THE JOURNAL FOR CMAs

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ACTIVITY BASED COSTING & ITS APPLICATIONS

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

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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The Management Accountant, official organ of The Institute of Cost Accountants of India, established in 1944 (founder member of IFAC, SAFA and CAPA)

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EDITORIAL

Greetings!!!

Cost is the key to enterprise product pricing and the foundation to achieve product pricing strategy. At present, while enterprises choose the most basic pricing method which is called cost-plus method to pricing product, the effect of cost is more marked. The key to reasonable pricing is to determine a cost accounting method, which provides accurate cost information for enterprise and can be the scientific basis in pricing. ABC activities have been around for more than two decades and many companies in a variety of sectors have implemented activity based thinking. Activity based costing is a method for assigning costs to products, services projects, tasks, or acquisitions based on activities that go into them and resources consumed by these activities.

Companies implement activity based costing in order to:

- Identify individual products that are not profitable.
- To find the true costs of products so as to support pricing policy.
- Reveal unnecessary costs to eliminate.

Product cost plays an important foundation role in pricing. With the high development of new technology, traditional cost accounting methods cannot meet the industry's need for accurate cost information. Activity Based Costing, which focuses on activity and its cost driver, can determine the cost of the product to arrive at a reasonable price much more accurately. Cost and Management Accountants know that traditional cost accounting can hide or obscure information on the costs of individual products and services, especially where local cost allocation rules misrepresent actual resource usage. As a result, the move to ABC is usually driven by a need to understand the "true costs" of individual products and services more accurately.

Activity-based cost (ABC) and activity-based management (ABM) systems have emerged to meet the need for accurate information about the cost of resource demands by individual products, services and customers and these systems also enable indirect and support expenses to be driven first to activities and processes and then to products, services and customers. In this way managers have obtained a clearer picture of the economics of their operations and could improve their decisions. ABC and ABM have brought about radical changes in cost management systems. The principles and philosophies of activity based thinking apply equally to service companies, government agencies, process and manufacturing industries. Management practices and methods have changed over the last decade and will continue to change. Organizations have moved from managing vertically to manage horizontally. There has also been a move from a function orientation to a process orientation. ABC technique mirrors the functioning of an organization and contributes to strategic decision-making processes. It identifies the relation of the product within the business activity and the resources it requires.

In a business organization, the ABC methodology assigns an organization's resource costs through activities to the products and services provided to its customers. It is generally used as a tool for understanding product and customer's cost and profitability.

Familiarity with and adoption of ABC has been found to be comparable across both the manufacturing and service sectors. Both service and manufacturing firms are benefitted with the applications of ABC mechanism. ABC also focuses management to ensure that cost effective methods are used to produce current products to current customers at a price that generates the maximum positive ABM Product and Customer Contributions and also to ensure that the ABM Contributions are used effectively to generate new products and services to new markets such that the return on the investment in sustaining costs is greater than that which would be achieved by shareholders investing elsewhere.

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

THE JOURNAL FOR CMAs
THE MANAGEMENT ACCOUNTANT

-: PAPERS INVITED :-

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

Theme: Global Economic Sustainability
June 2017

Subtopics

- Prospective Cost Competitiveness
- Sustainable Cost Leadership strategies
- New regulatory frameworks and smart policies
- Strengthening International Cooperation
- Global trends and challenges to sustainable development
- Government initiatives for business success
- Business Models for Sustainability
- Role of CMAs in Economic sustainability

Theme: Ease of Doing Business in India
July 2017

Subtopics

- Business regulations in India
- Entrepreneurship & Skill development
- Business environment
- Make in India & GOI initiatives
- Benchmarking & Economy rankings
- Role of World Bank, ADB and other International agencies
- Role of CMAs

Theme: Competition Act: Key Driver of Competitiveness
August 2017

Subtopics

- The MRTP Act: Predecessor of the Competition Act (2002)
- Consumer Protection Act v/s Competition Act
- Competition Advocacy
- Cartelization: Recent Trends
- Corporate Leniency and Corporate Efficacy
- Per se Illegality in respect of Anti-competitive Agreements
- Impact of Competition Act on Cross-border Mergers
- Pricing Competition - Role of CMAs

Theme: Integrated Reporting: Going beyond the Financial Results
September 2017

Subtopics

- Challenges of embedding IR in India
- Relationship between IR, Sustainability reporting and Sustainability accounting
- Relevance of IR in SME
- Guiding principles of IR in Global context
- GRI compliance and prerequisites of IR
- Role of SEBI
- CMAs in the next era of reporting
- Case studies

The above subtopics are only suggestive and hence the articles may not be limited to them only.

Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in latest by the 1st of the previous month.

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If we have to succeed in the globalized world, we have to enlarge the scope of Cost Audit to cover all aspects of manufacturing and service sector activities including healthcare and education.

- Dr. APJ Abdul Kalam

CMA MANAS KUMAR THAKUR
President
The Institute of Cost Accountants of India

My Dear Professional Colleagues,

Namaskar;

Friends, as ***we celebrate Labour Day***, we honour the men and women who fought tirelessly for workers' rights, which are so critical to our strong and successful labour force. Labour Day is a celebration of labourers and working classes. It is celebrated to promote the social and economic achievements of the working group people.The persons,who labour, to build this world a better place to live, are no ordinary labourers. Often we turn a blind eye towards labourers and workers who toil to make our lives better. On this Labour Day, let us acknowledge and appreciate their effort and join the initiatives taken by the Government to make the lives of these people liveable.

GST Implementation

I congratulate ***Prime Minister Hon'ble Shri Narendra Modi Ji*** for clearing the way for smooth implementation of GST in India from July 1, 2017. GST is one of India's most significant economic reforms, which is expected to erase barriers between states to create a common market that will lower costs and increase efficiencies and potentially boosting growth. The significance of GST is obvious in the Prime Minister's statement that "GST reflects the spirit of 'One nation, One aspiration, One determination.'" The consensus on GST will go down in history as a great illustration of cooperative federalism. I appreciate the conviction of Prime Minister, a **Great visionary** of our times,that the vision of "New India" can only be realised through the combined effort of all States and CMs. This shows the policy of consensus adopted by the Government to achieve all-inclusive development of society and growth of economy.

The inspiring role of ***Hon'ble Finance Minister Shri Arun Jaitely*** was instrumental in gathering consensus on the issue of GST. This is the evidence of his great ***Leadership quality***. I on behalf of the Cost and Management Accounting fraternity and also on my own behalf convey our sincere gratitude to the Finance Minister and his team for getting the stage clear for GST. The Institute pledges its all-out support to the Government in smooth implementation of GST all across the Country.

The Institute is also geared up for dissemination of knowledge on GST to its members and all stakeholders at large. We have planned a number of seminars and interactive workshops on GST. Some webinars on GST are also lined up. We are also planning to introduce a post qualification course on GST for members. I urge all the members to improve competencies in the all-important area of GST as CMAs have to play a very important role in smooth implementation of the GST.

