.

Examples of matters that the cost auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:

(a) The likelihood of the deficiencies leading to material misstatements in the measurement, classification, allocation, apportionment and absorption of costs.

(b) The susceptibility to loss or fraud relating to misappropriation of assets or over-valuation or under-valuation of inventories.

(c) The subjectivity and complexity in determining the quantity or value of consumption of raw materials, utilities and other inputs effecting true and fair value of cost of production or operations, cost of sales and margin for each product or service.

(d) The volume of activity that has occurred or could occur in the items of cost exposed to the deficiency or deficiencies.

(e) The importance of the controls to the cost reporting framework;

(f) The cause and frequency of the exceptions detected as a result of the deficiencies in the controls.

(g) The interaction of the deficiency with other deficiencies in internal control.

17. SCA 117- Cost Auditor's Responses to Assessed Risks

The cost auditor performs risk assessment procedures (which include obtaining an understanding of entity, its control environment, its risk assessment process; undertake inquiries of management, observation, inspection of relevant documents; and perform analytical procedures to assess risks of material misstatements at cost statement level and at assertion level. After assessing the risks, the cost auditor is to design and implement audit procedures responsive to the assessed risks of material misstatement and evaluate whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level.

This Standard on Cost Audit establishes requirements and provides application and other explanatory material regarding the auditor's responsibility to design and implement responses to the assessed risks of material misstatement in audit of cost statements.

The cost auditor may has designed specifically tests of controls for some risk assessment procedures as they provide audit evidence about the operating effectiveness of the controls and, consequently, serve as tests of controls. For example, the cost auditor's risk assessment procedures may have included:

a) Inquiring about management's use of standards or budgets.

b) Observing management's comparison of monthly budgets or standard and actuals with respect expenses & consumption quantities for items such as consumption of material, utilities, labour etc.

c) Inspecting reports pertaining to the investigation of variances between budgets/ standard and actuals.

d) These audit procedures provide knowledge about the design of the entity's budgeting policies and whether they have been implemented, but may also provide audit evidence about the effectiveness of the operation of budgeting policies in preventing or detecting material misstatements in the classification of expenses.

18. SCA118- Identifying and Assessing the Risks of Material Misstatement

An understanding of the entity and its control activities relevant to audit, including internal control, establishes a frame of reference within which the cost auditor plans the audit and exercises professional judgment throughout the audit, particularly when assessing risks of material misstatement, determining materiality, considering the appropriateness of the selection and application of cost accounting policies, identifying areas where special audit consideration may be necessary (for example related party transactions), responding to the assessed risks of material misstatement, obtain sufficient appropriate audit evidence, etc.

This standard describes the audit procedures to identify and assess the risk of material misstatements and control activities relevant to the cost audit so that information obtained by performing such risk assessment procedures and related activities may be used by the cost auditor as audit evidence to support assessments of the risks of material misstatement.

The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the cost statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

19. SCA 119- on Related Parties

The purpose of this standard is to establish requirement to assist the cost auditor in identifying and assessing the risks of material misstatement associated with related party relationship and transaction, and in designing cost audit procedures to respond to the assessed risk associated with such related parties.

Related party transactions are in the ordinary course of business. In such circumstances, they may carry no higher risk of material misstatement of the cost statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the cost statements than transactions with unrelated parties. For example:

(i) Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.

(ii) Information systems may be ineffective at identifying or summarizing transactions and outstanding balances between an entity and its related parties.

(iii) Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

Because related parties are not independent of each other, many cost reporting frameworks establish specific cost accounting policies and disclosure requirements for related party relationships, transactions and balances to enable users of the cost statements to understand their nature and actual or potential effects on the cost statements. Where the applicable cost reporting framework establishes such requirements, the cost auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the cost reporting framework.

Even if the applicable cost reporting framework establishes minimal or no related party requirements, the cost auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions sufficient to be able to conclude whether the cost statements, insofar as they are affected by those relationships and transactions:

(i) Achieve a true and fair presentation;

(ii) Are not misleading.

In addition, an understanding of the entity's related party relationships and transactions is relevant to the cost auditor's evaluation of whether one or more fraud risk factors are present because fraud may be more easily committed through related parties.

Conclusion

The brief of the above standards on cost auditing would provide the insight to readers about the contents contained in these standards on cost auditing. The above brief does not supplement the proficiency which is very much required by the cost auditors and Audit Team engaged for audit of cost records, cost statements and related documents of an entity. The audit as per the standards would provide quality audit and would also assist the cost auditor a step towards the requirements of "Peer Review" which is not intended to find out the deficiencies in the working of professionals but to improve the quality of work performed by them. In addition to above standards, the readers are requested to read "*Guidance Manual for Audit Quality*" which is a significant attempt to improve the quality of the CMA professionals. MA

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Glimpses of programmes organized on the
WORLD EARTH WEEK
(16-22 April, 2016)

DIGITAL MEDIA CAMPAIGNS: STRATEGIC IMPLEMENTATION

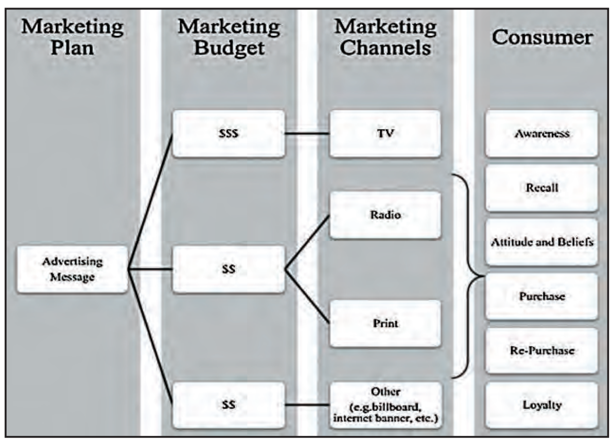
CMA Dr Krishna Chandra Pandey
Director
Chetana's Institute of Management & Research
Mumbai

Kritika Pandey
Assistant Manager
Citi Corp Services India Pvt. Ltd.
Mumbai

Digital media is one of the fastest growing platforms in the world and as more and more people adapt to the digital medium, its importance as marketing tool is becoming more apparent. Over 15% of the Indian population uses internet through various media. The number of Internet users has increased along with the no. of households owning a computer.

The idea behind using Digital Media judiciously is providing a customized message to the user. A focused message which can be seen, read and imbibed by the user directly on their phone, computer, laptop or tablet. Best place to target a user is where he or she spends the maximum time. If the target consumers spend most of their time online, then it makes sense to reach them directly online.

Media agencies have rapidly adapted to the changing media landscape, broadening the range of services they offer. Sponsorship, social media and search are just a few of the disciplines now offered by media agencies.



Objectives of the Study

1. To explore innovative digital platforms available to communicate brand message.
2. To study the strategic implementation of digital media campaigns.

Methodology

Mix of Primary and Secondary Research: Information from individuals employed with various ad networks provided information on the various innovative properties they had to offer. This project also highlights the articles and studies conducted on the trends in the digital media industry. A few media planners were also interviewed to understand the planning process which included parameters like insight gathering, understanding the target consumer and their attributes that could be connected to the brand. Most of this information was gained through the use of various tools that were accessible to the media planners.

Limitations

The project does not include the numerical data used to gain insights about the target consumer behavior and details of the media plan as this data is confidential.

Internet Audience & Demographic Profiling

In May 2015, Internet audience in India was at **818** lakhs;

Video internet audience in India was **543** lakh.

15-34 age group form **76%** of total internet user population.

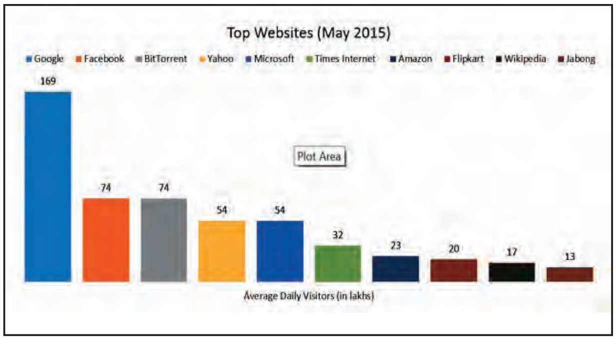
The majority of the internet audience consists of **61%** male users.

Google, Facebook and Microsoft are the top 3 in terms of unique visitors. Amazon witnessed a **15%** rise in its average daily visitors compared to April 2015.

Unique Visitors (in lakhs)	May-15	Apr-15	May-14	M-o-M growth	Y-o-Y growth
Males	497	497	497	0%	0%
Females	321	321	321	0%	0%

Unique Visitors (in lakhs)	May-15	Apr-15	May-14	M-o-M growth	Y-o-Y growth
15-24	308	308	308	0%	0%
25-34	309	309	309	0%	0%
35-44	128	128	128	0%	0%
45-54	48	48	48	0%	0%
55+	25	25	25	0%	0%

Google, Facebook & MakerStudiosInc are the top 3 video properties in terms of unique visitors.



Target Audience Group/Target Audience	15-24	25-34	35-44	45-54	55+
Google Sites	100	100	101	100	100
Facebook	110	97	89	90	87
Microsoft Sites	98	101	103	97	105
Yahoo Sites	89	100	116	119	121
Amazon Sites	101	103	97	92	83
BitTorrent Network	122	95	72	82	69
Times Internet Limited	100	105	95	93	87
FLIPKART.COM	104	102	94	90	74
Wikimedia Foundation Sites	112	92	95	95	82
JABONG.COM	105	103	91	87	77

Demographic Profiling

Objective 1: Innovative Promotion Platforms

1. MIRRIADS

MirriAds is an embedded advertising specialist which delivers embedded advertising by digitally placing brands, products and images into video content ranging from Studio and Broadcast content to TV, Online and UGC.

MirriAd's unique embedded advertising process enables advertisers to reach large audiences in a compelling but unobtrusive way. The brand is embedded in the heart of the content, providing invaluable association with it. The image cannot be skipped. But it does not interrupt, delay or obscure the content, and so it does not annoy the viewer.

Zee offers this platform for all its television show videos that are uploaded on their Youtube channel. Advertisers can take advantage of this technology since more and more consumers are desensitized towards traditional ad messages. They avoid those using tools, such as ad blockers. Product placement allows a brand to target audiences interested in the entertainment medium while they are generally captive.

Implementation Process

2. SPIDIO

Spidio is a wifi- advertising platform which has the ability to reach mobile device that are connected to the wireless network thus helping in creating location specific campaigns thus reaching the audience which is right for the brand. Advertiser pays only for number of times the video promotions are seen (CPV).

Spidio has partnered with Airports, Hotels, Food and Beverages outlets, Stadiums, and many more such locations where there is a presence of Free Wireless Network. Precision targeting can be done based on the device's operating system, nature of device, browser, etc.

Example

Brand: Emirates

Objective: Introducing New Flights to Chicago

Target Audience: Businessman, Senior and top level executives (International Flyers)

Media Strategy: Reaching out to travelers at New Delhi and Mumbai Airports to stay on top of their mind by increasing frequency of campaign during peak hours and optimizing delivery to achieve higher CTR.

TYPE-IN ads

CAPCHA codes were originally designed to prevent malicious programs from invading website content where users were asked to type in whatever they say in the small box. Solve Media has transformed this property into an ad unit. Instead of seeing randomly generated letters, the user is given a phrase that advertises a product or service.

OLD CAPTCHA TYPE-IN™

A tiny pop-up movie that gets displayed, when a user needs to type in a Captcha code to a website, is to verify their status. The Captcha codes in this system are actually shown as part of the video clip unlike the static warped-text images generally used. This would result in users having to actually watch the clip to gain access to the code. This way, users learn about a brand helping the brand achieve higher recall, awareness, and purchase intent than all industry norms. Another advantage is that these ads cannot be skipped or ignored and are served in the flow of a user's experience.

3.ALIVE APP

Augmented Reality (AR) is a new age technology that allows the user to transform the real world objects into a digitally enhanced rich media experience. This rich media experience consists of viewing interesting content in the form of videos, images, animations, 3D, and discover what's around them, etc. by just scanning images with the augmented reality application.

AR can be used almost everywhere and in everything whether it is print, object, location etc. thus enriching it with impressive digital content that creates a delight for the end consumer.

ALIVE with its cutting edge and innovative technology, has in a very short span of time enabled hundreds of brands and publishers in creating engaging AR experiences for their consumers. It has presence on all major mobile operating systems and has been downloaded by more than a million users. This platform provides a platform to integrate digital with the main stream medium of advertising helping in reaching the audience outside the digital space.

Example

Volvo was looking to create brand awareness and spread the word about the launch of its new series –V40, showcasing its advanced features and generating registrations for test drive.

Alive helped in engaging and interacting with the users by opening Volvo brand mobile page where apart from promoting its new series features users can also watch video's, register for test drive, Like FB page, etc.

Objective 2: Digital Media Campaigns

Campaign 1: Birla Sun Life Insurance - Seed to Share

Birla Sun Life Insurance Company Limited (BSLI) is a joint venture between the Aditya Birla Group, a well-known Indian conglomerate and Sun Life Financial Inc, one of the leading international financial services organizations from Canada. With an experience of over a decade, BSLI has contributed to the growth and development of the Indian life insurance industry and currently is one of the leading life insurance companies in India.

Brief

Birla Sun Life Insurance had a relatively low brand recall and no clear proposition in users' mind. The brand created 3 minute long branded video content. The biggest challenge was to create brand recall by driving relevant conversations around "#KhudKoKarBuland" and empowering audience to be masters of their own destiny.

Strategy

Taking up the challenge, the brand decided to launch the content on social platforms first and build the audience connect before rolling it out on mass media.

The media objective was to maximize reach and build awareness around "Khud Ko Kar Buland". To pull this off, a mix of digital high impact properties, native advertising, influencer outreach and blogger outreach was used. Given the length of the video, the brand decided an approach to aid content discovery in phase one followed by reach maximization. The video was launched on YouTube first followed by generating buzz around it on social platforms.

Execution

The brand adopted a two-pronged approach - build buzz on social networking sites and create impact with digital impact properties.

They explored customized in-article video content integration on TheLogicalIndian, HuffingtonPost ThatScoop, ScoopWhoop, Social Samosa which aided video discovery. Celebs and influencers initiated conversations around "Khud Ko Kar Buland" to build positive communication in the social space.

The high impact media properties across leading websites like

YouTube, Facebook, TOI and MSN were used during the launch to drive impact. Audience targeting of 25+ males on social networks ensured the message was well precipitated to our TG. Handset and network cut guaranteed targeted viewers on mobile.

Integrations with content discovery platforms supported wider audience penetration. Personalized messaging mix by bloggers, celebs and social influencers drove awareness and chatter around "#KhudKoKarBuland".

Result

- 5,156,369 views and still counting.
- 80,638,621 impressions
- 95,000 social engagements on Facebook, Twitter, YouTube, Blogs
- More than 13,000 conversations around #KhudKoKarBuland.
- 86% of the chatter from 25-44 year's audience segment.
- Twitter India trend.
- 49% positive chatter around the video.
- Leading to 23% increase in trust levels towards the brand.

Campaign 2: Castrol India – Appiness: For the Biker, By the Biker

Castrol India Limited is an automotive and industrial lubricant manufacturing company. It is the 2nd largest manufacturer of automotive and industrial lubricants in the Indian lubricant market and owns around 22% market share in the overall Indian lubricant market in 2014. It's the part of Castrol Limited UK (part of BP Group). It has 5 manufacturing plants that are networked with 270 distributors, serving over 70,000 retail outlets.

In 1910, Castrol India started importing certain automotive lubricants from C Wakefield & Company made an entry in the Indian market. In 1979, CIL was incorporated under the name of Indrol Lubricants and Specialities Pvt. Ltd. In was listed on BSE in 1982 and CIL was converted into a public limited company. CIL had formed a subsidiary company in the year 1987 under the name of Indtech Speciality Chemicals, Ltd. The current chairman of the company is Mr. Ravi Kirplani.

Objective of the Campaign

Bikers' groups are a growing category in India. These bikers share a common passion which is their love for bikes and travel. The aim was to provide them with a platform where they could connect on the go.

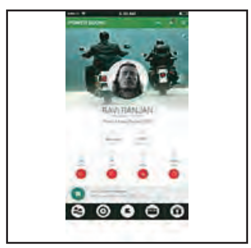
Strategy

The strategy was to empower these bikers with a platform which lets them connect with others bikers and share their reviews and content. The idea was to provide them with an easy to navigate interface to share their top touring routes, preferred destinations and facilitate touch points with bike points and build on reward points.

Execution

The thrill of the entire activity was that the Key Influencers along with John Abraham launched the Castrol Power Biking App and also did an interesting walk through of the App.

The features of the mobile app were revealed and discussed in detail with a tweet-up and a LIVE webcast of the event which proved to be a hit among biker communities. Conversations around the App were fuelled with the hashtag #TheBikerApp and #PowerChatWithjohn and John Abraham also participated in the conversations on Twitter.



Result

The brand was successful in creating a pre-launch buzz for the entire activity as the conversations prior to the launch contributed to around 48% of the total chatter. Fans were excited and were looking forward to the meeting John and the launch of the app. This helped in generating enough excitement and anticipation for the Mobile App launch.

With more than 3,400 mentions of the hashtags #TheBikerApp and #PowerChatWithJohn, and a reach of 1,024,661 the campaign launch of the Biker App was a big hit among the biking community.

With more than 22,000 biker members downloads and 5.2 million seconds of engagement in just 2 months, it crossed the industry benchmark and achieved a rating of 4.2. More than 250 biker clubs have been created and more than 1500 trips scheduled with an average engagement rate of 240 seconds per user.

The brand leveraged on its association with John Abraham and delivered a total of more than 15 million impressions for the hashtags to get the conversations going in the target audience.

With 96% of the conversations having the brand mentions also in it, it was successful in registering the brand Castrol in the users' mind. Seamless integration of the Castrol powered Bike points and a reward mechanism for the users in the Mobile App ensured footfalls in these bike points while touring.

Campaign 3: Bajaj Pulsar RS and AS Launch Campaign

Bajaj Auto Limited is an Indian two-wheeler and three-wheeler manufacturing company which is part of the Bajaj Group. Bajaj Auto is the world's sixth-largest manufacturer of motorcycles and the fourth-largest in India. The Bajaj Pulsar is a motorcycle brand owned by Bajaj Auto in India.

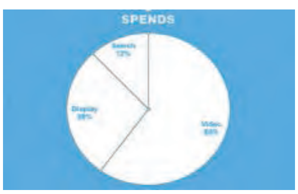
Objective of the Campaign

The primary objective was to generate awareness and build interest towards the new Pulsar launch targeting males between the age of 18-34 years. Amplify the USPs on relevant platforms.

Strategy

Data suggests that after social, video platforms have the highest engagement. Brand loyalty can be very well leveraged with targeted and native ads. Optimum mix of pull and push media considered by outlining two clear objectives: Drive views and Drive traffic to website.

The final media mix included Video, Impact, High contextual Display & Search, with majority spends on Video to showcase New Pulsar TVC.



Spend Dispersion: Video vs Display vs Search

Execution

1st Phase: Bajaj Pulsar: Focus on Video

With the objective of maximizing visibility for New Pulsar TVC, top video platform such as Facebook and YouTube were used targeting males 18-34 years of age with interest targeting of Sports, Music, Automobiles & Tech.

2nd Phase: Bajaj Pulsar: Focus on site visits through Clicks

The objective here was to drive traffic to Mypulsar.com through native ads which helped educate the user about the USP's of the new Baja Pulsar bikes and display ads to spread awareness. Top content consumption platforms such as Yahoo, Zigwheels, Bikewale and iCafe were used to promote the new launch.

Achievements

The brand was able to generate high level of awareness using both video and display ads with 13.4% better performance than estimated in terms of overall video views and 44% better performance in terms of overall clicks delivered.

Conclusion

Digital media is a fast growing industry and the number of platforms that provide opportunity to advertise are numerous. The challenge is to select a platform that is most relevant to the target group that the brand caters to. The three campaign's mentioned in this report all have variations with regards to the media mix that is used to convey the brand message.

Birla Sun Life Insurance campaign used a mix of social media and high impact digital properties to generate interactions around the brand's TVC. Celebrities and influencers too joined in the conversation giving it a greater reach.

Castrol, on the other hand, used the mobile platform by conceptualizing an app that would help the biker community plan and organize bike rides to distant places. They also promoted this app using social media platforms which helped generated buzz around Castrol and its app. The app helped cater directly to Castrol's target group thus making it a high recall brand within the biker community

Bajaj Pulsar used the video platform to promote the new launch TVC with the objective of letting the masses know about this new launch and making them aware of the USP's. This followed by display ads on platforms which would have a high reach of audience that were apt for the brand including auto websites such as Zigwheels, Gaadi and bikewale.

Hence the platforms used may vary depending on the objective of the campaign. It is not necessary that a website which has a high number of unique visitors will be the first choice of a media planner.

It is also important to note users are turning a blind eye towards display ads. The user might not even see the ad which is right there in from of them. That is where innovations such as native advertising, TYPE-IN ads, come in. These type of ads seamlessly integrate with the content of the website and does not disturb the user's website viewing experience in any way. Such innovations when effectively used can help in reaching the correct audiences who are interested in knowing more about the brand.

Programmatic Buying will play an important role in getting better results and generating more leads since it will help in specifically targeting users who have an affinity towards the product/brand being promoted. MA

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UGC Sponsored National Seminar

The Commerce Department of Naba Ballygunge Mahavidyalya, Kolkata is going to organise a UGC sponsored one day National Seminar on "Startup India and its Prospect" in collaboration with the Institute of Cost Accountants of India on 28th August, 2016 at the college auditorium. Interested persons can send their research papers (within 5000 words) alongwith the abstract (within 150 words) on this topic at the e-mail id : sukamaldatta2@rediffmail.com within 30th June, 2016.

REVISITING THE REINVESTMENT RATE

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Corporate Finance textbooks make a suggestive statement about the reinvestment of the cash inflows from a project. Two mutually exclusive project proposals, NPV and IRR can give conflicting decisions. In case of one project, the NPV may be superior while for the other project, the IRR may be superior. This paper explains how such a situation can be resolved by using what is known as 'Fisher's rate'. The assumption regarding the reinvestment rate is fundamental to the discussion about capital budgeting decisions and recognizing the reinvestment rate in an explicit manner is essential for appreciating the implications of the NPV/IRR methodology on investment decisions. This paper explains how investment decisions can be refined using Fisher's rate and introduces the concept of 'Modified NPV' using the Terminal value approach.

Introduction

Net Present Value (NPV) and Internal Rate of Return (IRR) are the two of the most well-known and commonly used techniques in evaluating investment or capital expenditure projects. Most of the elementary text books on Corporate Finance introduce these two concepts to the students while discussing capital budgeting decisions. So also, these two techniques are widely used by companies as well as banks/financial institutions for project appraisal and project financing. However, in certain circumstances, NPV and IRR approaches may give conflicting results.

Previous research papers (Dudley, 1972) on this subject of resolving the conflicting results for capital budgeting decisions have pointed out that the concept and relevance of the reinvestment rate has not been dealt with appropriately by contemporary text books on Corporate Finance. Surprisingly, the anomaly still persists. This article attempts to highlight the importance of the reinvestment rate and bring its relevance to the forefront suggesting that it is of critical importance in resolving the aforesaid conflict between NPV and IRR.

Conflicting decisions: NPV and IRR

The conflict between NPV and IRR implies that for two given mutually exclusive projects, NPV approach favors one particular project (let's say A) over the other (let's say B), whereas the IRR approach suggests that B is better than A. This conflict then leads us to the next logical question as to which of the two approaches (NPV v/s IRR) is better.

Interestingly, both NPV and IRR are superior to other methods like Payback period, Average Accounting return etc because they consider all the project cashflows (unlike Payback period) and the time value of money (unlike Accounting Rate of Return). So also, each of the two may be looked upon as the mathematical counterpart of the other and there exists a mathematical relationship between the two viz. IRR is that discounting rate at which NPV is 0.

For a single project, both NPV and IRR lead us to the same decision i.e. a project is considered to be acceptable if NPV is greater than 0 (for a given level of discounting rate), and whenever NPV of a project is greater than 0, the IRR is greater than the discounting rate, which is the criterion for acceptability under the IRR approach. Thus for appraising the acceptability of a single project, there is no conflict between NPV and IRR.

The same is however, not the case when there are two or more projects. Here, to begin with, we assume that there are only two projects, both requiring same initial investment and also with the same project life. This can be viewed as a Capital Budgeting decision where a company has a limited capital (debt, equity and hybrids) to invest in either of the two mutually exclusive and indivisible projects i.e. If the company chooses to go ahead with project B, it would invest the entire investible funds into B and forgo A.

This situation is very likely to arise in most business organizations (more so in growing economies) as there would be a number of investible projects competing for limited amount of funds. We would not be discussing the scenario where both NPV and IRR give the same results as it would be a straightforward decision if both the methods unequivocally tell us which one of the two projects is better .i.e. there is no conflict in such a case.

However, conflicting decision scenario may arise on account of pattern of cash flows of the two projects. Let's say, if project Bhas higher cash inflows in the beginning as compared to project A, whereas project A has total amount of cash inflows higher than project B. This will result in a higher IRR for project B (due to faster payback) and higher NPV for project A (due to higher total cash inflows). This will be clear from the example given below:

Year	Project A	Project B
0	-100000	-100000
1	10000	60000
2	20000	50000
3	30000	18000
4	40000	1000
5	60000	1000
PV @ discounting rate of 10%	$112,735.10	$110,695.37
NPV	**$12,735.10**	**$10,695.37**
IRR	**13.76%**	**17.03%**

As can be seen from the table above, project B should be taken up based on the IRR criterion, whereas project A appears to be the better option as per NPV (at a discounting rate of 10%) criterion. Here comes the critical choice. Which project is *actually* better than the other?

Resolution of the conflict: Terminal Value approach &Reinvestment

The question of which project is better can be generalized to which approach is better, NPV or IRR? In our discussion so far, we have delved on the similarities between NPV and IRR, namely the mathematical relationship between the two (NPV is 0, if we use IRR as the discounting rate) and that for a single project, both NPV and IRR lead us to same decision i.e. whether to accept the project or not. Why then, do the results differ when we are comparing two or more projects? What is *essentially* the different in these two approaches? The answer to this question is the (implicit) assumption regarding the reinvestment rate. The assumption regarding the reinvestment rate of the intermittent cashflows received till the termination of the project is *actually* fundamental to the very definition and understanding of the NPV and IRR. NPV approach assumes (implicitly, as the text books say) that reinvestment rate is the Weighted Average Cost of Capital (or the discounting rate used for calculating the NPV), whereas the IRR approach assumes that the cashflows are reinvested at the IRR itself.

When we say that NPV of a project A is \$ 12,735 at a discounting rate of 10%, implies that the NPV is \$ 12,735 only if the cashflows are reinvested at the rate of 10%. The NPV would be higher if the reinvestment rate is greater than 10% and lower if the reinvestment rate is lower than 10%. Unfortunately, most books on Corporate Finance do not delve deeper into what the reinvestment rate is and do not go beyond mentioning that the implicit rate of reinvestment in case of NPV is the discounting rate.

Similarly, the IRR of project can be significantly different from the conventional formula, if we assume that the intermittent cash flows are reinvested at a different rate (Modified Internal Rate of Return).

Explicit Reinvestment rate

The Terminal Value approach may make this point clear. Instead of directly discounting the cashflows as on current date, we can look at the same cash flows as on the terminal date of the project i.e. we compound all the cash flow (using an explicit reinvestment rate)up to the end point of the project (Terminal Value of the project), rather than discounting each of the cash flow at the starting point. The terminal value, in turn can be discounted (at the WACC) to arrive at the Net Present Value (when the reinvestment rate is the WACC or the discounting rate). Similarly, the rate of return which equates the Terminal value to the initial investment is the IRR (when the reinvestment rate is same as the IRR) or the MIRR (when there is reinvestment rate is distinct from IRR).

Terminal value

= C1(1+r)4 + C2(1+r)3 + C3(1+r)2 + C4(1+r)1 +C5(1+r)0

Where r is the reinvestment rate

Present Value of the Terminal Value:

PV of Cash Inflows

$$= \frac{C_1(1+r)^4 + C_2(1+r)^3 + C_3(1+r)^2 + C_4(1+r)^1 + C_5(1+r)^0}{(1+r)^5}$$

Assuming reinvest to happen at WACC or discounting rate, therefore WACC = r

Simplifying the above equation gives us the following result:

$$= \frac{C_1(1+r)^4}{(1+r)^5} + \frac{C_2(1+r)^3}{(1+r)^5} + \frac{C_3(1+r)^2}{(1+r)^5} + \frac{C_4(1+r)^1}{(1+r)^5} + \frac{C_5(1+r)^0}{(1+r)^5}$$

Subtracting Initial investment from the PV of Cash Inflows

$$= \frac{C_1}{(1+r)^1} + \frac{C_2}{(1+r)^2} + \frac{C_3}{(1+r)^3} + \frac{C_4}{(1+r)^4} + \frac{C_5}{(1+r)^5} - I_0$$

= NPV

Similarly, IRR can be expressed in terms of the Terminal Value:

As per definition of IRR,

Initial Investment (I_0)

$$= \frac{C_1(1+r)^4 + C_2(1+r)^3 + C_3(1+r)^2 + C_4(1+r)^1 + C_5(1+r)^0}{(1+r)^5}$$

Here = reinvestment rate = discounting rate

$$I_0 = \frac{C_1(1+r)^4}{(1+r)^5} + \frac{C_2(1+r)^3}{(1+r)^5} + \frac{C_3(1+r)^2}{(1+r)^5} + \frac{C_4(1+r)^1}{(1+r)^5} + \frac{C_5(1+r)^0}{(1+r)^5}$$

$$I_0 = \frac{C_1}{(1+r)^1} + \frac{C_2}{(1+r)^2} + \frac{C_3}{(1+r)^3} + \frac{C_4}{(1+r)^4} + \frac{C_5}{(1+r)^5}$$

Thus, r = reinvestment rate = Discounting rate = IRR

Thus, the advantage of viewing decision from the reference point of the Terminal value and then discounting it is that it compels us to consider an 'explicit' reinvestment rate which hitherto was missing in the formula because of the implicit assumption. NPV and IRR can thus be looked upon as two special cases where reinvestment rate is assumed to be WACC and IRR respectively.

The IRR approach has been generalized using the Modified IRR approach:

$$I_0 = \frac{C_1(1+r)^4 + C_2(1+r)^3 + C_3(1+r)^2 + C_4(1+r)^1 + C_5(1+r)^0}{(1+MIRR)^5}$$

On similar lines, the NPV approach can be generalized using an explicit rate, which may be distinct from WACC. Let us call this as Modified NPV (MNPV):

$$MNPV = \frac{C1(1+r)4 + C2(1+r)3 + C3(1+r)2 + C4(1+r)1 + C5(1+r)0}{(1+R)\ 5} - I0$$

Where r = reinvestment rate, R = WACC

Students (as well as professionals) accept the NPV formula as given and do not conceive what would be the implications if the reinvestment rate was different. In other words, by making the reinvestment rate as implicit, we do not consider the possibility of an 'explicit' reinvestment rate.

This can be crucial to our decision to invest or not to invest in the project at all. So also (as will be clear in the following discussion), it can be the deciding factor for choosing between two projects, where NPV and IRR are giving conflicting results.

Year	Project A	Project B
0	-100000	-100000
1	10000	60000
2	20000	50000
3	30000	18000
4	40000	1000
5	60000	1000
PV @ discounting rate of 10%	\$112,735.10	\$110,695.37
NPV	\$12,735.10	\$10,695.37
IRR	**13.76%**	**17.03%**

Coming back to the earlier example of two mutually exclusive projects, where project A has a higher NPV whereas project B has a better IRR, let us analyze results based on discounting (at WACC of 10%) of Terminal value (compounded at an explicit reinvestment rates) i.e. Modified NPVs (as per definition given above). We would corroborate our results with respective Modified IRRs in our attempt to resolve the aforesaid conflict.

MNPV*			**MIRR***	
Reinvestment rate	**Project A**	**Project B**	**Project A**	**Project B**
4%	$4,466.20	($8,138.72)	10.97%	8.15%
5%	$5,794.17	($5,181.20)	11.25%	8.84%
6%	$7,141.89	($2,152.60)	11.53%	9.52%
7%	$8,509.62	$948.22	11.81%	10.21%
8%	$9,897.57	$4,122.38	12.10%	10.89%
9%	$11,305.98	$7,371.05	12.38%	11.58%
10%	$12,735.10	$10,695.37	12.67%	12.26%
11.04%	***$14,250.53***	***$14,250.53***	***12.97%***	***12.97%***
12%	$15,656.38	$17,575.65	13.25%	13.62%
13%	$17,149.02	$21,133.97	13.54%	14.30%
14%	$18,663.33	$24,772.66	13.83%	14.98%
15%	$20,199.54	$28,492.92	14.12%	15.66%
20%	$28,217.77	$48,360.46	15.61%	19.03%

*WACC or discounting rate assumed to be 10%

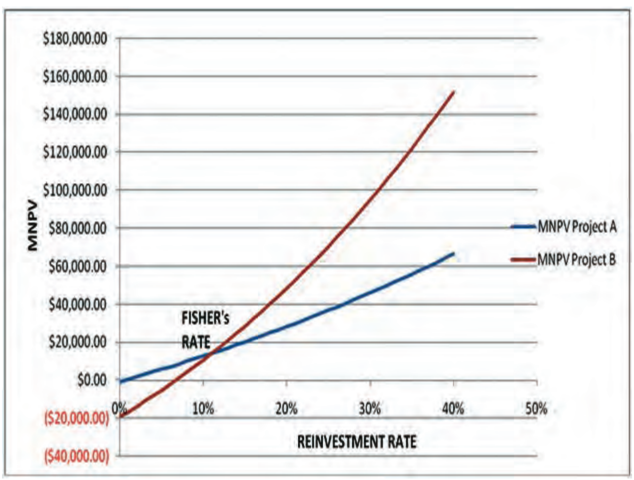
Fisher's Rate

It can be seen that there is a clear pattern emerging from the above table. At lower reinvestment rates, project A has a higher MNPV than project B. So also, the respective MIRRs of project A are higher than project B. Thus, it can be safely be concluded that project A (the one with higher NPV) is a better project than project B at lower reinvestment rates .i.e. for all reinvestment rates below 11.04%.So also, lower the reinvestment rate, higher is the difference between the project A and B's MNPV and MIRR.

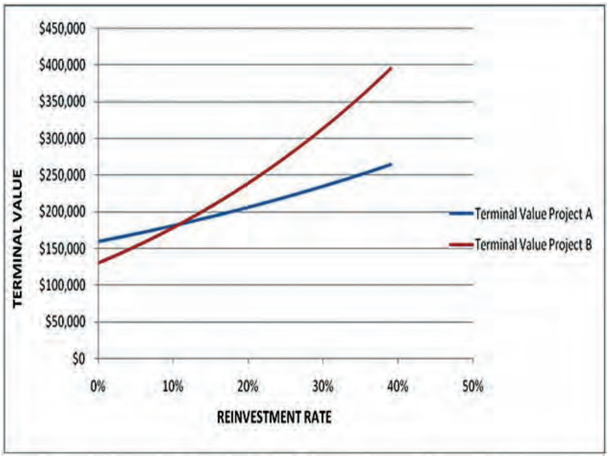
On the other hand, at higher reinvestment rates, project B has higher MNPVs as well as higher MIRRs than project B. If the reinvestment rate higher than 11.04%, project B (the one with higher IRR) is clearly the better project. Moreover, higher the reinvestment rate, higher is the difference between the project B and A's MNPV and MIRR.

There is a cutoff/ break-even level of reinvestment rate (11.04%), where the MNPV as well as MIRR of both the projects is equal. This particular rate is known as the **"Fisher's rate".**

Relation between Modified NPV and Reinvestment rate



Relation between Terminal Value and Reinvestment rate



The key points from the aforesaid discussion can be summarized as follows:

If the reinvestment rates are equal to the Fisher's rate, both the projects are equally attractive i.e. we are indifferent between the two projects. At the Fisher's rate of reinvestment, both projects not only have the same MNPV, but also the same MIRR

If the reinvestment rates are lower than the Fisher's rate, the project with a higher NPV (project A in our example) should be selected.

If the reinvestment rates are higher than the Fisher's rate, the project with a higher IRR (project B in our example) should be selected.

Whereas NPV and IRR approach give conflicting results, the decisions based on Modified NPV are consistent with Modified IRR approach at all levels of reinvestment rate i.e. the project with higher MNPV also has higher MIRR and vice versa. Thus, the conflict between NPV and IRR can be resolved by modifying both the approaches using the relevant reinvestment rates.

It is surprising to note that despite the critical role in determining (or at least understanding capital budgeting decisions); Fisher's rate hardly finds a mention in the contemporary Corporate Finance text books.

Calculation of the Fisher rate

Let cash flows of project A are represented by $C_{A1,} C_{A2,} C_{A3}$etc. and cash flows of project B be represented by CB1, CB2, CB3etc. Assuming discounting rate = WACC = r, initial investment of both projects equal to I_0 and time horizon equal to 5 years and Fishers rate = $R_{F.}$

$$\text{MNPV of project A} = \frac{TV_A}{(1+r)^5} - I_0$$

$$= \frac{C_{A1}(1+R_F)^4 + C_{A2}(1+R_F)^3 + C_{A3}(1+R_F)^2 + C_{A4}(1+R_F)^1 + C_{A5}}{(1+r)^5} - I_0$$

$$\text{MNPV of project B} = \frac{TV_B}{(1+r)^5} - I_0$$

$$= \frac{C_{B1}(1+R_F)^4 + C_{B2}(1+R_F)^3 + C_{B3}(1+R_F)^2 + C_{B4}(1+R_F)^1 + C_{B5}}{(1+r)^5} - I_0$$

Fisher rate implies that MNPV of both projects is equal:

$$\frac{C_{A1}(1+R_F)^4 + C_{A2}(1+R_F)^3 + C_{A3}(1+R_F)^2 + C_{A4}(1+R_F)^1 + C_{A5}}{(1+r)^5} - I_0$$

$$= \frac{C_{B1}(1+R_F)^4 + C_{B2}(1+R_F)^3 + C_{B3}(1+R_F)^2 + C_{B4}(1+R_F)^1 + C_{B5}}{(1+r)^5} - I_0$$

Therefore,

$C_{A1}(1+R_F)^4 + C_{A2}(1+R_F)^3 + C_{A3}(1+R_F)^2 + C_{A4}(1+R_F)^1 + C_{A5} =$

$C_{B1}(1+R_F)^4 + C_{B2}(1+R_F)^3 + C_{B3}(1+R_F)^2 + C_{B4}(1+R_F)^1 + C_{B5}$

$(C_{A1} - C_{B1})(1+R_F)^4 + (C_{A2} - C_{B2})(1+R_F)^3 + (C_{A3} - C_{B3})(1+R_F)^2 + (C_{A4} - C_{B4})(1+R_F)^1 + (C_{A5} - C_{B5}) = 0$

Dividing both sides by $(1+R_F)^5$

$$\frac{(C_{A1} - C_{B1})(1+R_F)^4 + (C_{A2} - C_{B2})(1+R_F)^3 + (C_{A3} - C_{B3})(1+R_F)^2 + (C_{A4} - C_{B4})(1+R_F)^1 + (C_{A5} - C_{B5})}{(1+R_F)^5} = 0$$

$$\frac{(C_{A1} - C_{B1})}{(1+R_F)^1} + \frac{(C_{A2} - C_{B2})}{(1+R_F)^2} + \frac{(C_{A3} - C_{B3})}{(1+R_F)^3} + \frac{(C_{A4} - C_{B4})}{(1+R_F)^4} + \frac{(C_{A5} - C_{B5})}{(1+R_F)^5} = I_0 - I_0 = 0$$

Thus, for two projects of equal initial investment size, Fisher's rate of return is the discounting rate which equates the present value of differential cash inflows to zero or in other words Fisher's rate is the IRR of the differential cash inflows and differential cash outflows for two projects of equal initial investment size.