National Regional Council and Chapters Meet

I wish to inform that the Regional Council and Chapters Co-ordination Committee organised the "National Regional Council and Chapters Meet" on 22ndand 23rdApril 2017 at Hotel KC Crossroad, Chandigarh which was attended by representatives of 50 Chapters and all 4 Regional Councils. CMA Sanjay Tandon, President, BJP, Chandigarh and Mrs. KirronKher, Hon'ble Member of Parliament, Chandigarh graced the occasion by their august presence. On the eve of National Regional Council and Chapters Meet, Best Chapters Award in different categories was presented to the winning Chapters.On 23rdApril 2017 "Program on GST" was organised for Regional Councils and Chapters.

MoU with Prananath College

- I wish to inform members that the Institute signed an MOU for Capacity building and also brand Building of the CMA Profession on 11thApril2017 with Prananath College (Autonomous), Khordha, Odisha. I am pleased to inform that the college has shown its interest for opening of CMA Extension Centre under Bhubaneswar Chapter in its premises. This initiative will help the college students in pursuing CMA Course with their degree Course.

- One Joint National Seminar on the theme "GST-Recent Developments" was organised on 28th April 2017 at Prananath College. More than 200 participants including Professors/Lecturers/Students/Guests/Invitees attended the seminar. Many dignitaries and eminent speakers from the region deliberated on the recent developmentrelating to GST. It is my sincere request to members of CMA family to take such initiatives which may not only be beneficial to our students but also enhance the capacity building of our members. For continued capacity building I seek your co-operation and support because together we can make a lot of difference.

Career Gap Analysis of CMAs qualified in 2015 & 2016

I am pleased to inform you that the Institute has taken a new initiative to promote / facilitate young CMAs for their further professional growth. First of its kind interactive motivational session was held on 4thApril 2017 at Kolkata which was attended by the qualified CMAs of eastern region for December 2015 & June 2016 terms.38 young CMAs actively participated & closely interacted with the Directors / HODs of the Institute who guided them how to overcome the fears &teething problems. The initiative was appreciated a lot by the participating CMAs. Inspired by the success of this event, I hope to replicate the same in other regions also. I am also planning to conduct an orientation programme to guide and support the Young CMAs who are into Practice and facing various problems.

Felicitation of Padma Shri Bipin Ganatra

I had the privilege to felicitate Shri Bipin Ganatra, Padma Shri Awardee towards social service and for being a valiant fire fighter and saving numerous lives in various fire incidents. Shri Sushil Behl, Government Nominee, Vice President of the Institute and executives of Delhi Office of the Institute were present at the felicitation at New Delhi office on 11th April 2017. Padma Shri Bipin Ganatra, 60, is not a professional fireman but has chased fires all over Kolkata for over 40 years. He has attended to more than 100 fires – helping douse the flames, rescuing people and cleaning up debris. We should take some inspiration from the life and achievements of Bipin Da.

Partnering with African Countries

I am pleased to inform that I met Ms. Ebyan Mahamed Salah, Hon'ble Ambassador of Federal Republic of Somalia to India on 11thApril 217 and offered her the Institute's Proposal to be partner of Socio-Economic Developmental Activities of African Countries.

Meeting with Chairman, UGC

I got an opportunity to meet Dr. VS Chauhan, Chairman, University Grants Commission (UGC) on 21stApril 2017 and discussed about the role we can play to enhance the employable skills of graduate and under graduate students.

Initiatives by various departments of the Institute

International Affairs Department

I am happy that the WTO, International Affairs & Sustainability Committee of the Institute has taken up the task of dissemination of information on relevant topics through organising the webinars to be taken up by the domain experts. I am told that the feedback of participating members is very encouraging. The participation of large number of members in these webinar sessions is also appreciated.In continuation to the efforts of the committee to connect with the CMA professionals across the globe the committee organised following webinars for the members:

- On 'Implementing Integrated Reporting' by CMA (Dr.) SK Gupta in two parts on 10th and 11thApril 2017

- On 'Breaking the National barrier and becoming Global CMA' by CMA Chandrashekhar S Adawadkar on 24thApril 2017

I urge the members to take advantage of this opportunity and enhance the skillset to excel in the challenging environment.

Placement Department

As informed through my previous communiqué, the Institute organized campus placement program for the CMAs qualified in December 2016 term examination. I truly thank the corporate leaders on their faith in our qualified students. I would again like to thank the industry partners for collaborating with the Institute over the years. I congratulate all the qualified CMAs who got placed during this season. I am sure that the CMAs placed through this campus placement, would contribute towards the growth of their respective organization and raise the stature of our profession in their career.

Professional Development Department

✦ ***Recognition by Indian Bank's Association for Forensic Audit:***

I am pleased to inform you that based on the representation and follow-up by the PD Directorate Indian Bank's Association (IBA) has considered the Cost Accountants for empanelment to take up assignments relating to forensic audit of Frauds uptoINR 50 crores & Frauds above INR 50 crores in the Banking Industry.

✦ ***Recognition of CMAs by Government, PSUs, Banks and Other Organizations:***

On representations made by the PD Directorate, PEC Ltd. and Noida SEZ Authority have included Cost Accountants in EOIs. Further, the eminent organizations like Air Force Station – Pune, MSTC Limited, Odisha Mining Corporation Limited, Alcock Ashdown (Gujarat) Limited, THDC India Limited, SJVN Thermal Pvt. Ltd., Dakshin Gujarat Vij Company Limited, Karnataka Handloom Development Corporation Limited, India Trade Promotion Organization (ITPO), Power Transmission Corporation of Uttarakhand Limited and Rural Electrification Corporation (REC) recognized CMA profession in their Tenders/EOIs.

✦ ***Full Day Seminar on Co-operative audit in Maharashtra***

I am pleased to inform that the PD Directorate conducted a Full Day Seminar on Co-operative audit in Maharashtra on 14thMarch, 2017 which was very well received by the members.

Research and Journal Department

I was invited to participate in the 4thPHD Global Rail Convention-2017 on the theme 'Indian Railways-"Gati se Pragati in the Climate of Change" on April 26, 2017 at PHD House, New Delhi. We are proud to be associated as the Knowledge Partner of the Convention and released a knowledge report on the said topic prepared by our research team which was highly acclaimed. This Convention was the maiden attempt to create an ideal platform for deliberating on crucial issues and to determine the performance objectives in Indian Railways with showcasing of the best international practices that can be adopted in the Indian Scenario. Eminent dignitaries from relevant fields attended the Convention and yielded a plethora of thought provoking sustainable solutions for the progress of this Railway sector.

Technical Directorate

✦ ***Cost Accounting Standards Board***

I am happy to inform that the "Limited Revision of Cost Accounting Standards (CASs)" showing clause by clause changes in the Cost Accounting Standards having the impact of IndAs is now available on the Institute website that can be downloaded. The Limited Revision of Cost Accounting Standards (CAS-6, CAS-

7, CAS-12, CAS -16 and CAS 17) and consequential changes in other Cost Accounting Standards (CAS-8, CAS-9, CAS-10, CAS-11, CAS-12, CAS-13, CAS-14, CAS-20, CAS-21, CAS-23 and CAS-24) that shall be effective for the cost statements prepared on or after 1st April 2017.

✦ *Cost Auditing and Assurance Standards Board*

The last date for receipt of suggestions on the draft "Practical Guide to the Standard on Cost Auditing (SCA) 101 Planning an Audit of Cost Statements" has been extended till 7th May 2017. I urge members to send their suggestions to the Institute so that this Guidance Note can be further improved. The suggestions of stakeholders will also enable the Secretariat of CAASB to consider them in the comprehensive Practical Guide to the Standards on Cost Auditing (SCAs 101-119), which is under preparation. I further urge Regional Councils and Chapters to arrange study circles meetings or form smaller groups and discussed this draft Practical Guide to the Standard on Cost Auditing (SCA) 101 Planning an Audit of Cost Statements and send the suggestions made by the members in such forums.

IPA of ICAI

✦ *Seminar for Bankers*

I am thankful to Dr. M.S. Sahoo, Chairperson of Insolvency and Bankruptcy Board of India for being Chief Guest in a "Seminar on Insolvency and Bankruptcy Code 2016- Practical Aspects for Bankers" held on 21stApril 2017 at Kolkata jointly by Head Quarters and EIRC of the Institute. I am also thankful to Shri V.P. Singh, Judicial Member of NCLT Kolkata Bench, Smt. Rekha Warriar, Regional Director of Eastern Region Reserve Bank of India were Guests of Honor. The CEO, IPA of the Institute and Dy. General Manager, IBBI were eminent speakers in this program. Dr. M.S. Sahoo, Chairperson, IBBI also released the Institute's publication on "Insolvency and Bankruptcy Code 2016- Practical Aspects for Bankers". The program was very well received and appreciated by the Bankers. Many such programs may be arranged by Regional Councils and Chapters for Bankers to make them familiarize with the provisions of Insolvency and Bankruptcy Code affecting the Banks and also with the skills and capabilities of Cost Accountants who are working as Insolvency Professionals.

✦ *Fortnightly Newsletter of IPA*

I am happy to inform that the IPA of the Institute has released its first edition of the Fortnightly Newsletter in the month of April 2017 which is available on the IPA website. The next issue is being released shortly. The newsletter from IPA gives gist of developments and updates of Insolvency Profession such Rules and Regulations issued by Insolvency and Bankruptcy Board of India (IBBI), cases of insolvency admitted by various benches of NCLT, important news having bearing on the Insolvency Profession etc. I am sure that this initiative will help our members and the Insolvency professionals enrolled with the Agency.

✦ *Webinars*

A webinar on ***"Practical Aspects of Insolvency and Bankruptcy 2016"*** was conducted by the CEO of IPA of the Institute on 26th April 2017. Another national webinar on ***"How to prepare for limited Insolvency Examination"*** is scheduled to be held on 8th May 2017. The webinar is specially designed to assist the members of the Institute to prepare for the limited insolvency examination. I noted that many of the Cost Accountants who had registered under limited period scheme for a period of 6 months are yet to qualify the examination. Their registration as Insolvency Professionals with Insolvency and Bankruptcy Board of India (IBB) shall expire on completion of 6 months from the date of their registration with IBBI. I urge them and other members to attend the said webinar in large numbers as it would immensely help them in qualifying the exam thus enter into this profession of IPs and explore the benefits offered by it.

✦ ***International Conference on "New Corporate Insolvency Regime"***

I happy to inform that the IPA of Institute was associated with ASSOCHAM for the International Conference on "New Corporate Insolvency Regime"Ushering an Era of Change, supported by Insolvency and Bankruptcy Board of India and the UNCITRAL, and partners of the conference were INSOL India, the leading insolvency industry advocacy body and SIPI – the newly set up think tank on insolvency. The International Conference was held on 28th and 29th April, 2017 at Hotel The Ashok, New Delhi. The conference was an effort to sensitize the Corporate India about the principles of the IBC; share global best practices with them and obtain market feedback on regular basis. The Chief Guest of the Conference was Shri Arjun Ram Meghwal, Minister of

State for Finance & Corporate Affairs, GOI. The international conference were addressed by eminent national and international speakers having expertise in Insolvency and bankruptcy regime, Judges of Supreme Court of India and Supreme Court of Singapore, Chairperson- National Company Law Appellate Tribunal (NCLAT), President- National Company Law Tribunal (NCLT), Chairperson and Whole Time Member of Insolvency and Bankruptcy Board of India, bankers, three professional institutes etc. Vice President of the Institute was one of the speakers in the conference. More than 300 delegates attended the conference and it was received very well by all.

✦ ***Programs on IBC***

I deeply appreciate the efforts made by the Regional Council/Chapters for creating awareness about the Code by conducting programs/seminars on PAN India basis. There were 6 programs conducted in the month of April 2017 at places like Hyderabad, New Delhi, Kolkata, Nasik and Pune.

Initiatives by Regions &Chapters

- Navi Mumbai Chapter organised a Workshop on "Goods & Services Tax (GST)" on 8th&9thApril 2017 at Navi Mumbai. I congratulated the chapter for taking up this very important initiative for capacity building of the members of the Institute in the all-important area of GST.

- I was invited by the WIRC for felicitationof the recently qualified students in the felicitation Function organised by the WIRC at Mumbai on 8th April 2017.

- The Chandigarh-Panchkula Chapter organised a "Members Meet" with President, Vice President and Central Council Members on 22ndApril, 2017 at Panchkula. Chandigarh-Panchkula Chapter also organised a Seminar on "Corporate Accounting, Auditing and Board Matters" on 22ndApril 2017. I was invited to inaugurate the seminar.

- The inaugural function of Bharuch Ankleshwar CMA Chapter was held on 25thApril, 2017. A GST Seminar was organised to mark the occasion. I was the chief guest of the function which was also attended by many dignitaries and my council colleagues along with senior members of the profession. I announced a CMA Lab for Bharuch Ankleshwar chapter as it is the industrial hub of Gujarat.

- I congratulate the Managing Committee of Rajpur Chapter for organising seminar on GST on 30th April 2017 at Kolkata where technical aspects of GST were discussed. To mark the occasion a Bengali Book on GST published by Rajpur Chapter was also released.

I wish prosperity and happiness to members, students and their families on the occasion of May Day, Rabindra Nath Tagore Jayanti, Budh Purnima & Rana Pratap Jayanti and pray for the success in all of their endeavours.

With warm regards

(CMA Manas Kumar Thakur)
1st May 2017

CHAIRMAN'S COMMUNIQUÉ

Greetings!!!

On the eve of World Earth Day on 22 April, the Research & Journal Committee of the Institute has initiated a landmark drive by introducing e-journal facility to support Digital and Green initiatives of the Government of India and hence reducing infructuous expenditure that impacts the environment as trees are the major source of paper pulp production. From the month of May 2017, the monthly journal, "The Management Accountant" would hereafter be circulated in the form of e-journal mode to all members, students and readers.

Every year printing of books and journals costs heavily on the environment. Production and use of paper have adverse effect on our environment, accounting to about 35% of municipal solid waste, causing toxicity to biochemical oxygen. Waste water discharges for a pulp and paper mill contains solids, nutrients and dissolved organic matter such as lignin, which is dangerous for aquatic life too. Globally, around 40% of the annual industrial wood is processed for paper industry, destroying several trees and damaging the ecosystem heavily.