Following facts should be noted about the Fisher's rate

The aforesaid formula would apply to two projects having the same investment horizon and same initial investment.

Fisher's rate is indifferent to the discounting rate of WACC i.e. the Fisher rate remains the same irrespective of the discounting rate

Reinvestment Rate Assumption

An explicit Reinvestment rate assumption necessitates that we should estimate the possible reinvestment rates for the intermittent cash flows. As discussed above, he NPV approach makes an implicit assumption that cashflows are reinvested at the WACC whereas the IRR assumes that the reinvestment rate is equal to IRR. Out of the two, the former seems to be more reasonable than the latter because the future capital budgeting decisions will also be based on the WACC criterion i.e. a company would invest only those projects in which give a return at least equal to the WACC. To this extent, the assumption seems to be more conservative than reinvestment at IRR which may be on a higher side.

This is the reason why Corporate Finance text books favor NPV approach over IRR (Brealey and Myers, Principles of Corporate Finance,1996) and conclude that in case of a conflicting results scenario, we should simply choose the project with a higher NPV (instead of all the analysis that has been discussed above). However, the *actual* reinvestment rate may be different from the WACC. The text books make a sweeping assumption that the reinvestment rate is equal to WACC (marginal return on capital) if capital is freely available. However, in reality (and definitely in the short run) the reinvestment rate would be different from the WACC. (In fact for a particular project, different cash flows may be reinvested at different rates. However for simplicity, we assume an average rate). Following examples make the point clear:

The cash receipts from the project may not be immediately reinvested into some other project. Typically, the cash flows would be deposited in the bank account (either in a fixed deposit account, or current account, overdraft facility etc). Fixed deposit account will yield some interest which can be treated as reinvestment rate for the duration of the deposit. Similarly, cash receipts in an OD account will lead to decrease in the outstanding OD balance and save the interest thereon. The interest rate on the OD facility can be looked upon as the reinvestment rate for a short duration.

Similarly, the funds can be temporarily parked in money market/short term instruments or liquid mutual funds by the company. The return on the same may be treated as reinvestment rate.

The company may eventually use this money for future projects. When it does so, the returns from the future projects may not necessarily be equal to the WACC. In fact, WACC being the minimum expected return, the company will normally invest into projects which have a return higher than WACC.

In a capital rationing situation, supply of capital is not unlimited. Hence we cannot assume that the reinvestment rate is equal to WACC.

An analysis of the average rate of return on capital made by the company on similar project can be made. This can be used as indicative reinvestment rate for the future.

Where cash flows are not reinvested at all and returned to shareholders, we may assume the reinvestment rate to be WACC.

At the project level, the part of cash flows will be repaid to lenders, which can be interpreted as reinvestment being made at cost of debt. To this extent, the reinvestment rate is in consonance with the WACC. Hence, the factor which can have a real impact on decision is the difference between the cost of equity and reinvestment rate on the cash flows (after payment made to debt holders). It may also be argued that in case of floating rate of interest on debt, the aforesaid reinvestment will take place at varying rates throughout the life of the project and not the cost of debt assumed at the time of calculating WACC.

Conclusion

Managers in corporate finance roles often use NPV and IRR method for evaluating capital budgets and prospective return on investment. Discussion on Capital Budgeting decision cannot be complete without introducing the role of reinvestment rate of cash flows in an explicit manner. Both NPV and IRR have certain assumption regarding reinvestment rate, which can lead to conflicting results for two or more mutually exclusive projects. The conflict can be resolved by resorting to an explicit reinvestment rate rather than blindly following the "NPV is better than IRR approach". The Fisher's rate serves as the cut off rate for deciding which of the two projects should be selected. The wealth or value by a project can be estimated using the Terminal value approach, based on explicit reinvestment rate using a Modified NPV approach, analogous to the Modified IRR approach. Financial decisions involving this approach will provide a clearer understanding about relationship between risk and returns of cash flows arising out of projects. MA

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Working Capital Management in Tata Motors Ltd

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1. Brief Profile of Tata Motors Ltd. and the Relevant Data:

Tata Motors Limited is the largest manufacturer in Indian automobile industry and is the leader in commercial vehicles, and is among the top in passenger vehicles. With manufacturing operations in the UK, South Korea, Thailand, South Africa and Indonesia, the company's international footprint has expanded through joint ventures like the strategic alliance with Fiat and Brazil-based Marcopolo. Today Tata Motors group is present in over 170 countries with world-wide network (www.tatamotors.com).

Having created a global buzz by unveiling Nano, the world's cheapest car, Tata Motors acquired two high-end brands, Jaguar and Land Rover (JLR) from Ford Company in 2009. The JLR are doing good business in overseas market (UK, Europe, North America and many others barring China).

In view of the above, it may be of great interest to the financial statement analysts to know how the flag-ship company has been managing one of the important aspects of financial management - working capital. With this end in view, extract from Balance Sheets of Tata Motors Ltd. and some relevant information from the profit and loss statement for a period of five years from 2010-11 to 2014-15, as available in the website (www.moneycontrol.com), are given below:

(Rs. in crore)

Particulars / Year Ended	31.03.2015	31.03.2014	31.03.2013	31.03.2012	31.03.2011
A. EXTRACT FROM BALANCE SHEET					
1. Shareholder's Funds	14,862.59	19,176.65	19,134.84	19,626.01	20,013.30
2. Non-Current Liabilities	14,709.95	11,760.24	11,945.32	12,715.80	15,176.88
3. Current Liabilities					
Short Term Borrowings	7,762.01	4,769.08	6,216.91	3,007.13	4,958.77
Trade Payables	8,852.65	9,672.36	8,455.02	8,744.83	8,817.27
Other Current Liabilities	3,142.88	2,463.18	4,923.10	7,470.95	3,210.37
Short Term Provisions	613.09	1,892.91	1,509.58	2,954.56	2,013.86
	20,370.63	18,797.53	21,104.61	22,177.47	19,000.27
4. Current Assets					
Current Investments	20.22	100.85	1,762.68	2,590.26	86.00
Inventories	4,802.08	3,862.53	4,455.03	4,588.23	3,891.39
Trade Receivables	1,114.48	1,216.70	1,818.04	2,708.32	2,602.88
Cash and Cash Equivalents	944.75	226.15	462.86	1,840.96	2,428.92
Short Term Loans and Advances	1,574.41	1,223.77	1,532.09	1,871.74	1,850.62
Other Current Assets	117.03	109.06	104.26	113.41	111.85
	8,572.97	6,739.06	10,134.96	13,712.92	10,971.66
B. EXTRACT FROM PROFIT AND LOSS STATEMENT					
Net Sales	36,294.74	34,288.11	44,765.72	54,306.56	47,088.44
Profit Before Tax	-3,974.72	-1,025.80	174.93	1,341.03	2,196.52
Reported Net Profit	-4,738.95	334.52	301.81	1,242.23	1,811.82

2. Points for Analysis and Discussion

We analyse and discuss the following two points.

(1) What are net current assets, or working capital, of Tata Motors Ltd. for each of the five years, 2010-11 to 2014-2015, and what relevant working capital ratios can be computed out of them for in-depth analysis and discussion?

(2) Was working capital used effectively during the period?

For ascertaining the working capital position in each of the five years, we compute the following figures including some relevant ratios from the available table.

Particulars / Year Ended	31.03.2015	31.03.2014	31.03.2013	31.03.2012	31.03.2011	Average
Working capital (4-3) [Negative] (Rs./crore)	11,797.66	12,058.47	10,969.65	8,464.55	8,028.57	10,263.78
Current Ratio (4¸3)	0.42	0.36	0.48	0.62	0.58	0.49
Liquid Ratio (CA – Inventories) ¸CL	0.19	0.15	0.27	0.41	0.37	0.28
Current Assets Turnover Ratio (Sales ¸ CA)	4.23	5.09	4.42	3.96	4.29	4.40
Debt/Equity Ratio	0.99:1	0.61:1	0.62:1	0.65:1	0.75:1	0.72:1
Current Liabilities ¸ Current Assets x 100	236.61%	278.9%	208.23%	161.73%	173.18%	211.73%
Current Liabilities to Total Funds (LT Liabi.+Equity)	68.9%	60.8%	67.9%	68.6%	53.0%	64.0%
Return on Equity (Reported NP ¸Shareholder's Fund)	(-) 31.89%	1.74%	1.58%	6.33%	9.05%	

(1) The net current assets, or working capital, of Tata Motors Ltd. are negative for all the five years with an average negative amount being Rs.10,263.78 crore. The current ratio in each of the years is well below even 1. Although the conventional ratio is 2:1, a study of the cross section of various industries in India generally will show a ratio of 1.45 to 1.50 to 1. Tata Motors is no where near the convention or industry practice. The main reason for maintaining current assets twice, or 1.5 times, the current liabilities is that, even if there is some loss in conversion, a firm can meet the immediate maturing obligations (current liabilities). The liquidity position can best be assessed from liquid or acid-test ratio, i.e. (current assets less inventories) ÷ current liabilities, a minimum of which 1:1 is suggested.

Consideration of debt/equity ratio, along with current liabilities/current assets ratio, may give total financing policy of Tata Motors. Generally, the higher the ratio, the greater is the possibility of increasing rate of return to equity, as long as the cost of debt is lower than the rate of return from the investment. But financing from debt also increases the risk of shareholders. Under favourable conditions - rising sales, lower cost of debt - a high debt-equity ratio may be adopted. In India, many financial institutions (e.g., IDBI, IFCI) prescribe a norm of 2:1 ratio for financing to firms in the private sector whereas for public sector enterprises, a 1:1 ratio is expected to be maintained.

Now a reference to liquidity or acid test ratio shows a dismal picture, that is, about only 28% of current liabilities, on an average, can be met from current assets. How does Tata Motors then meet its maturing short-term obligations? There are two possibilities, namely, stressing the credit period and/or financing from long-term sources. Stressing the credit period has its own far-reaching implications. Firstly, the reputation of the firm will be at stake. Secondly, trade payables will be costly in future as the suppliers of goods and services would add an additional amount for extended credit period and such costs would be hidden. In either case, such an eventuality does not normally appear desirable.

In ascertaining the pattern of financing of current assets by short-term vs. long-term sources, generally, a major part of the long-term sources, debt, equity etc., is used for financing the entire non-current assets and a minor part, for financing current assets so that the remaining portion is financed by current liabilities. Practice, however, differs from firm to firm. Nevertheless, this eventuality makes current assets always greater than current liabilities, a positive net working capital position. From financing point of view, the reverse is also possible, i.e. current liabilities are not only used for financing the entire current assets but also a portion of non-current assets – a situation where net current assets will be negative and is referred to as an aggressive financing policy increasing the risk of the firm.

The decision regarding financing the level of current assets by short-term vs. long-term sources, or, more appropriately, a feasible combination of the two, is based on consideration of three important factors, namely, flexibility, risk and cost. Financing from short-term sources than from long-term ones leads to flexibility in repaying short-term loans than long-term ones because of possible fluctuations in the level of current assets. But short-term sources are riskier than long-term sources because interest cost on long term borrowing may be relatively stable over time than that for short-term. Secondly, more and more dependence on short-term sources may render a firm unable to repay its short-term obligations. Regarding cost of financing, short-term sources are normally costlier than long-term sources in India. However, it depends on three factors: (i) liquidity or risk preferences of lenders and borrowers, (ii) supply and demand condition in the money market, and (iii) expectations about future interest rates. In recent years, companies in India have shown an increasing tendency to go in for debenture issues to finance the whole, or at least a part of, their working capital needs.

A reference to financing of current assets by current liabilities by Tata Motors Ltd. shows that current liabilities are more than twice (211.73%), on an average, the current assets. This means that after financing the entire amount of current assets, a sizeable portion of non-current assets are financed by short-term sources. Take, for example, the case of 2014-15 where there are maximum amount of current liabilities of Rs.20,370.63 crore as against current assets of Rs.8,572.l97 crore. The huge amount of excess of current liabilities over current assets (i.e. Rs.20,370.63 – 8,572.97 = Rs.11,797.66 crore) is used for financing non-current assets. Accordingly, this highly aggressive policy can be sustained, that too for a short-period only, if the profit position of the company is satisfactory. But out of five years, the profit before tax is negative for 2013-14 and 2014-15 while in the earlier three years they are positive although there is downward trend taking 2010-2011 as the starting point. Return on Equity shows a significantly downward trend from 2010-2011 to 2013-2014. The position in 2014-15, due to huge reported net loss, is alarming. Net sales over the period show that sales for 2013-14 and 2014-15 are significantly down admittedly due to economic reasons. Apart from decreasing sales, there may be other reasons attributable to the downfall of profits over the years. Does the overall scenario justify the aggressive financing policy? One would be tempted to draw negative conclusion in this respect.

We now turn to debt-equity ratio of Tata Motors Ltd. It shows that, on an average, the ratio is only 0.72:1. Taking 2010-11 as the starting point, the dependence of debt financing has gradually gone down till the ratio improves significantly (0.99:1)) in 2014-15 when the operating loss is also maximum. The overall risk of financing can be judged from current liabilities 6as percentage of total funds (equity plus non-current liabilities) employed. On an average, Tata Motor's dependence on current liabilities for financing vis-à-vis total funds employed shows a very high ratio of 64% and the period from 2011-12 to 2014-2015 shows even greater proportion of current liabilities to total funds. Does not this trend indicate that Tata Motors have been compelled to rely on the short-term sources more by adopting an aggressive policy? The high degree of financing risk not supported by a reasonably acceptable return on equity is not in accordance with the general principles of financial management.

(2)The effectiveness of working capital management may be judged by sales to current assets ratio since, in the instant case, working capital is negative in all the five years. Theoretically speaking, we use the 'gross' concept of working capital i.e. aggregate of current assets for the purpose. A comparison of the sales and current assets and current liabilities indices may also throw some light on it. It may be mentioned that if the level of working capital is decreased relative to sales, the opportunity for increase in the rate of return increases although the risk of the firm also increases. From this standpoint, efforts should be made to increase the level of sales by using the same amount of working capital through greater productivity. The current assets turnover ratio is fluctuating significantly over the years with an average of 4.40. There is little sign of improvement to corroborate the increasing productivity of current assets.

A study of movement of various items of current assets and liabilities may pinpoint the causes of unsatisfactory management of working capital over the years. For example, current investments have gone down significantly from 2011-12 to 2014-15. Secondly, as percentage of current assets, it is negligible whereas many profitable companies in the private sector maintain a good proportion, some times 40% to 50%, of current assets (e.g. Reliance Industries keep more than 50% of current assets). It does not require any emphasis that current investments serve as an important source to meet, in case of dire necessity, maturing short-term liabilities. Accordingly, a decreasing trend in current investments in the instant case points out about the further strain on management of working capital. So, as in the previous case, the conclusion seems obvious in this case also.

3. Concluding comments

Ratio analysis and the conclusions based on it have their own limitations. Even then, it serves as a pointer to the prevailing practices, based on which many policy decisions may be taken. MA

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An Introduction to NCLT

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The *Companies Act, 2013* has introduced two tribunals, one is the National Company Law Tribunal (hereinafter referred to as 'Tribunal' or 'NCLT') and the other one is National Company Law Appellate Tribunal (hereinafter referred to as 'NCLAT' or "Appellate Tribunal"). NCLAT is the forum for dealing with appeals arising out of the orders of NCLT. After 14 years since there were mentioned in the Companies Act[1], it finally seems likely that these Tribunals will be constituted by the end of this year.

Meaning Of NCLT And NCLAT

The NCLT or "Tribunal" is a quasi-judicial authority created under the *Companies Act, 2013*to handle corporate civil disputes arising under the Act. It is an entity that has powers and procedures like those vested in a court of law or judge. NCLT is obliged to objectively determine facts, decide cases in accordance with the principles of natural justice and draw conclusions from them in the form of orders. Such orders can remedy a situation, correct a wrong or impose legal penalties/costs and may affect the legal rights, duties or privileges of the specific parties. The Tribunal is not bound by the strict judicial rules of evidence and procedure. It can decide cases by following the principles of natural justice.

NCLAT or "Appellate Tribunal" is an authority provided for dealing with appeals arising out of the decisions of the Tribunal. It is formed for correcting the errors made by the Tribunal. It is an intermediate appellate forum where the appeals lie after order of the Tribunal. The decisions of Appellate Tribunal can further be challenged in the Supreme Court. Any party dissatisfied by any order of the Tribunal may bring an appeal to contest that decision. The Appellate Tribunal reviews the decisions of the Tribunal and has power to set aside, modify or confirm it.

Difference between NCLT and NCLAT

The NCLT has primary jurisdiction whereas NCLAT has appellate jurisdiction. NCLAT is a higher forum than NCLT. Evidence and witnesses are generally presented before NCLT for taking the decisions and NCLAT generally reviews decisions of NCLT and checks it on a point of law or fact. Fact finding and evidence collection is primarily a task of Tribunal whereas the Appellate Tribunal decide cases based on already collected evidences and witnesses.

Introduction of Concept of NCLT in India – Eradi Committee

The concept of forming the Tribunal for dealing with various activities of companies was first introduced in the *Companies Act, 1956* by the *Company (Amendment) Act, 2002*.

The Tribunal was proposed to be established partly as a result of the recommendations of Eradi Committee. The Committee found that multiplicity of court proceedings is the main reason for the abnormal delay in dissolution of companies. It recommended that powers of different agencies that were dealing with different areas relating to companies - Board for Industrial & Financial Reconstruction (BIFR) (which dealt with references relating to rehabilitation and revival of companies), High courts (which inter alia dealt with winding-up of companies) and Company Law Board (CLB) (that dealt with matters relating to prevention of oppression and mismanagement etc) should be consolidated in one forum.

2002 Amendment Challenged

Based on the recommendations, the *Companies Act, 1956* was amended in 2002 to provide for constitution of Tribunals. However, The Tribunals were never constituted as the constitutionality of the said amendment was challenged by the Madras Bar Association in 2003. The Supreme Court in its order passed on11 May 2010 in *Union of India* v *R Gandhi* declared that certain provision of the said sections were unconstitutional and passed judgement.