In the past 40 years, global paper consumption has risen by 400%, with more than 35% of all the harvested trees being used only for paper production. Paper manufacturing mills also emit large amounts of nitrogen dioxide (NO2), Sulphur dioxide (SO2) and carbon dioxide (CO2). Paper manufacturing also adds its share to waste production and water pollution. Production of one ton of printing paper costs our planet nearly 24 trees. A recent UN report on climate change claims that India is among the few counted nations that will be witnessing abrupt climate changes in coming years. The drastic change in climate cycle brings with it a greater risk of food and water shortage which will cause malnutrition in those living below poverty line. We need to bring dramatic changes in our habits and attitude as the given deadline is not far away than the middle of present century. India outlined **National Mission for Green India (GIM)** as one of the eight missions under the **National Action Plan on Climate Change (NAPCC)**. It aims at protecting, restoring and enhancing India's diminishing forest cover and responding to climate change by a combination of adaptation and mitigation measures.It envisages a holistic view of greening and focuses on multiple ecosystem services, especially, biodiversity, water, biomass, preserving mangroves, wetlands, critical habitats etc. along with carbon sequestration as a co-benefit. This mission has adopted an integrated cross-sectoral approach as it will be implemented on both public as well as private lands with a key role of the local communities in planning, decision making, implementation and monitoring. Now it's time to join hands to create quality environment for sustainable development and to ensure a better future for our forthcoming generations to come.

So, as responsible citizens and proud members of the great profession, let us be sensible to our Mother Earth and let us back our Institute's GO-GREEN agenda to preserve our environment.Let us agree to minimize the hard copy publication of the Institute's Journal to become an active agent to this noble initiative. E-Journal is available in PDF and user-friendly e-magazine formats, it becomes easier and comfortable to access and read any point anywhere anytime via laptops, tablets, mobiles, PCs etc.If any member still wishes to get the printed physical copy, he/she may send a request mail to us.

We look forward to your whole-hearted cooperation to make this noble GREEN endeavour successful.

Warm regards

A. Goswami,

CMA Avijit Goswami
Chairman, Research, Journal & IT Committee
The Institute of Cost Accountants of India

ICAI-CMA SNAPSHOTS

Glimpses of National Conference on "Sustainable Infrastructure" held at New Delhi on March 23, 2017

Lamp lighting by Hon'ble Shri Suresh Prabhakar Prabhu, Union Minister of Railways along with President, Vice-President of the Institute & other dignitaries

Shri Piyush Goyal, Hon'ble Union Minister of State (IC) of New & Renewable Energy, Power & Coal addressing the participants through video conferencing.

Hon'ble Shri Suresh Prabhakar Prabhu, Union Minister of Railways being felicitated by the President and Council members

Hon'ble Shri Arjun Ram Meghwal, Minister of State for Finance and Corporate Affairs being facilitated by the President and Vice-President

Release of Publications : "The Indian Railways will become the growth engine of the Nation's VikasYatra", "Sustainable Infrastructure" & "Impact of Goods & Services Tax (GST) on Indian Infrastructure Sector"by Hon'ble Ministers & Dignitaries

Presidential address by CMA Manas Kumar Thakur, President of the Institute

Welcome address by CMA Sanjay Gupta, Vice-President of the Institute

Shri BB Verma, Financial Commissioner, Indian Railways receiving memento from CMA Dr. I. Ashok, Council Member of the Institute

ICAI-CMA SNAPSHOTS

Glimpses of National Conference on "Sustainable Infrastructure" held at New Delhi on March 23, 2017

Group Picture of (L to R) CMA Ravi Sahni, Chairman & RCM of NIRC of ICAI-CMA, Shri Rajeev Mehrotra, CMD Rites Limited, CMA Manas Kumar Thakur, President & CMA Sanjay Gupta, Vice President of the Institute and Shri B.B. Verma, Financial Commissioner of Ministry of Railways

Shri S. Machendranathan, Chairman, AERA (Chairman & Moderator of the Session) receiving memento from CMA P. Raju Iyer, Council Member of the Institute

Shri Vinod Hejmadi, Director (Finance), Air India Limited receiving memento from Shri S. Machendranathan, Chairman, AERA

From L to R: CMA P. Raju Iyer, Council Member of the Institute, Shri Vinod Hejmadi, Director (Finance), Air India Limited, Shri S. Machendranathan, Chairman, Airports Economic Regulatory Authority of India Shri V.P. Agrawal, Former Chairman, Airport Authority of India and CMA Rajendra Singh Bhatti, Regional Council Member of NIRC of the Institute

Shri A.K. Sharma, Director (Finance), Indian Oil Corporation Ltd. giving answers to participants during questionnaire session

From L to R: CMA Balwinder Singh, Council Member of the Institute, Shri A.K. Sharma, Director (Finance), Indian Oil Corporation Ltd., Mr. George Johnston, Vice President – Finance, (Barclays) ACCA, Shri Anil Kumar Sahni, General Manager (F&A), GAIL (India) Limited, CMA Ravi Sahni, Chairman & RCM of NIRC of the Institute

Smt. Aruna Sethi, Addl. Chief Adviser (Cost), Ministry of Finance (Chairman & Moderator of the Session)receiving memento from CMA Amit Anand Apte, Council Member of the Institute

Shri M Nagaraj, Chairman-cum-Managing Director, PEC Limited receiving memento from CMA H. Padmanabhan, Council Member of the Institute

ICAI-CMA SNAPSHOTS

Glimpses of National Conference on "Sustainable Infrastructure" held at New Delhi on March 23, 2017

CMA P.V. Bhattad, immediate past president and Council Member of the Institute receiving memento from CMA H. Padmanabhan & CMA Dr. I. Ashok, Council Members of the Institute

Dr. S.K. Gupta, CEO, AIHP Limited receiving memento from CMA H. Padmanabhan, Council Member of the Institute

From L to R: CMA Amit Anand Apte, Council Member of the Institute, Shri B. Poiyyamozhi, Former – Development Advisor (Ports), Ministry of Shipping, Dr. S.K. Gupta, CEO, AIHP Ltd., Smt. Aruna Sethi, Addl. Chief Adviser (Cost), Ministry of Finance (Chairman & Moderator of the Session), CMA H. Padmanabhan, Council Member of the Institute, CMA P.V. Bhattad, immediate past president & Council Member of the Institute, Shri M. Nagaraj, CMD, PEC Ltd. and CMA Dr. I. Ashok, Council Member

Shri Piyush Goyal, Hon'ble Union Minister of State (IC) of New & Renewable Energy, Power & Coal addressing the participants through video conferencing

From L to R: CMA Dr. I. Ashok, Council Member of the Institute, CMA S.K. Bhatt, immediate past chairman & RCM of NIRC of the Institute, CMA K. Narasimha Murthy, Practising Cost Accountant, Prof. Surender Kumar, Govt. Nominee of the Institute & CMA Bibekananda Mukhopadhyay, Chairman, EIRC of the Institute

CMA Manas Kumar Thakur, President of the Institute, lighting the lamp at the Students' Felicitation Function to felicitate students who passed Foundation, Intermediate and Final examination in December 2016 organized by WIRC. Others seen are CMA Harshad Deshpande, Regional Council Member WIRC, Mr. V. Ramaswamy Global Head, Tata Consultancy Services, CMA Manas Kumar Thakur, President, CMA Manish Gangwal, CFO, Gulf Oil Ltd, CMA Debasish Mitra, Chairman Students Members and Chapters Co-ordination Committee, WIRC CMA Kailash Gandhi – Vice-Chairman, WIRC, CMA Shriram Mahankaliwar, Treasurer, WIRC , CMA Pradip H Desai, Chairman, WIRC . CMA Manas Kumar Thakur, President ICAI addressing the students during the Felicitation Function held at WIRC on Saturday 8th April 2017

Shri R. Bandyopadhyay, IAS (R) Former Secretary, Ministry of Corporate Affairs, Govt. of India Former Secretary, Department of Public Enterprises, Govt. of India Former Member, Central Administrative Tribunal (CAT) – Guest of Honour inaugurating the PD Meeting on 'Investor's Awareness & Protection' by lighting the traditional lamp. Also seen: From (L – R): Mr. P.S. Vasudevan, International Corporate Trainer & Life Coach, CMA V. Murali, Chairman, SIRC of ICAI, Mr. S. Santhanakrishnan, Chairman, CSB Ltd. (formerly Catholic Syrian Bank Ltd.) & Chairman, Tata Housing Ltd – Guest of Honour and CMA T.G. Suresh, Direct Tax Consultant

ICAI-CMA SNAPSHOTS

MOU signing between the Institute & PN College , Khordha on April 11, 2017. Seen in the photo are Council Member CMA Niranjan Mishra, Regional Council Members CMA Shiba Prasad Padhi, CMA Sushil Pattanaik, CMA Sibaprasad Kar, CMA Damodar Mishra.

Shri Khalid Aizaz Anwar, Sr. Joint Commissioner, Commercial Tax, WB being felicitated by CMA Manas Kr. Thakur, President and CMA Mrityunjay Acharjee, Associate Vice President (Internal Audit & Taxation),Balmer Lawrie & Co Ltd

CMA Niranjan Mishra (Chairman, Regional Council & Chapters Co ordination Committee and Council Member) addressing the group of representatives from Western India Regional Council and Chapters under WIRC at the "Regional Council and Chapters Co ordination Meet" organised at Ahmedabad on 26th February 2017.

(From Left to Right) CMA Ashok B. Nawal (Council Member), CMA Amit Anand Apte (Council Member), CMA P. V. Bhattad (Council Member & Immediate Past President), CMA Niranjan Mishra (Chairman, Regional Council & Chapters Co ordination Committee and Council Member), CMA P.H. Desai (Chairman, WIRC), CMA Debasish Mitra (Member, WIRC), CMA Vinod H. Savaliya (Chairman - Ahmedabad Chapter)

Mrs. Kirron Kher, Hon'ble MP, Chandigarh being felicitated by CMA Manas Kumar Thakur, President, and CMA Sanjay Gupta, Vice President at Chandigarh during the National Regional Council & Chapters Meet on April 22, 2017

CMA Manas Kumar Thakur, President of the Institute inaugurating the National Regional Council & Chapters Meet on April 22, 2017 at Chandigarh

CMA Sanjay Tandon, President, BJP, Chandigarh being felicitated by CMA Manas Kumar Thakur, President, and CMA Sanjay Gupta, Vice President at Chandigarh during the National Regional Council & Chapters Meet on April 22, 2017

CMA Sanjay Gupta, Vice President of the Institute in the technical session 'Hear no evil; see no evil; speak no evil' in the International Conference New Corporate Insolvency Regime Ushering an Era of Change, April 29, 2017 at New Delhi organized by ASSOCHAM & IPA of ICAI

ACTIVITY BASED METHOD FOR PURELY FINANCIAL ITEMS

The estimation of the cost of product or service yields innumerable benefits, as it facilitates to improve the efficiency and economy of the operations of the entity. The identification and removal of the ineptitude activities will enable to identify and remove the unprofitable products or services by applying the various doctrines of costing. The inappropriate costing of products or services may lead to erroneous fixation of price and result in fall in demand and consequent loss to the entity.

The techniques of costing assists management to formulate proper planning and control of various scare resources and also to take various decisions such as make or buy, dispose or retain, expand or shrink etc at the appropriate time. The adoption of various tools and techniques will finally result in to get the goods and services at the acceptable lower price and thus facilitate to improve the general standard of living of the general public.

There are many techniques to determining the cost of the product as well as services. At the time of evolution of costing, cost of commodities or services was determined by summing up of materials, labor and overheads incurred. During those times the apportionment of overheads was made with reference to labor hours or materials consumed, which was decided by management. Robert Kaplan invented a new technique Activity Based Costing, which created a big bang among Industries. It shows a new spectrum of costing of

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products and services wherein the overhead was apportioned based on the activities involved. This major invention has resulted in the new fixation of price and hence shaking the entire market of the various goods as well as services.

Necessity of considering Purely Financial items

Traditionally it was believed that certain items are necessarily to be excluded for the determination of cost of product as well as services. As an example, the profit or losses arising on sale of fixed assets are treated as purely financial in nature and not included in determination of the cost. Advertisement, preliminary expenses, Share transfer fee, interest received on bank deposits, dividend, brokerage, discount and commission received are never to be considered for costing of goods or services. The appropriation of profits for specific purposes such income tax paid, dividend paid, and transfer to reserve was also not considered for the determination of cost of goods or services.

The present methodology adopted for determination of cost did not permit to consider these items for the reasons that they are purely financial in nature. While making in-depth analysis it is found that the expenditure incurred or apportionment made were met from the profit earned by the various commodities sold or services rendered by the entity. As an example, the apportionment made to general reserve created might have met from the profits earned by the products and services.

These purely financial items were no doubt, not at all required for the determination of cost, but it has to be considered for taking various decisions such as pricing of the commodities sold or services rendered and also to identify the areas of cost reduction

The money generated, which has direct nexus with the products and services and have re-appropriated into general reserve and apportionment to taxes etc are necessarily to be reconsidered for the determination of profitability of products or services for segregating and making the product viable.

What could be done if the reduction of cost reached irreducible minimum

If the cost reduction has reached to irreducible minimum, the alternative way has to increase the selling price of the products or services to the maximum possible level subject to absorption of demand of the product or services in the market. Even at the maximum possible selling price, if the products or services leads to loss, there is no alternative way except to discontinue the product or services.

The proposed method facilitates the identification of the loss making products and to take various measures on cost reduction of the loss making products and also re-fixing of the prices of the products if required, by incorporating the purely financial items by appropriating by using the activity based method and also considering the dynamics of supply and demand of the produces in the market. The objective of the new method is to demonstrate how much maximum money could be earned either by reducing the cost or re-fixing the selling price at the optimum level and also to take decision on the discontinuance of the products, if the loss incurred could not prevented by either of the methods.

Proposed Model

The following model will assist not only the identification of the non-profitable products but also suggest the ways for preventing loss generated by such products or services in order to improve the overall profitability of the entity. The various steps involved in the model are given below.

Step 1: Determination of Cost of all products and services

Step 2: The determination of the Profit of each products and services

Step 3: Apportionment of Purely Financial items

Step 4: Determination of overall profit.

Step 5: The identification of loss making products or services and exploration of cost reduction techniques.

Step 6: Explore the possibility of revising the Selling Price

Step 7: Determination of discontinuance of produce and services.

Example

The example explained below reveals the steps mentioned. In order to make easy understanding the example is restricted to only two products i.e. Product A and Product B and only profit earned by the purely financial items during the account period under consideration. The model could be extended to more products and services and purely financial items for the previous years also. In the model both Traditional costing method and Activity Based Costing method were demonstrated.