JJ Irani Committee

While this case was pending in court, JJ Irani Committee was formed for making suggestion for enactment of a new company law. In its report dated 31 May 2005, the Committee noted the importance of establishment of Tribunal and welcomed the move to establish specialised Tribunals under the new company law. Introduction of Tribunal in Companies Act, 2013

Thus, based on its recommendations, in the *Companies Act, 2013*, the concept of Tribunals was introduced again. The nomenclature namely "NCLT" and "NCLAT" was retained. However, the powers and scope of the Tribunals were much wider under the new legislation

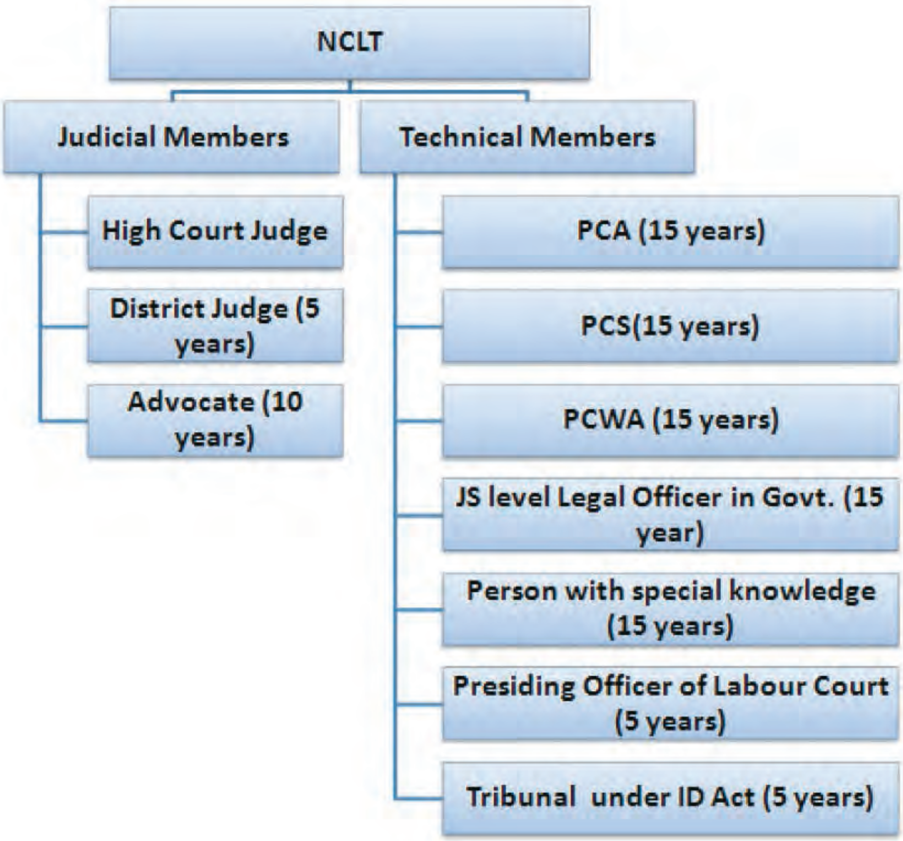
The *Companies Act, 2013* introduced the provisions for formation of NCLT and NCLAT. Some of the suggestions set out by the Supreme Court in the 2010 judgement were essentially complied with and the provisions pertaining to the Tribunal and Appellate Tribunal were suitably introduced in the revised format.

However, the Madras Bar Association (MBA) again filed a case challenging the said provision in the Supreme Court in 2013 and the matter was referred to a 5 judge bench of the Supreme Court. In its order dated 14th May 2015, the Apex Court upheld many of the provisions of Companies Act, 2013 on NCLT like power of NCLT to punish for contempt of court. However, it held that certain provisions were unconstitutional especially those pertaining to qualification of technical members and selection procedure for Tribunal members.

Constitution of NCLT

NCLT consists of President, Judicial and Technical Members.

The chart lists the qualifications of judicial and technical members. The judicial member will be a person who is or is qualified to be a High Court Judge. A range of professionals like chartered accountant, company secretaries, persons in the field of accounts, law etc can be appointed as a Technical member. Joint Secretary (JS) level government servant in the certain legal service can also be appointed. It also provides for including members who have good knowledge of the industrial laws, namely a presiding officer of labour court and member of Tribunal formed under Industrial Law as a member. However, the qualifications of technical members must be read in light of the Apex Court order.



Number of Members

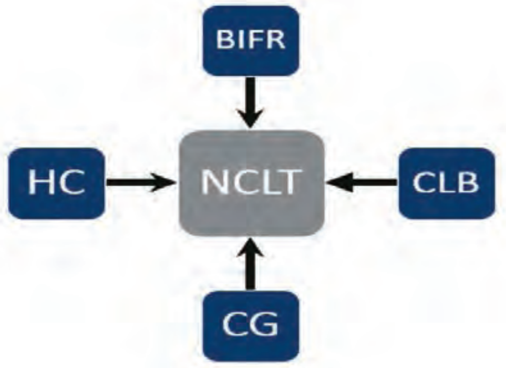
The Tribunal can have any number of Members. No bar is placed. Under the 1956 Act, this was restricted to 62.

Seat of NCLT

The Seat of NCLT will be New Delhi. However, it is likely that like CLB, they will have benches in Mumbai, Kolkata & Chennai and certain other cities,

Powers of NCLT

Under the new Act, NCLT has wide powers to deal with several matters. Powers from various authorities and judicial forums have been transferred to NCLT. The basic intent is to create a single forum to deal with corporate civil matter in an efficient and expeditious manner.



Powers from CLB

Most of the powers that were previously enjoyed by CLB like powers with respect to oppression and mismanagement, investigations, compounding of offences, repayment of deposits are now transferred to NCLT. However, powers, like approving shifting of registered office from one state to another are now transferred to Central Government.

Powers from High Court

Most of the powers of High Court are transferred to NCLT. Following is a list of some of the important powers:

a. Compromise and arrangements
b. Winding up
c. Reduction of capital
d. Variation of rights

Power from BIFR

Powers for revival and rehabilitation of sick companies are transferred from BIFR to NCLT under the new Act. These are enjoyed by Board of Industrial and Financial Reconstruction. All proceedings before BIFR will abate.

New Powers

Not only have several powers been transferred from various authorities, but new powers have been given to NCLT which include power to:

- Decide class action;
- Deregister a company and determine other incidental matters;
- Remove auditor of a company;
- Reopen of books of accounts
- Revision of books of accounts
- Additional powers in case of non-payment of deposits
- Revival of defunct company

Transition to NCLT

The Act has set out in detail the procedure to deal with cases which are pending in various forums. The Government must notify a date for matters before Company Law Board and High Court. On that date, all the pending proceedings will be transferred to NCLT. However, the mechanism for continuation of proceeding is different for proceedings for transfer from the two forums. In case of BIFR the proceedings will abate[1].

Cases pending in High Court

In case of cases pending before High Court on notified date, there is specific direction that the Tribunal may deal with the matters from the stage before their transfer.

Company Law Board

The matters pending before the CLB on notified date will be transferred. The Tribunal is required to dispose of such matters in accordance with the provisions of law. Unlike in case of High court proceedings, there is no specific provision that the Tribunal can take up the proceeding at the stage where it was left. Thus, one possible interpretation may be that the Tribunal may start the proceedings afresh, even if the matter was at the final stage before CLB.

Cases before BIFR

All cases before BIFR will abate with effect from the notified date. MA

References

[1]First the reference to NCLT was introduced in Companies Act, 1956 by the Companies Second Amendment Act 2002. These provisions for NCLT were never notified and 1956 Act was thereafter replaced by Companies Act, 2013 which also provided for constitution of NCLT.

[2]Abatement means the act of elimination or nullifying.

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Ready Reckoner for

APPLICABILITY OF SERVICE TAX

on services provided by Government & Local Authorities

CMA A. B. Nawal
Chairman, Taxation Committee
Institute of Cost Accountants of India

Negative list of services introduced w.e.f. 1st July 2012and negative list of services was provided u/s 66D of The Finance Act 1944,which is reproduced below:

66D services by Government or a local authority excluding the following services to the extent they are not covered elsewhere:

i. services by the Department of Posts by way of speed post, express parcel post, life insurance and agency services provided to a person other than Government;

ii. services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport;

iii.. transport of goods or passengers; or

iv. (iv) support services, other than services covered under clauses (i) to (iii) above, provided to business entities;

The word "Support Services" was substituted with all services vide The Finance Act 2015,which was made effective from 01.06.2015. However, effective date of amendment of the section was notification w.e.f. 01.04.2016 thereby all services provided by the Govt. is subject to service tax on reverse charge basis.

In my article published in our Bulletin in the month of April 2012 provides the Frequently Asked Questions (FAQ), wherein I have clarified what is Govt.? and What are the services provided by the Govt.? which is reproduced below...

Quote:

1. What is Government?

Though Government has not been defined, General Clause Act, 1897 will be applicable and Government includes State Government, Central Government, and State includes Union Territories.

2. Please explain, which services offered by the government will be covered under the definition of service, by giving suitable examples.

All services other than following provided by the government are excluded from the definition of service:

- services by the Department of Posts by way of speed post, express parcel post, life Insurance and agency services provided to a person other than Government;
- services in relation to an aircraft or a vessel, inside or outside the precincts of a port oran airport;
- transport of goods or passengers; or
- support services, other than services covered under clauses (i) to (iii) above, provided to business entities;

Some of the examples are: providing Birth / Death Certificate, Marriage Certificate, Completion Certificate, Passport, etc. etc.

Un Quote

Since, all services provided by Govt. are now excluded from the negative List by amending Sec 66D which has been made effective from 1st April 2016 and hence recipient of such services from the govt. have to discharge 100% service tax liability on Reverse Charge Mechanism.

Generally, any citizen or a person pays the Govt. the followings:

a. Duties, taxes,

b. Fine & penalties relating to default in following the law

c. Fees / Charges for registration, licensing, permissions / permits, Authorizations

d. Charges paid to the Govt. for coal blocks, spectrum,

e. Charges paid for providing amenities

f. Court Fees

g. Stamp Duty

h. Fees for Passport, Visa, Driving License, Birth / Death Certificate

The attempt has been made in this article to provide ready reckoner on various amount paid to Central Govt., State Govt. and Local Authorities. CBEC has already issued details clarificative circular No. 192/02/2016 – ST dtd.13.04.2016 in very simplified manner and that has been also considered in this article.

Sr. No.	Particulars for which amount is paid to the Govt.	Taxable or Not Taxable	Comments
1	Duties & Taxes	Not Taxable	"Taxation" includes the imposition of any tax or impost, whether general or local or special, and 'tax' shall be construed in accordance with article 366(28) of Constitution of India. It includes taxes levied by Central or State legislatures, and also those known as 'rates', or other charges, levied by local authorities under statutory powers. Whereas, Tax is having a wider sense includes all imposts. Imposts in the context have following characteristics – a. Imposing the tax is the sovereignty powers of the Central Govt., State Govt. & Local Authorities under the law. b. "Law" in the context of Article 265 means an Act of legislature and cannot comprise of an executive order or rule without express statutory authority c. The term 'tax' under article 265 read with Article 366(28) includes imposts of every kind viz. tax, duty, cess or fees d. As an incident of sovereignty and in the nature of compulsory exaction, a liability founded on principle of contract cannot be a 'tax' in its technical sense as an impost, general, local or special To conclude, payment of duties & taxes is not on account of providing any service by the Govt. The said Board Circular also clarifies the same &illustrations of the taxes has been given so as to clarify Excise Duty, Custom Duty, Service Tax, State VAT, CST, Income Tax, Wealth Tax, Stamp Duty, Taxes on profession, Employment Tax, Octroi / LBT, Entry Tax, Entertainment Tax, Luxury Tax & Property Tax.
2	Fine & penalties relating to default in following the law	Not Taxable	Fines & Penalties chargeable by Govt. or Local Authorities on account of violation of a statute, bye-laws, rules or regulations arenot leviable to Service Tax.
3	Fees / Charges for registration, licensing,	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism
4	Fees / Charges for permissions / permits	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism
5	Fees / Charges for Authorization	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism
6	Charges paid to the Govt. for Royalty for extraction of natural resources	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Taxable other than specified in 7 & 9 (Not Taxable).
7	Charges paid to the Govt. for allocation of natural resources to an individual farmer	Not Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. However, it has been clarified by the Board that Services by way of allocation of natural resources to an individual farmer for the purposes of agriculture have been exempted vide Notification No. 25/2012 – ST dated 20.6.2012 as amended by Notification No. 22/2016 – ST dated 13.4.2016 [Entry 59 refers]. Such allocations/auctions to categories of persons other than individual farmers would be leviable to Service Tax.

Sr. No.	Particulars for which amount is paid to the Govt.	Taxable or Not Taxable	Comments
8	Charges paid to the Govt. for allocation of natural resources to other than individual farmer	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Exempted has been granted to the individual farmer only.
9	Charges paid to the Govt. for coal blocks, spectrum – One-time payment	Not Taxable	Service Tax is payable on such installments in view of rule 7 of Point of Taxation Rules, 2011 as amended by vide Notification No. 24/2016 – ST dated 13.4.2016. However, the same have been specifically exempted vide Notification No. 25/2012 – ST dated 20.6.2012 as amended by Notification No. 22/2016 – ST dated 13.4.2016 [Entry 61 refers]. The exemption shall apply only to Service Tax payable on one time charge, payable in full upfront or in installments, for assignment of right to use any natural resource
10	Charges paid to the Govt. for coal blocks, spectrum – in Installment or periodicalpayment, spectrum usage charges w.r.t. coal mines or royalty payable on extracted coal	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Such payment do not cover vide Notification No. 22/2016 - ST dated 13.4.2016
11	Charges paid for providing Amenities	Taxable	If Government levies some charges for providing amenities, these should be subject to service tax. However, charges for supplying electricity or water should not be subject to service tax, as these are 'goods'. Supply of goods cannot be a 'service'.
12	Court Fees	Not Taxable	Court fee and payment made to arbitration / tribunal is excluded from the definition of "service" and hence no service tax is payable.
13	Stamp Duty	Not Taxable	Board has clarified vide circular dtd. 13.04.2016 that stamp duty collected is not in nature of consideration and hence not covered under the definition of "Services"
14	Fees for Passport & Visa	Not Taxable	Though certain privilege has been provided to the recipients, such service is specifically exempted vide Notification No. 22/2016dtd. 13.04.2016
15	Fees for Driving License / Renewal / Duplicate	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Such payment do not cover vide Notification No. 22/2016 - ST dated 13.4.2016
16	Fees for Birth / Death Certificate	Not Taxable	Though certain privilege has been provided to the recipients, such service is specifically exempted vide Notification No. 22/2016 dtd. 13.04.2016
17	ROC Fees paid to Ministry of Corporate Affairs	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Such payment do not cover vide Notification No. 22/2016 - ST dated 13.4.2016
18	Agricultural Tax collected by Talathi / Tahasildar	Not Taxable	It is exempted by Notification No. 22/2016 - ST dated 13.4.2016 being functions entrusted to Panchayat under Article 243 G of the Constitution.
19	Fees of 7/12 Extract / City Survey Extract	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Such payment do not cover vide Notification No. 22/2016 - ST dated 13.4.2016
20	Fines, penalties compensation paid for Non-performance of contract entered into with Government or local authority	Not Taxable	Though certain privilege has been provided to the recipients, such service is specifically exempted vide Notification No. 22/2016 dtd. 13.04.2016

Sr. No.	Particulars for which amount is paid to the Govt.	Taxable or Not Taxable	Comments
21	PF Administration Fees& Annuity Charges	Not Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. However, this is exempted vide notification No. 9/2016 ST dtd. 01.03.2016 effective from 1st April 2016, which provides the exemption for Services of life insurance business provided by way of annuity under the National Pension System regulated by Pension Fund Regulatory and Development Authority of India (PFRDA) under the Pension Fund Regulatory And Development Authority Act, 2013 (23 of 2013) and services provided by Employees ₹ Provident Fund Organization (EPFO) to persons governed under the Employees ₹ Provident Funds and Miscellaneous Provisions Act, 1952 (19 of 1952);
22	Motor Vehicle Inspection	Not Taxable	Though certain privilege has been provided to the recipients, such service is specifically exempted, since it is in relation to testing, calibration, safety check and certification in relation to consumer & public at large required under RTO Act vide Notification No. 22/2016 dtd. 13.04.2016
23	MOT Charges t Central Excise & Customs	Not Taxable	Though certain privilege has been provided to the recipients, such service is specifically exempted vide Notification No. 22/2016 dtd. 13.04.2016
24	Penalty, fee for late filing of return	Not Taxable	It is the penalty on violation of specific Act / Rules.
25	Composition fees paid in accordance to order of Settlement Commission	Not Taxable	Though certain privilege has been provided to the recipients, such service is specifically exempted vide Notification No. 22/2016 dtd. 13.04.2016
26	Any payment to the Govt. for services provided more than Rs. 5000/- per annum	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Such payment do not cover vide Notification No. 22/2016 - ST dated 13.4.2016
27	Any payment to the Govt. for services provided less than Rs. 5000/- per annum	Not Taxable	If amount is less than Rs. 5000/- per annum then it is exempted.
28	Building Plan Approval Fees, charges for change of land use and other utilities approval	Not Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism but the same is exempted vide notification no. 22/2016 ST dtd. 13.04.2016. Such payment do not cover vide Notification No. 22/2016 - ST dated 13.4.2016
29	Water Charges	Not Taxable	Since it is supply of water and not supply of service and hence no service tax is payable.
30	Registration Fees for registering Title Documents	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Registration fees is collected over & above Stamp Duty and separately and hence it is not in nature of duties but to the consideration for providing certain services. Such payment do not cover vide Notification No. 22/2016 - ST dated 13.4.2016
31	Fees paid under Right to Information Act.	Taxable	This activity is carried by Central / State Govt. for beneficiary person / desirous to obtain certain privileges for consideration i.e. fees & charges and hence it is covered under the definition of "Service" and not been exempted and hence Taxable under reverse Charge Mechanism. Such payment do not cover vide Notification No. 22/2016 - ST dated 13.4.2016

Sr. No.	Particulars for which amount is paid to the Govt.	Taxable or Not Taxable	Comments
32	Interest charge by the Govt.	Not Taxable. Taxable only if, payment is made on installment / deferred payment basis	It is excluded from the definition of service. However, if service tax is payable on the original amount on deferred payment, then it will be taxable as the part of service being included in the taxable value in accordance with Rule 6(2)(iv) of the service tax (Determination of Value) Rules 2006 as amended vide Notification No. 23/2016 ST dtd. 13.06.2016

We had specified in our article published in the month of April 2015, where certain test were provided for determination of applicability of service tax which are reproduced below:

Quote:

Now, once the above provisions and definition of the law are understood, to decide whether any Government or a Local Body Service will attract Service Tax under reverse charge or not, one need to apply the final test "SGBCE TEST":–

1. Whether there is an activity performed / service provided by the Government or a Local Authority which falls under the definition of **Service** as per "SERVICE TEST"?

2. Whether such activity is performed / service is provided by a **Government** or a Local Authority "CHARGEABILITY TEST"?

3.. Whether such activity is performed / service is provided to a **Business Entity** "CHARGEABILITY TEST"?

4. Whether there is a **Consideration** for such activity / service "CHARGEABILITY TEST"?

5.. Whether such activity carried out / service provided is covered under **Exemption** / **Negative** list of service or falls under exclusion portion of the definition of a service under "SERVICE TEST" including exemption category?

Un- Quote:

Though an attempt is made to provide all types of payment collected by Central / State Govt. & Local Authorities in the above Ready Reckoner, still some categories are left out then above test to be applied for deciding taxability of service tax and payment thereof under Reverse Charge Mechanism.

Following services though not provided by Govt. but are provided by body constituted by the Govt. and services provided by them are not covered under services provided to the Govt., but these are exempted vide Notification No. 9/2016 ST dtd. 01.03.2016 made effective from 1st April 2016.

a. Services provided by Insurance Regulatory and Development Authority of India (IRDA) to insurers under the Insurance Regulatory and Development Authority of India Act, 1999 (41of 1999);

b. Services provided by Securities and Exchange Board of India (SEBI) set up under the Securities and Exchange

c. Board of India Act, 1992(15 of 1992) by way of protecting the interests of investors in securities and to promote the development of, and to regulate, the securities market;

d. Services provided by National Centre for Cold Chain Development under Ministry of Agriculture, Cooperation and Farmer Welfare by way of cold chain knowledge dissemination;"

When service tax is payable?

Date & Time of taxable payment is determined based on the Point of Taxation Rules and Notification No. 24/2016 ST dtd. 13.06.2016 to amend Point of Taxation Rules 2011, wherein proviso to Rule 7 has been inserted as below

Quote :

Provided also that in case of services provided by the Government or local authority to any business entity, the point of taxation shall be the earlier of the dates on which, -

(a) any payment, part or full, in respect of such service becomes due, as specified in the invoice, bill, challan or any other document issued by the Government or local authority demanding such payment; or

(b) Payment for such services is made.

Unquote :

It means challan /bill / any document / letter received by the recipient from the Govt. i.e. Central / State Govt.& Local Authorities OR Payment made whichever is earlier.

Whether Service Tax is payable on any amount even by small business entity?

Yes. Generally Reverse Charge is payable without having any exemption limit but Central Govt. have issued a Notification No. 7/2016 where small business entity having the turnover less than Rs. 10 Lacs in the preceding financial year are exempted from payment of service tax on reverse charge basis.

What is the Value on which service tax is paid?

Service tax is paid on gross value of amount paid to the Govt. However, when amount is paid in deferred payment system then service tax is payable on the amount including interest.

Whether Cenvat is allowed?

Cenvat will be allowed if such payment falls under the definition of "Input Service" and is not covered under exclusions as provided in definition of input service. Cenvat credit can be taken against duty paying challan, which is used for payment of service tax on reverse charge basis. However, Notification no. 24/2016 CE (NT) dtd. 13.04.2016 restricts the cenvat, if payment is made on one time charges (lumsum or installment) then service tax is payable on the total amount but credit is allowed in 3 even installment. MA

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The Institute of Cost Accountants of India - Howrah Chapter

The Chapter organized programme on Investors Awareness under the aegis of IEPF, MCA, GOI at its premises on March 30, 2016. The key speakers on the occasion were CMA Pranab Chakrabarty, Secretary, EIRC, CMA Tapas Bhattacharya, past chairman of the chapter and CMA Arunava Ghosh, chairman of the chapter. They have explained in details about various savings and investments options for safe investment to the public who have attended the programme. The chapter organized workshop on 'Internal Audit & Charges under the Companies Act'13 and International Taxation'. CS Hansraj Jadia, past chairman, Hooghly Chapter of Cost Accountants and Company Secretary, TSL-SAIL group deliberated on the issues relating to charges under the Companies Act '13. CMA Mrityunjoy Acharya , Sr.VP, Balmer Laurie delivered on the issues on International Taxation. CMA Pranab Chakrabarty, Secretary, EIRC delivered the key note address and also explained the recent activities of the chapter as well as the Eastern Region. CMA Tapas Kanrar, past chairman of the chapter offered the formal vote of thanks.

The Institute of Cost Accountants of India - Bhubaneswar Chapter

On March 26, 2016 the Chapter received 19th Best Chapter Award as Category-A in the Eastern Region at National Regional Councils and Chapters Meet held at Munnar, Kerala for its commendable performances in respect of professional development activities, students' activities & outstanding performance at all India Level infrastructure, numbers of students and members enrollment through this Chapter etc. The said award was received by CMA Bibhuti Bhusan Nayak, Chairman of the chapter in the presence of CMA Bikram Keshari Das, Chairman, Professional Development Committee of the chapter and CMA Saswat Tripathy, Member of the Managing Committee of the Chapter, CMA Niranjan Mishra, Council Member and Chairman, Regional Councils and Chapters Coordination Committee of the Institute, CMA Shiba Prasad Padhi, Chairman, EIRC and CMA C. Venkata Ramana, Regional Council Member, EIRC from CMA Manas Kumar Thakur, Vice President of the Institute. On the same day Special Award was received as well with certificate of Scroll of Honour for first time from the Institute for conducting highest programme at Eastern Region for the Professional Interest in the presence of Council Members and Regional Council Members of the Institute. On April 14, 2016 the Chapter organized a Career Awareness Programme in association with the UNITECH Residential College, Naygarh, Odisha. CMA Siba Prasad Kar, Chairman, Coaching Committee of the Chapter highlighted about the profession, the facilities available at the chapter and how to become Cost and Management Accountant at an early age and also its career prospects. Chairman of the Chapter, CMA Bibhuti Bhusan Nayak highlighted about the profession and role of CMA professionals. He also interacted with the students in details. Mr Prabir Kumar Prusty, Academic Director, UNITECH Group of Institution and Dr. L.D. Sahoo, Professor in Commerce also encouraged and advised the students to pursue the Cost and Management Accountancy Course and highlighted about the career prospects.

NORTHERN INDIA REGIONAL COUNCIL

On February 13, 2016 the Region organized Northern Regional Students Convention at Islamic Center, New Delhi. The Chief Guest for the occasion was Shri Vikas Gupta, IIM & MD Compark Group, who addressed the students and had a lively interactive session with them. The Convention was graced by Council Member, CMA Sanjay Gupta, who was the guest of honour, CMA SK Bhatt, CMA Sunil Singh, CMA Ravi Sahni, CMA Anil Sharma & CMA Navneet Jain. Other speakers were CMA Dinesh Arora, Chief Financial Officer, Resonance Eduventures Ltd, Dr. Meraj Husain, Ex-Member, Film Censor Board, CMA Goutam Konar, Chief Manager (Finance) GAIL. On February 20, 2016 the region organized seminar on 'Investigation of Frauds & Practical Aspects of International Joint Venture'. Guest Speaker CMA Sunil Kr. Jain, shared the knowledge on the above theme. On March 2, 2016 the Region organised a program on 'NIRC Budget Special & Role of CMAs, in Direct & Indirect Taxation'. The key note speaker for the program was Mr Subhash Lakhotia, an eminent speaker on taxation and an income tax practitioner, for the last 45 years. Shri Satish Kumar Agrawal, Commissioner Customs & Central Excise, being the guest of honour for the occasion, spoke on both Indirect & Direct taxation, in the light of the proposed budget. Another speaker was Shri Hitender Mehta, a leading consultant & practitioner of taxation & business advisory services also deliberated on matters relating to taxation. The occasion was also graced by Chairman NIRC, CMA S.K. Bhatt, Council Members, CMA Sanjay Gupta, CMA I. Ashok, Vice Chairman NIRC CMA Ravi Kumar Sahni, CMA Anil Sharma, RCM & CMA Navneet Kr. Jain, RCM. CMA Rakesh Bhalla, Ex-Chairman NIRC, also addressed the gathering and shared his experiences, in the industry as the General Manager of a leading private sector organisation. NIRC organized a Practitioners' Meet on March 4, 2016 to discuss the suggestions on The Draft Companies (Cost Records and Audit) Amendment Rules, 2016. Detailed discussions on each point of the Draft Rules were held. CMA B B Goyal, Advisor, ICWAI-MARF guided the members as to how to send the suggestions encompassing the justifications. Various members presented their suggestions for the different industries in a lucid manner along with justifications. NIRC forwarded the suggestions point-wise separately to HO for onward submission to MCA. On 25 February 2016 a new study circle has been formed in Noida, 'Oil & Gas CEP Study Circle Noida' by CMA members of GAIL (India) Limited inaugurated by CMA R C Gupta, Executive Director- Finance of GAIL India Limited and by CMA S.K. Bhatt, Chairman NIRC. Convener of study circle is CMA A K Tiwari, GM, F&A and Deputy Convener CMA A K Jain, CM, F&A.

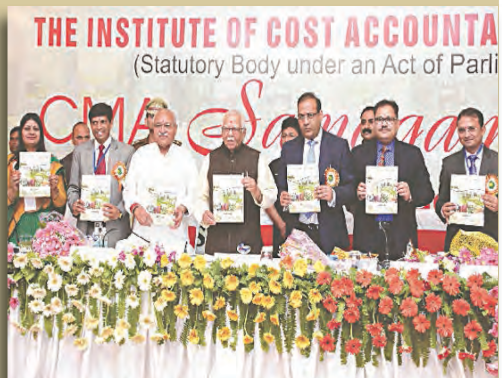
The Institute of Cost Accountants of India - Patiala Chapter

The Chapter organized a one day seminar on the occasion of silver jubilee celebrations based on the theme of GST and Ind AS (IFRS) on April 10, 2016. The seminar had been organized to share the knowledge and to spread taxation, Accounting literacy and G.S.T awareness in view of Indian economy. CMA V.K. Geol, patron and ex-chairman of the chapter, while narrating the history of the chapter, mentioned about the chapter having successfully covered a period of 25years. Keynote address by CMA U.K. Panda, Chairman, PSTCL and presidential address by the chief guest and guest of honours was deliberated during the

inaugural session. The seminar started with enlightening of the lamp by the chief guest CMA D.C. Bajaj Member, Airport Economy Authority of India & by guest of honour CMA Anil Kumar Gupta, IRS Commissioner Customs from Bombay along with executives of the chapter. The programme was followed by two technical sessions, where in the experts in their respective field detailed deliberations. First technical session, GST was chaired by CMA Anil Kumar Gupta and key speaker, CA Bimal Jain delivered his enriching deliberations on the topic. Second technical session was chaired by CMA UK Panda and key speaker CA Eish Taneja shared his expertise on the concerned theme. CMA JK Puri, past president of the Institute, CMA SK Bhatt, chairman NIRC, CMA Balwinder Singh, Council Member, CMA Anil Sharma, treasurer NIRC, CMA Rakesh Bhalla, past chairman NIRC and chairman and representatives of other chapters also graced the occasion.

The Institute of Cost Accountants of India - Lucknow Chapter

The Chapter and Direct Tax regional training institute jointly organized workshop on Methods of Cost Determination in various trades and industry on March 21, 2016 for training of newly recruited Income Tax Inspectors. The workshop was inaugurated by Deputy Commissioner, Shri Sanjeev Krishnan and asst. Commissioner, Rajeev Mohan of Income Tax Department along with Chairperson, CMA Anjana Chaddha, Vice Chairman CMA Pawan Kumar Tiwary, Secretary, CMA Dharmendra Singh Saluja, Joint Secretary, CMA Neha Sharma, Treasurer, CMA Amit Yadav. Speaker of the workshop was CMA Pawan Kumar Tiwary, Vice Chairman of the chapter and he elaborated on various cost determination methods.



The Chapter organized CMA Samagam on success sutras for 'Make in India' commenced with lighting of lamp by Shri Ram Naik ji, Governor U.P., Dr. Laxmi Kant Bajpayee, MLA/ State President BJP, U.P, CMA S. K. Bhatt, Chairman, NIRC. Chief guest Sri Ram Naik expressed his views on the role of Cost and Management Accountants for achieving success of 'Make in India'. Further he said about the cost competitiveness and its benefits in Indian economy. First technical session was focused on strengthening MSMEs . Chief guest Shri Manish Goyal, President IIA discussed about the role of professionals for the best utilization of the resources and assets. Technical speaker CMA S K Pandey, CFO, J P Infra said that CMA Profession has a vital role for strengthening MSMEs. CMA Anuradha Gupta also expressed her views and focus on 'Waste and Resource Management'. She also emphasized on best use of natural products and avoiding wastage. Second Technical Session focused on 'India's Urbanization - Smart Cities' in which Shri Rahul Nehra, Chairman Smart Village Foundation emphasized on the development of villages. CMA Pankaj Gupta,

Chancellor, Jindal University, Shri Sudhir Krishna, Former Secy., Ministry of Urban Development also shared their significant experiences. The Chapter and NIRC jointly organized Members Meet on February 9, 2016 to meet and discuss various issues governing profession.

The Institute of Cost Accountants of India - Jaipur Chapter

On March 26, 2016 the Chapter achieved Best Chapter Award in category 'A' of NIRC for the year 2015 in recognition of its commendable performance. On behalf of the chapter this award was received by chairman of the chapter CMA R.K. Bhandari. The award was received at the National Regional Councils and Chapters Meet at Munnar, Kerala.

SOUTHERN INDIA REGIONAL COUNCIL

SIRC Women's Wing organized programme on 'ICAI National Woman CMA Summit – 2016' celebrating 150th anniversary of International Women's Day on March 8, 2016 on the theme 'Women- A key player in Socio-Economic Development' with Technical Sessions on 'Role of CMA Professionals in Startups in Economic Development and Touching Lives in Social Development'. The Inaugural session was headed by CMA K Sanyasi Rao, Chairman, SIRC, CMA Manas Kumar Thakur, Vice President, CMA Kaushik Banarjee, Secretary of the Institute along with Chairperson CMA Jyoti Satish, Convener Summit CMA S Subhashini, Patron CMA Latha Venkatesh. Welcome speech was given by Chairperson CMA Jyoti Satish. The Guest of Honour was Ms. Jayashree Ravi, Proprietor Shri Palam Silks & Dr. Kalyani Madhivanan, Former Vice Chancellor, Madurai Kamaraj University gave the Inaugural address. They spoke about the Role of Women and their different phases in life and work. Vote of thanks was proposed by CMA S Subhashini. The Techinical Session – I was about 'Economic Development – Role of Professionals in Start-up'. It was addressed by guest speaker Ms. Gayathri Sriram, Managing Director, UCAL Products Private Ltd, Ms. Subhasri Sriram, CFO, Shriram City Union Finance Ltd & Dr. R. Shanthi, Convenor Retail Panel, FICCI,TNSC. They briefed on the theme of Parallel Planning with 4 VCVC – Val-

ues, Commitment, Vision, Continuity Planning to manage Family and Business and discussed on work life balance for professional women. The Technical Session – II was on 'Social Development – Touching lives'. The Guest speakers were Dr. Saundharya Rajesh, Chairman – Avatar Group, Kalaimamani Dr. Ambika Kameshwar, Raasa , Padma Vibhushan Dr.V.Shanta, Chairman, Cancer Institute (WIA). The Valedictory Session was welcomed by CMA Jyoti Satish, addressed by CMA V. Kalyanaraman, the Former President, ICAI & SAFA. The Special address was given by Ms.Judith Lepuschitz, US Consul General, representative. She spoke about garnering family support for a Successful Professional life. Qualities of women for Excellence in Profession were highlighted; Faithfulness, Focus, Persistence, Positivity, Creativeness & Trustworthiness. Women need to look at the bigger picture and come up to the top. Vote of thanks was delivered by CMA Latha Venkatesh, Patron Women's Wing.

The Institute of Cost Accountants of India - Coimbatore Chapter

A joint PDP meeting with local chapters of ACA & ACS on Union Budget 2016 was conducted on March 1, 2016. CA Divakar Vijayasarathy spoke on direct taxes and CA Prasanna Krishnan deliberated on indirect taxes. The tenth batch of industry oriented training for final students commenced from March 5, 2016 wherein 22 students registered with the chapter. On the same day the chapter conducted International Women's Day celebration. The senior manager of Bharatiya Mahila Bank Ltd., Coimbatore branch, Sri. Santosh Kumar Patra was the chief guest who spoke on the schemes for women in their bank. Dr Karuna MBBS, DGO (Ireland), FCD (Obs & Gynae) provided valuable tips for good health & hygiene for women. An open forum discussion on 'Cost Audit & Records – Exposure Draft' was held at the chapter on March 11, 2016.

The Institute of Cost Accountants of India - Bangalore Chapter

The Chapter conducted the inauguration of oral coaching classes on February 20, 2016. CMA S. Narasimhan, Director (Finance) & CFO, M/s. Schneider Electric IT Business India Pvt Ltd., Bangalore was the chief guest of the occasion. CMA G. Chidambara, Chairman-Coaching, gave a brief report on the coaching activities. A one day workshop on Foreign Trade Policy was held at the chapter on February 20, 2016. Shri. M.G. Kodandaram, Faculty, National Academy of Customs, Excise and Narcotics(NACEN Bengaluru) spoke on the first technical session on 'Exim Policy Impact on Custom Procedures' and Shri Prashanth S. Bhat, Consultant, SME Network - Foreign Trade Advisors, spoke on second technical session on 'Overview of Foreign Trade policy - 2015-2020'. A Training Programme was conducted on

'Maintenance of Cost Accounting Records & Cost Accounting Standards, Budgeting, MIS, Inventory Management and Statutory Compliance, Cost Management in Public Sectors Enterprises – Strategic issues and Co-ordination with Departmental Heads' for the officials of Karnataka State Public Sector (State PSUs) from February 22 till February 26, 2016. The Chapter organized a Practitioner's Meet on March 2, 2016, to discuss on Draft Companies (Cost Records and Audit) Amendment Rules 2016. A Professional Development Programme was held on March 5, 2016. CMA Dr. A.S. Gurudath delivered lecture on 'Role of CMA in Forensic Accounts and Audit'. The programme began with a welcome address by CMA Geetha. S, chairperson of the chapter followed by introduction of chief guest by CMA N. Raveendranath Kaushik, chairman, professional development. Union Budget 2016-17 Analysis and Discussion was held by the chapter on March 8, 2016. Sri Karthik Ranganathan, Tax and Corporate Lawyer, spoke on direct taxation and Sri M G Kodandaram, Faculty NACEN deliberated on indirect taxation. A Refresher Course on indirect taxation was conducted on 11 and 12 March 2016 at the chapter. Dr. B V Murali Krishna, Joint Commissioner of Commercial Taxes, Govt. of Karnataka spoke on GST – Relevance and Present Indirect Taxation. CMA Vishwanath Bhat, Cost Accountant discussed basic concepts of K-VAT – definition of dealer etc. CMA Girish K, Cost Accountant spoke on Filing of Returns (Original/Revised), Taxable Turnover, Exemptions/Deductions etc. and Registration Procedure, Types of Returns – ER1, ER2, ER3, ERI Returns, Dealer Return, Self Assessment, Audit, Appeals under Central Excise etc. CMA K.S. Kamalakara, Cost Accountant spoke on important provisions of CST-Taxable Turnover, Exemptions/ Deductions, Interstate Sales, E1, Stock Transfer, Deemed Exports, Statutory Forms – C/E1/H/F, Declared Goods. Shri. M V Sridhar, Management Consultant, spoke on basic concepts of Central Excise –Manufacture, Marketability, Dutiability, Goods, Tariff, amounting to Manufacture etc. Shri Thontaarya, Dy. Commissioner of Commercial Taxes, Govt. of Karnataka, CMA T.K. Jaganathan, spoke on Rule – 8 of Central Excise Valuation Rules with reference to CAS-4. A professional development programme was held on March 24, 2016 where CMA R. Asokan, Advisor (Cost), CAB, Ministry of Corporate Affairs, Govt. of India was the Chief Guest. CMA P. Raju Iyer, Council Member and Chairman, Cost Auditing and Assurance Standards Board of the Institute gave an overview of the PD Programme, CMA A.K. Kapoor, Former Additional Chief Advisor (Cost), Ministry of Finance, Govt. of India, delivered lecture on 'Implications and Impact of Standards on Cost Auditing (Approved Standards)'. .

The Institute of Cost Accountants of India -Cochin Chapter

The Chapter and SIRC jointly organised the first Kerala State Cost Convention on March 28, 2016 on the theme 'CMA – DNA of Make in India's Cost Competitiveness' inaugurated by Shri Sajiv K Menon, Managing Director, Nita Gelatin India Pvt Ltd. The inaugural function was presided over by CMA Manas Kumar Thakur, Vice President of the Institute and delivered the presidential address. CMA A Selvam, chairman of the chapter & convener KSCC, CMA Sanyasi Rao, chairman, SIRC, CMA Papa Rao Sunkara, council member and CMA I. Ashok, council member delivered felicitation. The first session was handled by CMA A. N. Raman, Past President, SAFA and delivered on the topic 'CMA – DNA of Make in india's Cost Competitiveness'. In the second session, Shri. Anand, Head Sales, Kerala delivered the talk on the topic 'MCX – Derivatives'. The final session was a panel discussion led by Dr K.N.Raghavan, [IRS], Commissioner Customs, Cochin. During the session, CMA Ashok B. Nawal, council member discussed on 'Cost Competitiveness in GST Regime', ADV. Sivadass G., Principal Partner & Country Head, Lakshmikumaran & Sridharan Attorneys, Bangalore discussed on 'Indirect taxation challenges - Legal perspective' and CA N L Soman, Bharath Petroleum Corporation discussed on 'Indirect taxation challenges - Industry perspective'.