Let us presume the present selling prices of the product is Rs 13 for the product A and Rs 27 for the product B and there is sufficient demand in the market for the both products.

The cost incurred for producing the Product A and Product B are given below:-

Step 1: Determination of cost of all products and services

Determination of cost of products under Traditional Method

Table No 1

Particulars	Unit cost		Total		Overall Total Cost
No of Units			2000	3000	5000
	A	B	A	B	
Direct material	8	2	16000	6000	22000
Labour	4	5	8000	15000	23000
Direct Cost	12	7	24000	21000	45000
Overhead*	4	5	19555.56	24444.44	44000
Total cost	16	12	43555.56	45444.44	89000

*(Apportioned in accordance with Labour rate)

(A) ACTIVITY BASED COSTING METHOD -ALLOCATION OF OVERHEAD

Table No 2

	A	B	Total	Allocation A	Allocation B	Total
Purchase orders (No)	40	60	100	4000	6000	10000
Machine setup (No)	20	80	100	2000	8000	10000
Product packing (No)	10000	20000	30000	1000	2000	3000
Machine testing (no)	50	100	150	2000	4000	6000
Cleaning	100	150	250	6000	9000	15000
Total Indirect cost				15000	29000	44000

DETERMINATION OF COST OF PRODUCTS UNDER ACTIVITY BASED COSTING METHOD

Table No 3

Particulars	**Unit cost**		**Total**		**Overall Total Cost**
No of Units			2000	3000	5000
	A	B	A	B	
Direct material	8	2	16000	6000	22000
Labour	4	5	8000	15000	23000
Direct Cost	12	7	24000	21000	45000
Indirect cost*	7.5*	9.67**	15000	29000	44000
Total cost	19.5	16.67	39000	50000	89000

*15000/2000 = 7.5
**29000/3000 =9.67

Step 2: The determination of the profit of each products and services

Based on the above information the profitability under traditional and ABC costing method was determined and given below.

Table No 4

	Per Unit				Total					
Particulars	Traditional Cost Method		ABC Costing Method		Traditional Cost Method			ABC Costing Method		
	A	B	A	B	A	B		A	B	
Selling Price	13	27	13	27	26000	81000	107000	26000	81000	107000
Cost incurred	16	12	19.5	16.67	43555.5	45444.4	89000	39000	50000	89000
Profit/ (Loss) Earned	**-3**	15	**-6.5**	10.33	**-17555.5**	35555.6	18000	-13000	31000	18000

Step 3: Apportionment of Purely Financial items

The purely financial items which have close nexus with the products and services are to be identified. The next important and pertaining question is how to apportion these purely financial items among the various products. The traditional costing method of allocating the overhead by the labor rate etc could be adopted in the apportionment of the purely financial items among the products or services of the entity. However, the golden gift given by Robert Kaplan i.e. Activity Based Method could be effectively used in the apportionment of these items for the determination of real profit of the products and services.

In the example it is presumed that the sum of purely financial items works out to Rs 9000/-. These purely financial items are to be apportioned to the products A and B. The traditional costing method the apportionment could be made based on the method earlier adopted (in this case labor rate method). Robert Kaplan's ABC Method could be applied for the apportionment of purely financial items, taking cost driver as the profit already earned by the products.

Table No 5

Particulars	Per Unit				Total					
	Traditional Cost Method		ABC Costing Method		Traditional Cost Method			ABC Costing Method		
	A	B	A	B	A	B		A	B	
Profit from purely financial items	2.00*	1.67*	-7.63**	8.09**	4000	5000	9000	-15260.8	24260.8	9000

*Apportionment made based on cost of labor (4*9000/9)/2000 =2.00 and (5*9000/9)/3000 =1.66

** Apportionment made based on the normal profit (-) 6.5*9000/ (-6.5+10.33)/2000 = - 7.63 and 10.33*9000/ (-6.5+10.33)/3000 = 8.09

Step 4: Determination of overall profit

The overall profit i.e. the summation of the profit determined in Step 2 and Step e are to be evaluated and given for the present example.

Table No 6

Particulars	Per Unit				Total					
	Traditional Cost Method		ABC Costing Method		Traditional Cost Method			ABC Costing Method		
	A	B	A	B	A	B	Total	A	B	Total
Profit/ (Loss) Earned	-3	15	-6.5	10.33	-17555.5	35555.6	18000	-13000	31000	18000
Profit from purely financial items	2	1.6	-7.63	8.09	4000	5000	9000	-15260.8	24260.8	9000
Total profit /(Loss)	-1	16.6	-14.13	18.42	-13555.5	40555.6	27000	-28260.8	55260.8	27000

Step 5: The identification of loss making products or services and exploration of cost reduction techniques

In the above example it is found that product A is incurring loss even after inclusion of the profit already earned. In the above model Product A is incurring a loss of Rs 13,555.6 (Under Traditional costing method) and Rs -28260.8 (Under ABC method). The corresponding unit cost lost for the product A is Rs 1 (Under Traditional costing method) and Rs 14.1 (Under ABC method). By selling the product A, our hard earned resources are diminished to that extent mentioned above.

Therefore it is necessary to re-evaluate the Product A and confirm that the cost incurred by the product 'A' are really attributable to it and explore the possibility of reduction there for. The complete assessment of each component of the product will be relooked into to identify the potential areas of cost reduction. It is necessary to discuss with the workers on the shop floor, as they have valuable insight to tell the scope of cost reduction. The previous cost savings ideas if any available necessarily to be considered again for the present its implementation in the present environment. The energy consumption techniques are to be considered for the confirmation that the available energy was properly used. The necessities of automation are to be considered wherein the repetitive manual process occurred. The negotiation with the suppliers and carriers and by re arranging the schedule etc may lead to reduction of the cost. The value engineering and benchmarking and other cost reduction techniques may be considered for reducing

The technique explored will facilitate the cost auditor to identify the unprofitable products and services and for taking adequate action to the extent required either by reducing cost by adopting cost reduction doctrines or revise the selling price after apportionment of purely financial items by adopting Activity Based Method

the cost incurred by the Product A.

Step 6: Explore the possibility of revising the Selling Price

After exploring the possibility of reduction of cost the next step is to consider the revision of price. It is necessary revise the price of the Produce A to the maximum possible level subject to absorption in the market. The fixation of the price of the commodities and services depends not only on costing but also on several factors such as demand for the products, price of competing firms, purchasing power of customers, Government regulation, marketing method used etc. There are numerous methods of pricing methods for the determination of price of products or services. The factors which are normally considered for the determination of the price includes product/service, competition, target audience, product's life cycle, firm's vision of expansion, etc. The method of pricing could be broadly classified into two categories i.e. Cost Oriented Pricing Method and Market Oriented Pricing Method. Cost-oriented methods or pricing includes Cost plus pricing, Mark-up pricing, Break-even pricing, Target return pricing and early cash recovery pricing. On the other hand Market Oriented Pricing Method consists Perceived value pricing, Going-rate pricing, Premium pricing, Discount pricing, Sealed-bid pricing, Differentiated pricing. The appropriate pricing of the product may reduce the loss to the maximum possible extent.

Step 7: Determination of discontinuance of produce and services

From the Table 6, it is found that the unit cost lost for the product A Rs 14.13 per unit under ABC method. This ABC method is more appropriate to apply as the appropriation of indirect cost and purely financial items are done scientifically.