The Institute of Cost Accountants of India -Hyderabad Chapter

On March 1, 2016 students visited SEBI for better understanding about SEBI and its operations. On March 2, 2016 a joint meeting held with ICSI, Hyderabad Chapter, All India Federation of Tax Practitioners, SZ & Telangana Tax Practitioner's Association on 'Union Budget, 2016-The Finance Bill, 2016-Analysis' where speakers CA Shankar Bala, Ernst & Young LLP, India initiated by indicating the nine-point agenda of the government and CA K.C. Devdas, Practising Chartered Accountant explained in details the relevant changes in direct taxes.

On the same day, practitioner's study circle meet on 'The Draft Companies (Cost Records and Audit) Amendment Rules, 2016' was organized. On March 11, 2016 in house training programme conducted on 'Taxation in TRANSCO and GENCO' and CMA V.S.R.M. Kasyapa, Practising Cost Accountant & Sri J.V. Rao, Advocate & Tax Consultant discussed the applicable provisions and the changes as per the latest finance bill. On March 16, 2016 an evening session on 'Challenging the Challenges in Infra Space' at CMA Bhavan was held by the chapter. CA J. Ravikumar, CFO, L&T Metro Rail Hyderabad Ltd, the speaker, highlighted the hurdles in the infrastructure industry with respect to funding, market demand and difficulties in the implementation of projects. On March 30, 2016 an evening session on 'Import and Export Procedures' at CMA Bhavan, Himayatnagar been held and Sri VBSS Koteswara Rao, EXIM Consultant the speaker and a highly experienced consultant in the procedures of imports and exports, an author of regular articles in 'Eenadu' and also on the advisory panel on the import and export policies to the government of AP, discussed the various products that contribute to the imports / exports and gave an overview of various procedures. On 28 and 29 March, 2016 a joint two day seminar with Department of Commerce, Osmania University & Insurance Institute of India, Bombay was organized on 'Role of Insurance in Financial Inclusion' at Business Management Auditorium, University college of Commerce & Business Management, Osmania University. This was a two-day comprehensively designed program and had thrown light on all aspects of insurance.

The Institute of Cost Accountants of India -Mangalore Chapter

The Chapter on 9, 16 and 24 February, 2016 organized three career counseling programmes conducted at various colleges in and around Mangalore addressed by CMA Ullas Kumar Melinamogaru, Chairman of the chapter. During these career awareness programmes the students were informed about the course, mode of registration, syllabus, its structure, opportunities available etc.

The Institute of Cost Accountants of India -Mettur Salem Chapter

On March 5, 2016 the Chapter and Salem Chapter of ICSI organized a joint seminar based on the theme of 'Limited Liability Partnership' at ICSI Chapter premises. CS N Santhanam, Salem in his speech outlined the significance of Limited Liability Partnership. He deliberated that the concept in India mostly evolved on the principle of providing a single window solution for corporate coming from abroad for performing business in India. On March 19, 2016 a joint seminar on 'Union Budget 2016' was organized by the Chapter and the Salem Chapter of ICSI. CS N Santhanam, Chairman, Salem Chapter of ICSI introduced the theme. Chartered Accountant from Salem, Shri BA Shankar gave a brief outline of the Budget 2016. He discussed the amendments brought out in the Direct Taxes with particular reference to Personal Income Tax.

The Institute of Cost Accountants of India -Trivandrum Chapter

The Chapter organized a professional development programme on March 13, 2016 at its CMA Hall on the theme 'Start-up Financing – Challenges and Opportunities'. The Guest Speaker CMA Aravindakshan K., Asst General Manager, Kerala State Industrial Development Corporation Ltd. discussed various opportunities available to young entrepreneurs who are ready to take up challenges of establishing new ventures and expanding existing operations. Attempts made by financial institutions, central government and state governments to ease formalities required for opening new organization were also elaborated. The meeting was attended by members and students and concluded with vote of thanks by CMA Joseph Louis, secretary of the chapter.

WESTERN INDIA REGIONAL COUNCIL

The Institute of Cost Accountants of India -Ahmedabad Chapter

On March 9, 2016 Students' Convention 2016 as a part of golden jubilee had been held at Ahmedabad Management Association (AMA) inaugurated by Vice Chancellor of Gujarat University, Dr. M N Patel being the Chief Guest and Dr. Ramakant Prusti, Principal of B P Patel College of Business Administration, Gandhinagar, the guest of honour. CMA V H Savalia, chairman of the chapter, CMA Ashish Bhavsar, vice chairman of chapter, CMA Manish Analkat, secretary of the chapter, CMA P H Desai, RCM and vice chairman, WIRC, CMA P D Modh, chairman of Students' Convention and Oral Coaching and CMA Prof. S S Shah, Ex-Chairman, WIRC and other senior CMAs, faculties and administrative staff of the chapter were present in the convention. On March 18 and 19, 2016 the chapter organized a two day seminar to celebrate its golden jubilee and theme for the two days seminar was 'Challenges and Opportunities under Emerging India'. Guest of honour, Shri Kartikeya Sarabhai aptly drew the attention to the importance of environmental sustainability and Chief Guest was Dr. Jaynarayan Vyas who gave an insight on the four major challenges against emerging India like Water Scarcity, Food Scarcity, and ineffective utilization of energy. CMA J B Mistry and Shri Asim Mukhopadhyay delivered a session on 'Challenges and Opportunities – Make in India' and they highlighted the role of Management Accountants in global manufacturing. IAS Shri Nagarajan made the realization of the pains taken by government to rejuvenate the existing scenario of health care sector in rural areas. On March 19, 2016, in the first session on 'Start Up India' , Mrs. Hina Shah and CSV Mani Iyer expressed that it's not the finance that is the constraint but the lack of mentorship for entrepreneurial attitude. Deliberating on power sector, Shri P H Rana and Shri M B Kaka said that most dependable source of energy is sun and that Government has deployed Solar Policy 2015 to capitalize the same along with an insight on costing involved in generation, transmission, and distribution of power that are minutely governed by the power sector. Sanjay Gaden and Vivek Ogera briefed about three major components of Digital India Scheme- Infrastructure, Services and Governances. They emphasized the importance of Digital Empowerment and necessity for Digital Transformation. In the valedictory session, CMA Ashok Nawal, Chairman, Indirect taxation Committee

of the Institute briefed all the participants about the professional development and seminar ended with vote of thanks by CMA Ashish Bhavsar, vice chairman of the chapter. On March 20, 2016 all members and students of the chapter gathered for the Golden Jubilee Celebration. Dr. Ramzan Surani, a well-known motivational speaker then carried forward the event with his delightful speech on the theme 'Let us win'.

The Institute of Cost Accountants of India -Kolhapur Sangli Chapter

A CEP was organized on February 28, 2016 at the chapter premises conducted by CMA D.D. Jadhav on the theme 'Core Accounting Solution' in the first session and he explained how the on-line cost accounting solutions for sugar industry could be made applicable in any industry and with what modifications. Second session was conducted by CMA A.B. Karpe, a respected Cost Accountant working in Co-operative Gokul Dairy in Kolhapur on the theme 'An Innovative & Novel Approach towards Raw Material Cost Analysis - especially for Cattle Feed Industry.'

The Institute of Cost Accountants of India -Pimpri Chinchwad Akurdi Chapter

The Chapter conducted a CEP seminar on 'Budget 2016' on March 3, 2016 at CMA Bhawan. CMA Rahul Renavikar, Executive Director , Ernst & Young LLP, Mr. Mitesh Thakkar, Manager, Ernst & Young LLP and CMA L D Pawar, RCM were the guest speakers in the seminar. In the first Technical session, CMA Rahul Renavikar explained the background of Budget 2016, economic policies of the Govt and gave analysis of changes in customs and service tax. In second technical session, Mr. Mitesh Thakkar gave an in depth analysis of impact on Direct Taxes as per Budget. In third technical session, CMA L D Pawar explained the impact on Central Excise due to Budget. CMA B M Sharma, Former President of the Institute gave a brief overview of the relevant changes in Budget 2016. On March 12, 2016 the chapter conducted CEP seminar on 'Activity Based Costing-Part 2'. In the technical session, CMA C S Adawadkar, the guest speaker provided a brief overview of the part covered in the first seminar on activity based costing and then continued to explain how this system can be implemented effectively in organizations. The chapter on behalf of WIRC conducted Investor Awareness programme for the benefit of students, members, staff and general public on March 18, 2016 at CMA Bhawan. CMA Arvind Paranjape, the guest speaker explained the audience the basics of investing and how being a regular investor is beneficial to the common man.

Strategic Cost Management
in Telecom Sector

Foreign Direct Investment (FDI) in Telecom Sector:

The telecommunication industry is considered as the backbone of industrial and economic development. The industry has been serving through delivery of voice and data services at rapidly increasing speeds, and thus, has been upgrading human communication. This sector requires huge investments for its expansion as it is capital-intensive and FDI plays a vital role in meeting the fund requirements for expansion of the telecom sector. The inflow of FDI has provided remarkable momentum to the sector in the past few years. In this context, CMAs can project the cash flows appropriately after considering the uncertainties and risk associated with the project.

Legal & Advisory services:

A practicing Cost Accountant is authorized to appear for Telecom Disputes Settlement Appellate Tribunal to resolve the disputes of the service providers. He may even render advisory services to the companies in telecom industry regarding policy decision, cost reduction, maintaining the quality, initiating innovative schemes and carry out audit for Metering and Billing Accuracy through his professional expertise in costing and accounting.

Tariff & Subsidy Mechanism:

Tariff rebalancing and interconnection regulation plays a significant role in reforming the telecom sector, characterized by rapid technological changes and monopoly service provision. In this regard, the CMAs can frame cost competitive tariff and subsidy mechanism to ensure availability of quality service to consumers at reasonable and competitive rates, ensure financial viability of the sector and attract investments, promote transparency, consistency and predictability in regulatory approaches across jurisdictions and minimize perceptions of regulatory risks as well as promote competition in addition to efficiency in operations.

Infrastructural Issues:

The telecom sector is a very capital intensive sector and requires large investments. The telecom licenses permit the telecom operators to share passive infrastructure such as building, tower, dark fibre, etc. However the procurement and maintenance of active infrastructure proves to be a very expensive affair for operators. With the robust growth in the telecom sector, the government recognized that infrastructure sharing would greatly reduce costs for the operators. Social Cost Benefit Analysis (SCBA) is an appraisal tool to evaluate the benefits that a society may get from the proposed project. It is a study of feasibility of a project in terms of its total economic cost and total economic benefits. Thus CMAs can suggest the Government by applying SCBA technique to determine whether active or infrastructure sharing are feasible or not for a proposed project. Again, SCBA also facilitates for apt planning, decision-making, evaluation and controlling of project costing.

Public-Private Partnership (PPP) Model:

Infrastructural bottleneck has been a grave concern in India in its way of robust pace of economic progression. In India, private participation in the process of infrastructure development has received uninspiring response. While private telecom services is a success story in India, the PPP constitutes a diminutive share in overall infrastructure building despite initiation of various policy adjustments and sector-specific reform programmes. Development of Telecom sector with the PPP may have a changing pace in the overall economic development, which requires an investor friendly environment with commercial viability of the projects. To surmount the infrastructural bottlenecks, the CMAs can instigate apt strategies to systematize the infrastructure more effectively, balance the public-private interest, benchmark governance methodologies, technology, check allocation and apportionment of funds, carry out Risk Mapping and proper designing of the projects.

Enterprise Risk Management:

Telecommunication subsists in a highly complex and interconnected environment, where information assurance and cyber security are pivotal to a successful business. Addressing these challenges begins with the implementation of an information security policy that will set the foundation for ensuring the confidentiality, integrity, and availability of company information and communications. Enterprise risk management (ERM) is a process designed to anticipate and analyze potential opportunities and threats that could affect the achievement of the organization's objectives and goal. CMAs are professionally trained and are competent enough to analyze information system's performance and carry out Internal Audit for developing and implementing Enterprise Risk Management and Internal Control systems within the organizations. With the help of various cost management techniques, CMAs help to identify the constraint factors that limit the performance of organizations.

Spectrum Management:

The Indian government is aware about the potential of the Telecom sector in advancing financial access, improving information, and raising productivity in the economy. It has therefore initiated major flagship programs like Digital India and Smart Cities which primarily depend on telecommunications infrastructure. India, however, needs to develop its wireless infrastructure and spectrum policy for this potential to be fully realized. While spectrum availability is a global challenge faced by all economies, it is particularly a matter of concern in India. Through affordable devices, reasonable telecommunications fees, and low mobile taxes, the digital sector can prosper and propel the overall economy. Improvements in these areas can boost Internet access and provide access to affordable services and diverse content. CMAs may render advisory services to the companies in telecom industry in taking policy decision, cost reduction, maintaining the quality, introducing innovative schemes etc., by virtue of expertise in costing and accounting to attain desired economic growth and societal inclusion.

CUSTOMS

Notifications: Tariff:

- Duty rate on Butter, ghee and butter oil is applicable @ 30% till 30th June 2016 & Duty rate of Wheat is applicable @ 25% till 31st March 2016. **[Notification No. 24/2016 dated 28th**March 2016]

- HRD Diamond Institute Private Limited, Mumbai, Maharashtra can procure cut and polished diamonds without payment of Duty subject to following the conditions of exemption notification. **[Notification No. 25/2016 dated 30th March**2016]

- Duty rates for goods imported by passenger or a member of a crew as baggage, has been increased from 30% to 35% **[Notification No.26/2016 dated 31st March 2016]**

- Indian passport holder coming back to India after spending more than 365 days in abroad in proceeding two years is exempted from payment of duty in excess of 15 % on electronic products as specified in the Notification. **[Notification No. 27/2016 dated 31st March 2016]**

- Duty rates on specified goods imported from Japan has been reduce by almost 50%. **[Notification No. 28/2016 dated 31st March2016]**

Non-Tariff:

- India-ASEAN Trade in Goods Agreement (Safeguard Measures) Rules, 2016 has been notified. It is to insure the safeguard of domestic industry from serious injury them as a consequence of increased imports of a good into India in terms of the India-ASEAN Trade Agreement. **[Notification No.37/2016-Cus (NT) dated 04th March 2016]**

- Tariff Value of following imported goods have been amended as given below:

Sl. No.	Chapter/ heading/ sub-heading/tariff item	Description of goods	Tariff value (US $ Per Metric Tonne)
(1)	(2)	(3)	(4)
1	1511 10 00	Crude Palm Oil	698
2	1511 90 10	RBD Palm Oil	706
3	1511 90 90	Others - Palm Oil	702
4	1511 10 00	Crude Palmolein	711
5	1511 90 20	RBDPalmolein	714
6	1511 90 90	Others - Palmolein	713
7	1507 10 00	Crude Soyabean Oil	767
8	7404 00 22	Brass Scrap (all grades)	3030
9	1207 91 00	Poppy seeds	2533

Sl. No.	Chapter/ heading/ sub-heading/tariff item	Description of goods	Tariff value (US $)
(1)	(2)	(3)	(4)
1	71 or 98	Gold, in any form in respect of which the benefit of entries at serial number 321 and 323 of the Notification No. 12/2012-Customs dated 17.03.2012 is availed.	402 per 10 grams
2	71 or 98	Silver, in any form in respect of which the benefit of entries at serial number 322 and 324 of the Notification No. 12/2012 - Customs dated 17.03.2012 is availed.	502 per kilogram

Sr. No.	Chapter/ heading/ sub-heading / tariff item	Description of goods	Tariff value US $ (Per Metric Tonne)
(1)	(2)	(3)	(4)
1	80280	Areca nuts	2599

[Notification No.44 /2016-Cus (NT) dated 31st March 2016]

- Customs (Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 1996 have been amended. Now the bond to be executed by the manufacturer shall be supported by a surety, the word security has been excluded. Also have added new Rule that reference to the old rules in any rule, notification, circular, instruction, standing order, trade notice or other order, shall be construed as a reference to the new rules.

[Notification No.39 /2016-Cus (NT) dated 15th March 2016]

- Kashipur District U.S. Nagar, has been appointed as Customs Port for Unloading of imported goods and loading of export goods.

[Notification No.40/2016-Cus(NT) dated 16th March 2016]

- Kakrawah, Siddharthnagar District, Uttar Pradesh is appointed as land customs station for the purpose of clearance of baggage, passenger vehicles and tourist vehicles.

[Notification No.42/2016-Cus(NT) dated 29th March 2016]

- The Customs Baggage Rules 2016 have been amended. Highlights of which are as below.
  - An Indian resident or a foreigner residing in India or a tourist of Indian origin can import articles other than used personnel effects & travel souvenir for value upto Rs. 50000/- without payment of Duty
  - Tourist of Foreign origin can import articles other than used personnel effects & travel souvenir for value upto Rs. 15000/- without payment of Duty.

[Notification No.43/2016-Cus(NT) dated 31st March 2016]

Anti-Dumping Duty:

- Definitive Anti-Dumping duty is imposed on Phenol (2907 11 10), originating in, or exported from the European Union, Singapore and Korea RP. It shall remain in force from 8th March 2016 to 7th March 2021.

[Notification 06/ 2016 - Cus (ADD), dated 08th March 2016]

- Definitive Anti-Dumping duty is imposed on Polypropylene (3902 10 00, 3902 30 00), originating in, or exported from Singapore. It shall remain in force from 8th March 2016 to 7th March 2021.

[Notification 07/2016-Cus (ADD), dated 08th March 2016]

- Amendments have been made in Notification No. 27/2014-Customs (ADD), dated the 13th June,

2014, imposing anti-dumping duty on imports of Homopolymer of Vinyl Chloride Monomer (3904) originating in or exported from Taiwan, the people's Republic of China, Indonesia, Japan, Korea RP, Malaysia, Thailand and the United States of America. Amendments are made w.r.t country of export.

[Notification 08/2016-Cus (ADD), dated 11th March 2016]

- Definitive Anti-Dumping duty is imposed on all kinds of Plastic processing machines or Injection moulding machines (8477 10 00) originating in, or exported from Chinese Taipei, Philippines, Malaysia or Vietnam. It shall remain in force from 15th March 2016 to 14th March 2021.

[Notification 09/2016-Cus (ADD), dated 15th March 2016]

- Definitive anti-dumping duty has been imposed on imports of the '2-Ethyl Hexanol (2EH)' (Chapter Heading - 29051620), originating in, or exported from the European Union, Indonesia, Korea RP, Malaysia, Chinese Taipei and United States of America. It shall remain in force from29th March 2016 to 28th March 2021.

[Notification 10/2016-Cus (ADD), dated 29th March 2016]

- Definitive anti-dumping duty has been imposed on imports of Tyre Curing Presses also known as Tyre Vulcanisers or Rubber Processing Machineries for tyres, excluding Six Day Light Curing Press for curing bi-cycle tyres originating in or exported from the People's Republic of China. It shall remain in force from 29th March 2016 to 28th March 2021.

[Notification 11/ 2016-Cus (ADD), dated 29th March 2016]

- Provisional anti-dumping duty on have been imposed on 'Glazed/Unglazed Porcelain/Vitrified tiles in polished or unpolished finish with less than 3% water absorption' (Chapter Heading - 6907,

6908 or 6914) originating in or exported from the China PR. It shall remain in force from 29th March 2016 to 28th September 2016.

[Notification 12/2016-Cus (ADD), dated 29th March 2016]

Safeguard Duty:

- Safeguard Duty have been levied on import of Hot-rolled flat products of non-alloy and other alloy Steel in coils of a width of 600 mm or more (Chapter Heading 72253090) for import from countries notified as developing countries other than People's Republic of China and Ukraine. It shall remain in force from 14th September 2015 to 13th March 2018. *[Notification No. 1/2016- Customs (SG) dated 29th March 2016]*

Circulars:

- It is declared that the domestic passengers who board international flights in the domestic leg are not required to file the Customs Baggage declaration form.

[Circular No. 08/2016 dated 8th March 2016]

- It is clarified that all microphones including Wireless microphone sets/systems consisting of one or more wireless microphones and a wireless receiver are classifiable under tariff item 85181000.

[Circular No. 09/2016 dated 11th March 2016]

- CBEC has taken-up the task of implementing 'Indian Customs Single Window Project' to facilitate trade. Following are some highlights,
  - Online Clearance from Participating Government Agencies (PGAs)
  - Integrated Declaration under Customs Single Window Project

[Circular No. 10/2016 dated 15th March 2016]

- The term "Other person" used in section 28(2) &

28(6) of the Customs Act,1962 have been clarified as the one who happens to be co- noticees for in the SCN for their act of commission or omission other than demand of duty. If the noticee pay the duty, penalty & interest, personal penalty levied on this co-noticees will be withdrawn. *[Circular No. 11/2016 dated 15th March 2016]*

- In the wake of non-genuine transferable duty credit scrips or DFIA in the market, department have laid down procedure for verifyinggenuineness of these scrips at each stage. *[Circular No. 12/2016 dated 28th March 2016]*

Instructions:

- Bill of entry will be replaced by Integrated

Declaration w.e.f. 1st April 2016. Integrated Declaration to includes details as below,

- Additional requirement as required by the Participating Government Agencies (PGAs) for custom clearance of goods,
- Unique Consignment Reference foridentification of consignment in the international supply chain.
- New Field is added for Payment Method Code.
- Third party details of person who is going to make payment on behalf of importer,
- Authorized dealer code of bank making outward payment.

[F.No. 450/147/2015-Cus-IV dated 31th March 2016]

CBEC Notified Exchange Rate for Conversion of Foreign Currency w. e. f, 5th April, 2016[Notification No.47 /2016-Customs (N.T) Dated 4th April2016]

CENTRAL EXCISE

Notifications:

Tariff:

- No new notification

Non-Tariff:

- Following amendments has been made in IGCRD Rules 2016;
- Effective date for Central Excise (Removal of Goods at Concessional Rate of Duty for manufacture of Excisable and Other Goods) Rules, 2016 has been notified as 16th Mar 2016.
- Further for availing the benefit under the rule there will not be requirement of submission of security while executing the general bond only surety is required.
- In the said rules new rule 8 is inserted to interpret references in any rule, notification, circular, instruction, standing order, trade notice or other order for the Central Excise for Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable and Other Goods) Rules, 2001 as the Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable and Other Goods) Rules, 2016.

[Notification No.22/2016-CE (N.T.), dated 15th Mar 2016]

Circulars:

- In case Set top box are imported by DTH service providers which are installed at consumer free of cost, the CVD is required to be paid on transaction value instead of CVD on the basis of retail sales price. This has been upheld by Hon'ble Tribunal in case of M/s Bharti Telemedia Ltd. The field formation are instructed to follow the case.

[Circular No.1020/8/2016-CX, dated 11th Mar 2016]

- It has been decided to constitute a Sub- committee of the High Level Committee to interact with Trade & Industry on imposition of central excise duty on jewellery, chaired by Dr. Ashok Lahiri. All the associations will be given an opportunity to submit representation before the sub-committee in writing and the all India associations to state their case in person.

Sub-committee will include the issues related to compliance procedure for the excise duty, including records to be maintained, forms to be filled including Form 12AA, operating procedures and any other issue that may be relevant and submit the report within 60 days of its constitution.

- Till the recommendation of the sub-committee is finalized, the following shall be followed;
- All the payments of central excise duty will be based on first sales invoice value
- The central excise authorities will not challenge the valuation given in the invoice, not visit the manufacturing units/shops/place of business/residence of the jewellers, arrest or criminal prosecution of any jeweller, no search or seizure of stocks.
- Exporters will be allowed to export on self- declaration and submission of LUT to customs without ratifying by Central excise.
- The excise registration of the establishment can be taken within 60 days from 1st Mar 2016. However, excise duty liability will be effect from 1st Mar 2016, and assessee jewellers permitted to make payment for march along with Apr 2016.

[Circular No.1021/9/2016-CX, dated 21th Mar 2016]

Instructions:

- Committee of Commissioners and Committee of Chief Commissioners are empowered to review the order passed by Commissioner (Appeals) order or order of Principal Commissioner/ Commissioner respectively. It has been clarified that there is no provision for reviewing the same order twice by the Committee. Committee has been instructed to strictly follow the provision laid down in law and amount of involved before preferring appeals against the order passed.

[Instruction No.F.No.390/Review/36/2014-JC, dated 17th Mar 2016]

SERVICE TAX

Notifications:

- Amendments are been made in Service Tax Return so as to made incorporate entries w.r.t Swacch Bharat Cess therein. However revised ST-3 utility is not yet released on ACES site. *[Notification No.20/2016 ST 8th March 2016]*

- Just provision has been inserted in Rule 7 of the Point of Taxation Rules, 2012. Now if the service is provided & invoice is issued before change of taxable liability then even if payment is made after such event then rate prevalent at the time of issue of invoice will prevail. *[Notification No.21/2016 ST 30th March 2016]*.

Circular:

- It has been instructed to Banks handling government business to keep their counters open for full day on 30th March 2016 & electronic payment can be done till midnight of 31st March 2016. *[Circular No. 191/09/2016 dated 29th March 2016]*

Instructions:

- The committee of Commissioners can order to Appellate Tribunal to review the order if they found that the same is not legal or proper. It has been instructed to them that same order should not be reviewed twice. Proper caution should be taken in this respect. *[F.No. 390/Review/36/2014-JC dated 17th March 2016]*

INCOME TAX:

Notifications:

- Depreciation rate for III. Plant & Machinery - relating to mineral oil for Oil wells is notified @ 15% on WDV from 1st Apr 2016. *[Notification No. 13 /2016, F.No.142/3 3rd March 2016-TPL]*

- Tax exemption given for five years for 2014-2019 to the Karnataka Urban Water Supply and Drainage Board a Board constituted under the Karnataka Urban Water Supply and Drainage Board Act, 1973 (Karnataka Act No. 25 of 1974), in respect of the following specified income arising to that Board, namely:-
  (a) Establishment, administrative and supervision charges collected as a percentage of project cost prescribed by the Karnataka Public Works Department Accounts Code of Government of Karnataka;
  (b) Water charges collection for supply of water to local bodies and directly to consumers;
  (c) Interest on investments and fixed deposit in banks;
  (d) Rent collected for letting out head office building 'JAL BHAWAN';
  (e) Forfeiture of earnest money deposit.
  Under clause 46 of section 10 of Income Tax Act, 1962 subject to conditions mentioned therein. *[Notification No. 15 /2016, F. No.196/ 6/2015-ITA-I dated 16th Mar 2016]*

- Double taxation avoidance agreement for taxes on income between the Government of the Republic of India and the Government of the Republic of Indonesia is made effective from 16th Mar 2016. *[Notification No. 17 /2016, F. No.503/4/2005-FTD-II dated 16th Mar 2016]*

- Method of determination of period of holding of capital asset in following cases defined;
  - The period for which any capital asset, other than the capital assets mentioned in clause (i) of the Explanation 1 to clause (42A) of section 2 of the Act, is held by an assessee, shall be determined in accordance with the provisions of this rule.
  - In the case of a capital asset, being a share or debenture of a company, which becomes the property of the assessee in the circumstances mentioned in clause (x) of section 47 of the Act, there shall be included the period for which the bond, debenture, debenture-stock or deposit certificate, as the case may be, was held by the assessee prior to the conversion. *[Notification No.18/2016, F.No.142/1/2016-TPL dated 17th Mar 2016]*

- Now charitable or religious trust or institutions can make investment or deposits in "Stock Certificate" as defined in clause (c) of paragraph2 of the Sovereign Gold Bonds Scheme, 2015, published in the Official Gazette vide notification number G.S.R. 827(E), dated the 30th October, 2015. *[Notification No. 21 /2016, F. No.142/1/2016-TPL dated 23rd Mar 2016]*

- CBDT notifies Forms Sahaj (ITR-1), ITR-2, ITR- 2A, ITR-3. Sugam (ITR-4S), ITR-4, ITR-5, ITR-6, ITR-7 and ITR-V for AY 2016-17. *[Notification No. 24 /2016, F. No.370142/2/ 2016-TPL dated 30th Mar 2016]*

CBDT issues the followings inviting comments from public:
Draft Rules on "Grant of Foreign Tax Credit"
Framework of Book Profit or the purpose of levy of MAT under Section 115JB of Income Tax Act,1961 for Indian Accounting Standard (Ind AS) compliance companies.

From Financial Year 2016-17 certain important changes:

There are substantial changes, which will be effective from 1st April 2016, which has been enumerated below:

❖ Central Excise Rules 2002:

● **Rule 8: Payment of duty:** An assessee, engaged in the manufacture or production of articles of Jewellery, other than articles of silver Jewellery but inclusive of articles of silver Jewellery studded with diamond, ruby, emerald or sapphire having the turnover of Rs. 12 Cr. in the year 2015-16 then such units will have to pay excise duty on monthly basis after crossing the turnover of Rs. 6 Cr.

● **Rule 11 (8): Goods to be removed on Invoice:** Now, digitally signed invoice can be handed over to the transporter while removing the goods from the Factory / Warehouse. There is no need to sign / attest the invoice copy.

● **Rule 12 (2) : Filing of Returns :** From April 2016 onwards, only monthly returns in the form of ER-

1/ER-2 or Quarterly Return for SSI Units in Form ER-3 needs to be filed. Assesses paying 1% duty will have to file quarterly ER-8 Return. Annual Return in the format to be prescribed (not yet prescribed) to be filed on or before 30th November 2016 by all the assesses. Kindly note, following returns have been discontinued and hence no need to file.

● **ER-4 :** Annual Financial Information Statement- in case of duty payment either through PLA or Cenvat or both together is more than Rs. 1 crore in previous financial year.

● **ER-5 :** Information relating to Principal Inputs-in case of duty payment either through PLA or Cenvat or both together is more than Rs. 1 crore in previous financial year.

● **ER-6 :** Monthly return of receipt and consumption of each of Principal Inputs- to be filed by the assessee required to submit ER-5

● **ER-7 :** Annual Installed Capacity Statement

It is always advisable to carry out internal audit of monthly returns submitted and if errors are noticed, it can be corrected through filing the revised return by end of same calendar month. In other words, April Return is filed on or before 10th May. Internal Audit shall be carried out immediately after filing the return, so that necessary corrections, if any, required to be made through revised return which needs to be filed by 31st May.

Similarly, Annual Return required to be filed on or before 30th November and it is advisable to carry out the internal audit for confirming the accuracy after reconciling with financial statement. However, if required, revised Annual Return can be filed within one month from the date of filing the original Annual Return.

Rather it is advisable, no sooner, financial accounts are audited Annual Return to be prepared and the same can be audited prior to submission of Original Annual Return.

● **Rule 26: Personal Penalty:** If the assessee has paid duties, interest and 25% of penalty (25% of duty) then no personal penalty can be imposed on Directors, officers who have been alleged to be abated for evasion of duty or carrying goods needed to be confiscated.

❖ Cenvat Credit Rules 2004:

● **Rule 2(a): Cenvat on Capital Goods:** Now, Output Service Provider can avail Cenvat Credit on wagons of sub-heading 860692. Needless to say, 50% in first year and 50% in the subsequent year.

● **Rule 2(a): Cenvat on Capital Goods:** Cenvat Credit can be availed on all office equipments received in the factory on or after 1st April 2016. Office equipments includes all assets such as furniture & computers that are absolutely essential for operations. However, it is necessary to receive the same in the factory for availing the cenvat credit.

"Equipment' means "The act of equipping or fitting or state of being equipped, to supply with whatever is necessary to efficient action in the way".

Equipment received in the factory or office located in the factory premises, considering the definition of "Equipment" will include Air Conditioners, Coolers, Printers, Photocopiers, Computers and anything which equips for running operations. In other words, even the electrical fittings, telephones, washing machine, Vacuum Cleaner, etc. will also be entitled for Cenvat benefits.

Cenvat Credit on capital goods i.e. any goods for water pumping which is installed outside of the factory, can be availed.

● **Rule 2(k): Enhancement of definition of Inputs:** Now, any capital goods having value of Rs. 10,000/- per piece will be considered as input instead of capital goods, thereby will be entitled for 100% cenvat credit in the first year of receipt itself. Further Goods (other than capital goods) used for pumping of water for captive use will be entitled for Cenvat Credit as Inputs. It is compulsory to take credit as Input Credit. No option to take as Capital goods credit. Compulsory tracking in the credit availment system. In other words cenvat Credit has to be taken as input and not as capital goods. It is also to be noted that, if credit under capital goods is taken then balance 50% cannot be taken in the subsequent year considering the period of limitation for availing cenvat credit. Still, it will not be free from litigation. It is also advisable to track in ERP in the purchase order itself under the rate column and decide the tax code accordingly.

● **Rule 2(m): Enlargement of scope of Input Service Distributor:** Now even office of an out sourced manufacturing unit also will be considered as Input Service distributor Registration of Input Service Distributor can be obtained by the office / warehouse of out sourced manufacturing unit or address of such unit to be included in the ISD Registration for distribution of Cenvat Credit to the out sourced manufacturing unit also. This is very beneficial provision to all assesses which are getting goods manufactured under loan licensing or the merchant exporters.

● **Rule 4(5): Conditions for allowing Cenvat Credit:** Now cenvat credit can be allowed even if jigs, dies & fixtures directly sent by the vendors to the job workers. There is no necessity that these goods to be received first at the factory then only to be sent to the Job Worker. Further, Jigs, dies & fixtures can remain with the job workers for three years instead of one year. There is no need of taking any permission to send the jigs, fixtures, etc. which will be returned within

180 days. But if it is going to be more than 180 days, then necessary permission is to be obtained from the office of Asst. Commissioner / Deputy Commissioner, then such jigs, fixtures can be retained at Job workers premises for 3 years.

● **Rule 4(6): Conditions for allowing Cenvat Credit:** The cenvat credit on the service tax paid on payment on right of natural resources will available as Cenvat Credit proportionately over the period of assignment of such right.

● **Rule 6: Obligation of a manufacturer or producer of final products & a provider of output service:** Each assessee who ismanufacturing excisable goods or exempted goods, trading, providing taxable output services or providing exempted services including non- taxable services will have to intimate in writing exercising option / selecting the option, whether such assessee will pay amount to 6% on clearance of exempted goods or 7% on value of exempted service or non-taxable service or assessee will opt for cenvat reversal in accordance with formula prescribed under Rule 6 (3A) of Cenvat Credit Rules 2004. This exercise has to be furnished immediately in the month of April but not later than 5th May (Payment date).

Now, there is no requirement to keep separate books of accounts for input and input services when manufacturer or output service provider provides excisable / taxable / non-taxable goods/ service. This is the big relaxation. However, now precautions need to be taken to ensure correct reversal under the said rule. The principles followed for such reversal will have to also match with cost statements and cost accounting policy of the assessee.

Rule 6. Obligation of a manufacturer or producer of final products and a provider of output service.

Rule 6 and Rule 7 of the CENVAT Credit Rules 2004 is amended. The Taxation Committee is in the process of finalising a Guidance Note on the same for the benefit of Members. Please refer website of the Institute under Taxation Knowledge Portal.

Contributed by
Taxation Committee
Institute of Cost Accountants of India

Articles invited

We invite quality articles and case studies from members in the industry with relevance to Cost and Management Accountancy, Finance, Management, and Taxation for publication in the journal. Articles accompanied by color photographs of the author can be sent to: editor@icmai.in

International Summit 2016

New Approaches to Sustainable Growth

About the Summit:

The WTO, International Affairs & Sustainability Committee of the Institute organised 2016 International Summit in association with The Prince's Accounting for Sustainability Project (A4S) and CIMA, UK on 10th – 11thMarch 2016 at the Leela Palace Hotel, New Delhi. The focus of the summit was to highlight the need for sustainable development and role of CMAs.

Shri Suresh Prabhu Hon'ble Union Minister for Railways, Government of India; Ms. Jessica Fries, Executive Chairman -The Prince of Wales's Accounting for Sustainability Project: Mr. Tony Manwaring - Executive Director of External Affairs, CIMA, UK, CMA P.V. Bhattad, President - ICAI, CMA Manas Kumar Thakur, Vice President, ICAI & CMA Sanjay Gupta - Chairman, WTO International Affairs & Sustainability Committee & CCM, ICAIinaugurated the two day summit.

His Royal Highness The Prince of Wales: His Royal Highness congratulated the Institute through a video recorded message for organizing the Summit and sharing the role of Finance Professionals for making the organisations sustainable. Sustainability practices are needed to preserve the world for future generations. By following these practices world community is discharging their duty towards all the stakeholders. His Royal Highness also praised the Institute for encouraging the CEOs / CFOs to work for sustainability and embed sustainable practices in their organisation's DNA.

Mr. Suresh Prabhu, Hon'ble Union Minister for Railways, Government of India, the Chief Guest of the Summit admired the Institute for organizing summit and highlighted the role of finance professionals in the sustainable growth of the organisations and the country. He highlightedthe sustainable practices Indian Railways currently following and the role of Citizens in making the country clean and sustainable. He said that organisations

should proactively face the challenges and become sustainable. CMAshas an important role to play in making the organisation Sustainable.

CMA P.V. Bhattad, President – ICAI – He gave prominence to the Accountancy Profession for its contribution, directly and indirectly, in achieving the sustainable growth. CMAs need to articulate how accountancy as a profession currently facilitates achievement, and to fill the gap for improvement. One step in the right direction is to build on a strong and diverse profession that can continue to develop professional accountants with the relevant skills and awareness to contribute to sustainable and resilient organizations, capital markets, and economies.

Mr Sanjay Gupta, Chairman, WTO, International Affairs

& Sustainability Committee & CCM – He welcomed all the participants &dignitaries and initiated the event by highlighting the theme of the event. He gave emphasis on the role and importance of CMAs in making the organisation sustainable in long run.

The two day summit was alienated in six different sessions and all the speakersimparted knowledge on different topics like Drivers of change – Risk & Opportunities, The Sustainable Development Goals and the Impact on Business, Responding to the challenge - How the finance team can play a lead role in moving to a Sustainable Economy, Powering up: Better decision making by joining dots, Practical Actions- An Exploration of the A4S CFO Leadership Network Guidance Materials& Integrated Reporting.

Mr. Abdul GaniKohli, Ex-Hon'ble Minister of State for Horticulture, Rural Development, Transport, Jammu& Kashmir - He was the Guest of honor and touched upon the need of Sustainable Economy in a state like Jammu and Kashmir. He further pointed out the role of sustainable economy in attracting the investment which will further lead to economic development. He also highlighted the role of finance professionals like Cost Accountants in this area.