It is necessary to reduce the cost of product A by Rs 14.1 or increase the price by Rs 14.13. The combination of cost reduction method or increasing the selling price may also be considered so that the product A should not be burden to the entity. In both method or by the combination, if it is not possible, there is no alternative except to discontinue the Product A.

Conclusion

The primary objective of the article is to demonstrate the effective use of Activity Based Method for the purely financial items. The appropriate decision could be taken such as taking cost reducing measures, revising the selling price etc at the appropriate time. This article will facilitate to guide us when to discontinue of the products. However for the simplicity the example is restricted to only two products and the consideration of the purely financial item for the accounting period. This could be extended for more number of products and previous accounting period also. The concepts of bye-product, joint product was also not considered. The readers may explore the possibility of extending the concept mentioned to those situations too. MA

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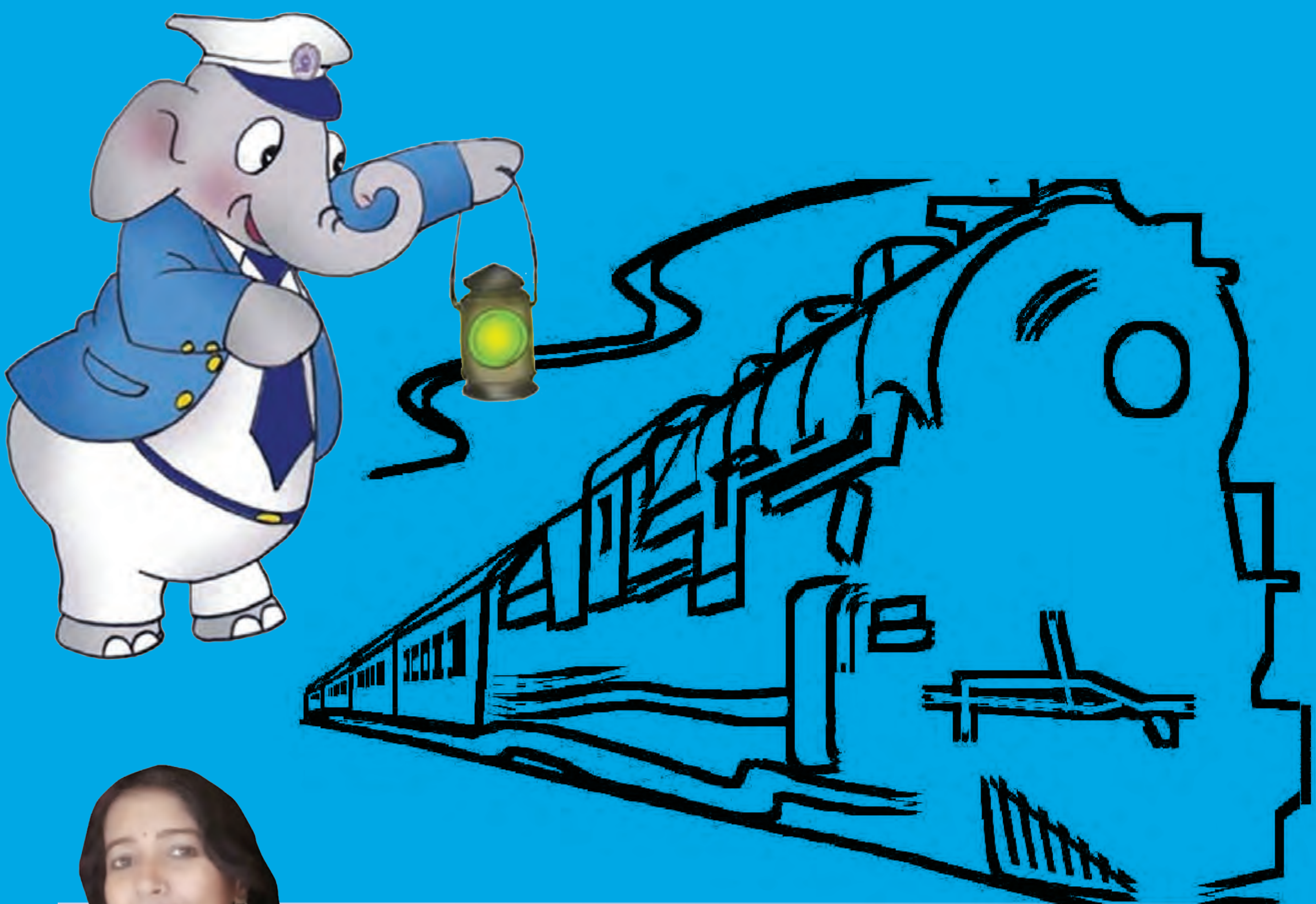
Application of Activity Based Costing in Indian Railways-

"MISSION BEYOND BOOK-KEEPING"



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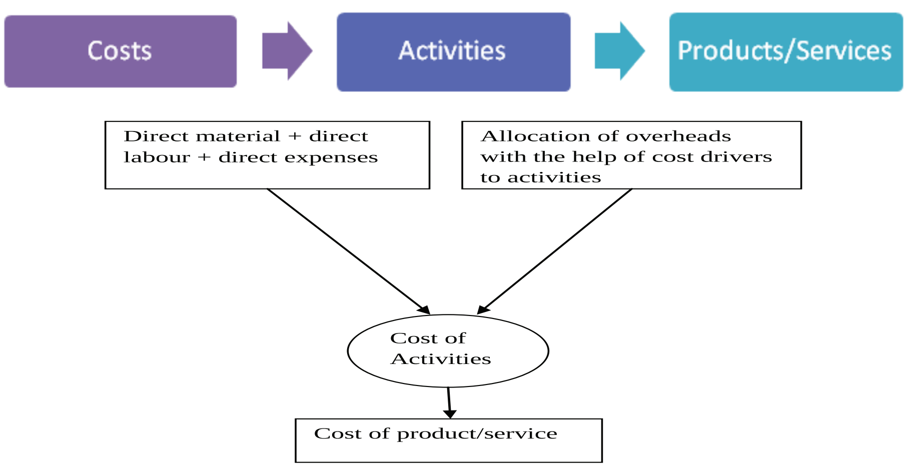
"Beyond Book-keeping" is one of the seven missions of Indian Railways as depicted in the Rail budget 2016-17. In the National Conference of Indian Railways held on 20th December 2016, Minister of Railways Shri Suresh Prabhakar Prabhu mentioned that accounting system is like a health card of an organization which reflects its financial health and accounting reform is an integrated project on management accounting, cost accounting and management information systems. And, Indian Railways should adopt a cost centre and profit centre approach to ensure correct allocation and utilization of resources. (Source: Press release of National conference on accounting reforms). Indian Railway is a crown jewel of India and makes Indian feel proud at global arena as Indian rail network is the fourth longest network in the world with operating route length more than 65,000 km. The United States has the world's longest railway network (over 250,000km), followed by China (100,000km) Russia (85,500) and India (65,000) [Source: Railway-technology.com]. Indian Railways has been enlisted in the Guinness book of world records by offering the steepest rise in altitude in the space of 96 kilometres. The railway station of capital of India, New Delhi has been entered in Guinness Book of world records for world's largest route relay interlocking system. The Indian railway is also pursuing to build the highest railway track in the world overtaking current record of Beijing-Lhasa Railway line. Cost reduction and cost control stand imperative for all industries irrespective of the nature of market like monopoly or perfect competition. This article provides the reader an insight of activity based costing and application of ABC costing in Indian Railways as an effective tool for cost control.