Ms. Jessica Fries, Executive Chairman - The Prince's Accounting for Sustainability Project (A4S): She is the Executive Chairman of The Prince's Accounting for Sustainability Project (A4S).and has been responsible for establishing the International Integrated Reporting Council (IIRC), as well as A4S's CFO Leadership Network and capital markets programme. She was the key note speaker of the 1st technical session on "Drivers of change: risks, opportunities" andspoke about the A4S CFP Leadership Network Guidance Materials, the role of A4S in guiding the finance professionals in making sustainable economy.She explained the topic through an exercise with the participants. The exercise was focused on Finance function activities that need guidance to embed sustainability.

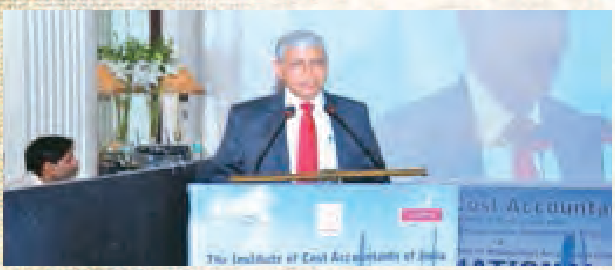
Mr. Tony Manwaring, Executive Director of External Affairs – CIMA:He is leading on global communications, public policy and advocacy programmes. He spoke on Powering up: Better decision making by joining dots wherein he highlighted the role of the Management Accountants in making the world sustainable. He elaborated the need of management accountants to make organisation more efficient and thus reducing the wastage of resources. This will enable the organizations to become more sustainable. He also highlighted the role of CIMA in propagating sustainability practices in the world community.

MsChristine Brogan, Director - The Prince's Accounting for Sustainability Project (A4S): She is responsible for day-to-day management of A4S, in particular the A4S CFO Leadership Network.She was the speaker in the 1st session on "Drivers of change: risks, opportunitiesand introduced the theme of the session with an insight about the Accounting for Sustainability Project.

MsAmanda Mackenzie, Executive Director -Project Everyone:She is from the Executive Committee of Aviva to Film Director and Comic Relief founder Richard Curtis & team as

Executive Advisor Non-Executive Chair for 'Project Everyone'. She was the key note speakerin the session on "Sustainable

Development Goals and the Impact on Business”. She highlighted the goals and objectives for making the society sustainable.



CMAManoj Mishra, CMD, National Fertilizers Limited–He was the guest of the honor of the thematic session. He shared sustainability practices at being followed at NFLand talked about the importance of sustainable practices and the need for using the resources judiciously. He also stressed on increasing the agricultural productivity and to improve the focus on agriculture and its Sustainability for the country like India.

CMA Rajeev Mehrotra,CMD, RITES Ltd -He inaugurated the Summit along with other dignitaries.

Mr. P. B. Balaji, Chief Financial Officer - Hindustan Unilever Limited: Hewas the key note speaker of the session “Responding to the challenge: How the finance team can play a lead role in moving to a Sustainable Economy”. He highlighted the role of the Finance Professionals in the sustainable Economy and making an Organisation sustainable.

Mr. Ramesh Subramanyam, CFO, TATA Power Company Ltd–He highlighted the sustainable practices which are being currently followedin Tata Group. He also stressed on how the corporate should follow sustainable practices to remain in the

market. In Today’s scenario market are very dynamic, in caseorganisations do not follow sustainable practices, they may find themselves out of the market.

Prof. C Raj Kumar, Professor and Vice Chancellor, O.P Jindal Global University–He highlighted the necessity of sustainable business practices and the role of universities in propagating sustainable practices. Universities world overare playing important role in enhancing the skills of the professionalsfor facing the uncertain or unforeseen future.

Ms. Vrushali Gaud, CII –Shehelp companies bridge the gap between business and sustainability initiatives by leveraging the knowledge, resources and services offered by CII-CESD. She was the key note speaker and talked about the importance of “Integrated Reporting”in conjunction withthe responsibilities of the finance professionals. She also highlighted the role of IR lab in the Integrated Reporting filed.

CMA P.V.S. Jagan Mohan Rao, CCM – He moderated first session of the summit on the theme "Drivers of change: risks, opportunities". He introduced the theme of the session. He said every change in the organisation is associated with consequential risk and opportunities. The decision maker has to identify the opportunities and manage the risk.

CMA P Raju Iyer, Chairman, CCM- He welcomed all the dignitaries on the 2nd day of the summit. He thanked the audience & the speakers for their participation and making the summit as a prolific event. He concluded the session by highlighting the important role of CMAs in promoting sustainability practices in any Organisation.

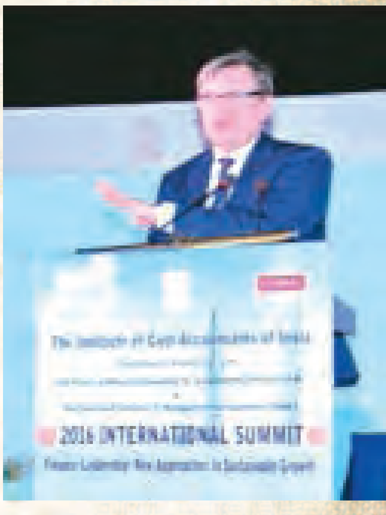
CMA Dr. I Ashok, CCM–Hemoderated the 2nd session of the summit on the theme of "The Sustainable Development Goals and the Impact on Business". He talked about the impact of Sustainable development goals in the businesses. Setting realistic goals can have positive impact on the business.

CMA Avijit Goswami, CCM–He moderated the 3rdsession of the summit on the theme of "Responding to the challenge: How the finance team can play a lead role in moving to a sustainable Economy". He highlighted the fact that the finance team has an important role in moving organizations to a sustainable economy. The finance professional sets targets for the enterprise and are responsible for the execution of these goals.

CMA Balwinder Singh, CCM –He moderated the 4th technical session of the summit on the theme of "Powering up: Better decision making by joining dots". He highlighted the necessity of proper coordination for attaining the organization's goals.

CMA Sanjay Gupta thanked A4S, CIMA & the Sponsors for their support. He said that India can emerge as the centre for international trade, with cost competitiveness as the strategy. Sustainable development defines the needs and aspirations of the present without compromising the ability of the future generations. He also said that the future world would be a barren land if we continued to ignore the idea of sustainable growth and non-judiciously deplete the resources of the world is gifted with.

Highlights of the Events:



- Message from His Royal Highness Prince of Wales elaborating the importance of Sustainability and sustainable practices for the world community
- Need for sustainable development
- Making organizations more sustainable by reducing the wastage of resources
- Role of the Management Accountants in making the sustainable world
- Need for sustainable business practices for facing the uncertain future
- Necessity of the increase in agricultural productivity and relation between agriculture and Sustainability for the country

CMAs can play to create a sustainable economy. CMAs work as key decision maker in business organization. They arewell placed to make the organization sustainable. They make policies and control system which are feasible for organisational environment and unforeseen situation. Organisations with CMAs as key decision maker make use of scare resources judiciously in a most cost effective way thereby having a better return on investment. These efforts not only increase their profit margins in the long run, but also make them sustainable in the today's dynamic market. Henceforth, for a sustainable economy, we require and should acquire CMAs.

Need for Sustainabilityin Accounting Practice

For 200 years or more, globalization and industrialization provided many societal benefits. They have also led to sustainable development dilemmas, including inequality and social challenges in the supply chain, climate change, and other ethical and moral challenges.The role business plays in achieving the Goals is equally critical as the role played by governments, non-governmental organizations, civil society, and philanthropies. The Goals set targets to enable us to respond to these challenges and, as such, represent an agenda for people, planet, and prosperity.

Few Things to Take away from the Event

2016- International Summit explored the significant role the Sustainability doesn't stands only for CSR activities, but also makes us understand the most cost effective way to utilize the resources available. This will enable the organization to serve all its stakeholders as well.

The recent C-suite research conducted by CIMA and AICPA demonstrates the steps to be taken up by organisations in terms of integrating sustainability into their strategy and decision making to create value for the short, medium and long-term.

The most important point to be considered in the whole summit was the importance of integrated reporting and the responsibility of the finance professionals.

The Summit was attended by around 150 global delegates and was a grand success.

World Earth Week - A Report

16 to 22 April 2016

Name of the Chapter	Date of Activity	Activities Undertaken in the World Earth Week
Pune Chapter	16th April, 2016	The Chapter organized a cycling excursion to promote green environment and had released the Knowledge Pack on "Contemporary Issues in Environmental Accounting & Auditing" Hon'ble Member of Parliament by Shri Anil Shirole in presence of CMA Dr.P.V.S.Jagan Mohan Rao, Chairman of Corporate Laws, Governance and Corporate Sustainability Committee, CMA Amit Apte, Council Member, and CMA Amit Shahane, Secretary of Pune Chapter. The Chapter also organized the students elocution programme on climate change and role of CMAs. CMA Dr.P.V.S.Jagan Mohan Rao, Council Member,CMA Amit Apte, Council Member, CMA Amit Shahane, Secretary of Pune Chapter and Shri Omkar Medhekar, Faculty of the Pune Chapter were also present.
Lucknow Chapter	17th April, 2016	On this occasion CMA Manas Thakur, Vice President of the Institute, CMA Dr. P.V.S. Jagan Mohan Rao, Chairman of the Corporate Laws, Governance and Corporate Sustainability Committee and CMA Sanjay Gupta, Council Member were present along with CMA Anjana Chadha, Chairperson of Lucknow Chapter, CMA Pawan Tiwari, Vice Chairperson, CMA Dharmendra Singh Saluja, Secretary, CMA Neha Sharma ,Jt. Secretary, and CMA Amit Yadav,Treasurer were present. CMA Ranjeet Singh, CMA Ankur Verma, CMA Shakambhari Tiwari and other members and students gathered at 1090 Chauraaha Lucknow and proceeded for Green walk and cycling towards Janeshwar Park, Lucknow. People passing by were educated and motivated to save greenery on Earth and to plant trees in their surroundings. In the Seminar on updates on Companies Act 2013 with focus on accounts, audit, NCLT, Board issues were addressed by CMA Dr.P.V.S.Jagan Mohan Rao with active participation. CMA Members were educated by CMA Dr.P.V.S. Jagan Mohan Rao about environmental accounting, sustainability and meditation. Lucknow Chapter also participated in Green Earth celebration organized by Prithvi Innovation of our members CMA Anuradha Gupta at GSI, Lucknow. Saplings were distributed on the occasion by CMA Anjana Chadha, Chairperson and CMA Dharmendra Singh Saluja Secretary to all the delegates present in the event on behalf of ICAI - Lucknow Chapter.
Eastern India Regional Council	17th April, 2016	Saplings were planted at EIRC Campus by CMA Niranjan Mishra, Council Member, CMA Biswarup Basu, Council Member alongwith CMA S.P.Padhi, Chairman of EIRC, CMA Pranab Kumar Chakraborty, Secretary of EIRC, CMA Ashis Banerjee, Treasurer of EIRC and CMA Cheruva Venkata Ramana, Member of EIRC.
Hyderabad Chapter	20th April, 2016	CMA Dr.P.V.S.Jagan Mohan Rao, Chairman of Corporate Laws, Governance and Corporate Sustainability Committee gifted a sapling to Shri Jogu Ramanna, Hon'ble Minister for Forest Environment & Backward Classes Welfare Government of Telangana. The Hon'ble Minister was presented with the Knowledge Pack for such purpose. CMA D.Surya Prakasam, Vice Chairman, Hyderabad Chapter of Cost Accountants along with Shri C. Prasad Rao, Assistant Director of the Hyderabad Chapter of Cost Accountants were also present. Hon'ble Minister was also apprised about the activities of the Institute in particular about the CMA course.
Howrah Chapter	20th April, 2016.	The Management Committee planted saplings on the occasion of World Earth Week.
Western Indian Regional Council	21st April 2016	A seminar on the Role of CMA in Companies Act 2013 (Focus areas Chapter Accounts of Company Chapter IX, Audit & Auditors Chapter X, Governance & NCLT Highlights). A slide show on climate change and role of CMAs were also presented The speaker for the programme was CMA Dr.P.V.S.Jagan Mohan Rao, Chairman of Corporate Laws, Governance and Corporate Sustainability Committee.
Coimbatore Chapter	22nd April, 2016	The Chapter observed the World Earth day and organised a meeting on the topic "Role of Professionals in Environmental Reporting".CMA Subramanian.R, Practicing Cost Accountant, Chennai explained the concept of Environmental Reporting, its Contents, Guidelines for preparing the Report and Advantages & purposes of the Report. Finally, he presented a Teaser on Integrated Report – the new approach to Corporate Reporting.
South Orissa Chapter	22nd April 2016	CMA Ch. Venkata Ramana, Member EIRC of ICAI as Chief Guest/ Speaker,CMA Prasanta Kumar Pani, Secretary of the Chapter,CMA Ananda Sahu, Vice-Chairman of the Chapter and CMA Narasingha Chandra Kar, Treasurer of the Chapter as speaker were all present for the programme.
Southern India Regional Council	22nd April, 2016	In view of the "World Earth Day" on will be held on 22nd April, 2016 a programme on "Global Warming" was organized. The Speaker for the programme was Shri R Thirulogachandran, Go-Green Champion, Blue Dart Group, Chennai.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME –JUNE 2016

	PROGRAMME FOR SYLLABUS 2012	
Day, Date & Time	**Intermediate 9.30 A.M. to 12.30 P.M.**	**Final 2.00 P.M. to 5.00 P.M.**
Saturday, 11th June, 2016	Financial Accounting	Corporate Laws and Compliance
Sunday, 12th June, 2016	Laws, Ethics and Governance	Advanced Financial Management
Monday, 13th June, 2016	Direct Taxation	Business Strategy & Strategic Cost Management
Tuesday 14th June, 2016	Cost Accounting & Financial Management	Tax Management & Practice
Wednesday, 15th June, 2016	Operation Management and Information Systems	Strategic Performance Management
Thursday, 16th June, 2016	Cost & Management Accountancy	Corporate Financial Reporting
Friday, 17th June, 2016	Indirect Taxation	Cost & Management Audit
Saturday, 18th June, 2016	Company Accounts and Audit	Financial Analysis & Business Valuation

EXAMINATION FEES

Group (s)		Final Examination	Intermediate Examination
One Group	(Inland Centres) (Overseas Centres)	`1400/- US $ 100	`1200/- US $ 90
Two Groups	(Inland Centres) (Overseas Centres)	`2800/- US $ 100	`2400/- US $ 90

1. **Application Forms for Intermediate and Final Examination has to be filled up through online as well as in offline modes. The examination application form can also be downloaded from the Institute website www.icmai.in and the student may apply in offline mode by attaching demand draft of requisite examination fees. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of $ 10 per form. Online fees will be accepted through online mode (including Pay-fee Module of IDBI Bank).**
2. **STUDENTS OPTING FOR OVERSEAS CENTRES HAVE TO APPLY OFFLINE AND SEND DD ALONGWITH THE FORM.**
3. **(a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card or Net banking.**
   (b) Students can also pay their requisite fee through pay-fee module of IDBI Bank.
4. **Last date for receipt of Examination Application Forms without late fees is 31st March, 2016 and with late fees of Rs. 300/- is 10th April, 2016. In case of online Examination Application with payment gateway by using Credit/Debit Card or Net banking, the late fees of Rs.300/- will be waived.**
5. **The Finance Act 2015 will be applicable for the Subjects Direct Taxation, Indirect Taxation and Tax Management & Practice under Syllabus 2012 for the purpose of June 2016 term of Examination.**
6. **The Companies (Cost Records & Audit) Rules 2014 will be applicable for Paper 10 - Cost & Management Accountancy (Intermediate) and Paper 19 - Cost and Management Audit (Final) for June 2016 term.**
7. **The provisions of the Companies Act 2013 will be applicable for Paper 6 - Law, ethics and Governance (Intermediate) and Paper 13 - Corporate Laws and Compliance (Final) to the extent notified by the Government at least six months prior to the date of the examination.**
8. **If a student obtains at least 60 per cent marks in any paper, the benefit of carry forward/exemption is allowed for the immediately successive three terms of Examination only.**
9. **Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Agra, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bewar City(Rajasthan), Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam,Erode, Faridabad, Ghaziabad,Guntur, Guwahati, Haridwar,Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Palakkad, Panaji (Goa), Patiala, Patna, Pondicherry,Port Blair, Pune, Raipur ,Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.**
10. **A candidate who is fulfilling all conditions specified for appearing in examination will only be allowed to appear for examination.**
11. **Probable date of publication of result: Inter & Final – 23rd August, 2016.**

*** For any examination related query, please contact exam.helpdesk@icmai.in**

A. Das
Director (Examination)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – JUNE 2016

FOUNDATION COURSE EXAMINATION

Day, Date & Time 2.00 p.m. to 5.00 p.m.	Foundation Course Examination Syllabus-2012
15th June,2016 Wednesday	Fundamentals of Economics & Management
16th June,2016 Thursday	Fundamentals of Accounting
17th June, 2016 Friday	Fundamentals of Laws & Ethics
18th June, 2016 Saturday	Fundamentals of Business Mathematics & Statistics

Examination Fees

Foundation Course Examination	**Inland Centres**	**` 1200/-**
	Overseas Centres	**US $ 60**

1. **The Foundation Examination will be conducted in Offline, descriptive (Pen & Paper) mode only, each paper of 100 marks and for 3 hours duration.**

2. Application Forms for Foundation Examination can be filled up through online **or** in offline modes.

3. The examination application form can also be downloaded from the Institute website www.icmai.in and the student may apply in offline mode by attaching demand draft of requisite examination fees. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of $ 10 per form.

4. (a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card or Net banking
.
   (b) Students can also pay their requisite fee through pay-fee module of IDBI Bank

5.. Last date for receipt of Offline Examination Application Forms without late fees is 20 th April, 2016 and with late fees of Rs. 300/ is 30th April , 2016. In case of online Examination Application with payment gateway by using Credit/Debit Card or Net banking, the late fees of Rs.300/-will be waived and the last date for application is 30th April, 2016.

6. Examination Centres: Adipur -Kachchh(Gujarat), Agartala, Agra, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bewar City(Rajasthan), Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad , Durgapur, Ernakulam,Erode, Faridabad, Ghaziabad,Guntur,Guwahati, Haridwar,Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Palakkad, Panaji (Goa), Patiala, Patna, Pondicherry,Port Blair, Pune, Raipur ,Rajahmundry, Ranchi,Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.

7. A candidate who is completing all conditions for appearing the examination as per Regulation will only be allowed to appear for examination.
8. Probable date of publication of result: **23rd of August, 2016**

A. Das
Director
(Examination)

*** For any examination related query, please contact exam.helpdesk@icmai.in**

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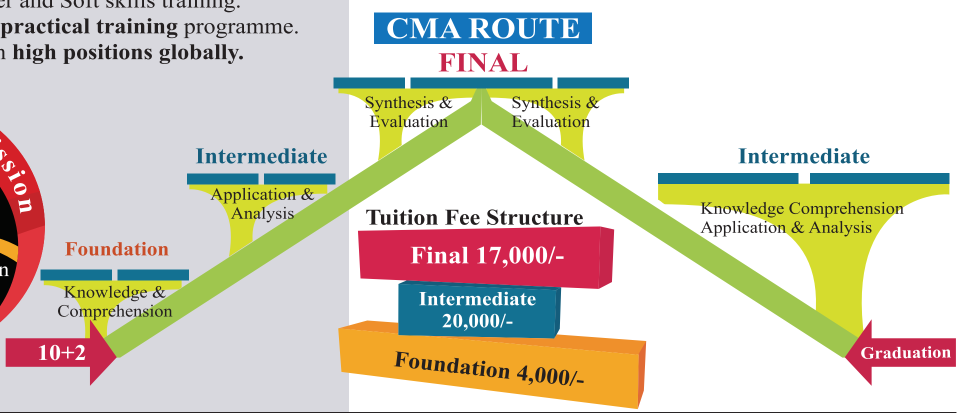

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