Meaning of Activity Based Costing:

CIMA defines Activity Based Costing as, 'cost attribution to cost units on the basis of benefit received from indirect activities e.g. ordering, setting up, and assuring quality.'

The concept of ABC was developed in the manufacturing sector of the United States during the 1970's and 1980's. During this time, the consortium for advanced manufacturing (CAM) was formalized which become known as Activity Based Costing. This model was formulated by Robert Cooper and Kaplan which focussed on discarding the deficiencies of traditional costing system. ABC costing traces the indirect costs associated with different types of activities consumed. The focus is made on the activities performed during the production or rendering of services. Activity based costing is applied with an objective to identify non value adding activities in the manufacturing processes or services provided and it can help in the elimination of non core activities. It enables to improve product costing. Here, the costs are first traced to activities and then to products or services. The cost of the product or service will be computed in the following manner with the help of activity based costing

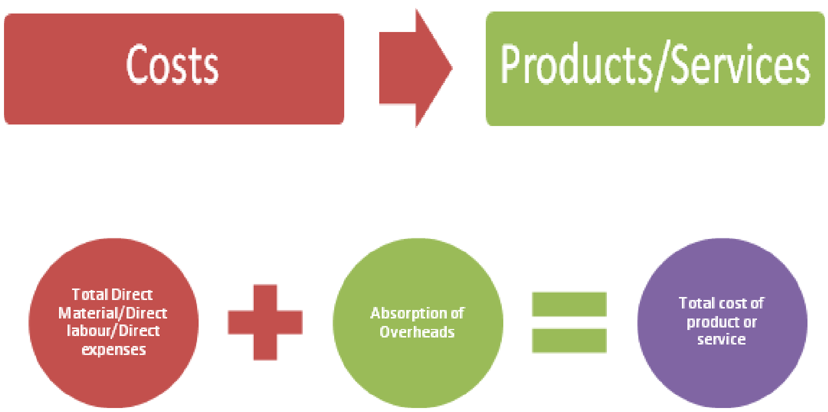
Figure 1: Cost determination with Activity Based Costing



Cost determination under traditional costing:

Under the traditional absorption costing, costs are not traced to the activities. The overheads are allocated to production and service cost centres with the help of primary distribution then the overheads of service cost centres are absorbed by the production cost centres.

Figure 2: Cost determination under traditional costing



Application of activity based costing in railways:

Railway has been considered as lifeline of economic growth of India and connecting the length and breadth of India. The rail services can be broadly classified under rail freight services and passenger services. The revenue from freight services accounts for two third of total revenue of railways. More than 1,000 million tonnes of freight is carried by Indian Railways per year and nearly 5,000 freight trains are operating daily. Indian Rail freight services mainly carries the commodities like coal, iron ore, food grains, steel, cement, petroleum products, and fertilizers. The number of passengers and goods carried by Railways and revenue earned there from during the five years can be seen as follows:

Year	Passenger (Million)	Earnings from passenger carried (Rs. Millions)	Loads of goods (million tonnes)	Earnings from goods carried (Rs. Million tonnes)
2009-10	7,246	2,34,144	886	5,69,,115
2010-11	7,651	2,57,056	922	6,06,870
2011-12	8,224	2,82,464	969	6,77,436
2012-13	8,421	3,13,228	1,008	8,34,788
2013-14	8,397	3,65,323	1,052	9,15,708

(Source: Ministry of Railways)

Vision 2020 of Indian railways targets to earn the revenue of Rs. 80 billion by the year 2019-2020. The estimated contribution of rail freight services to gross domestic product of India under different five year plans can be seen as follows:

Rail freight traffic growth:

Plan	Estimated contribution to GDP	Ratio of rail and road freight transport
12th Five year plan (2012-17)	6.9%	35:65
13th Five year plan (2017-22)	8%	39:61
14th Five year plan (2022-27)	8.5%	45:55
15th Five year plan (2027-32)	9%	50:50

(Source: Report of National Planning Commission of India)

Rail passenger service growth:

The rail passenger traffic has been expected to grow at the rate of 15 percent per annum. The growth in passenger kilometre under several five year plans has been estimated as follows:

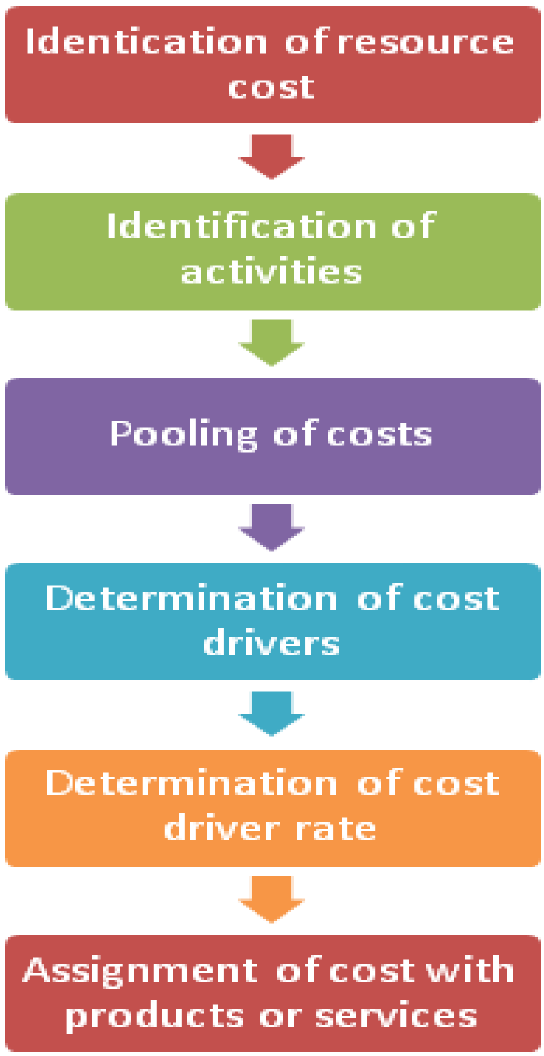
Year	Passenger kilometres in billions
2011-12	1,047
2016-17	1,509
2021-22	2,300
2026-27	3,596
2031-32	5,765

(Source: NTDPC, Report of Working group on Railways)

Activity Based Costing is important for monopoly firm as their pricing policy is based on product cost rather than any influence by market price. ABC is a costing model that identifies the cost pools and activity centres in an organization. It assigns costs to products and services (cost drivers) based on the number of events or transactions involved in the process of providing a product or a service. Hence, the shareholders value can be maximised and performance can be improved with the help of ABC model. In order to set up Activity Based Costing, the resource cost should be identified and classified in direct and indirect costs. Direct costs can be allocated directly to the services. However, the indirect costs will be identified and it can be allocated by specific cost distribution procedure.

This ABC model operates with the help of following steps:

Figure 3: Steps of Activity Based Costing



Step 1: Identification of resource cost:

The first step in ABC costing is the identification of resource cost. The resource cost can be obtained from the general ledger of railways. It will be segregated into direct costs and indirect costs. The manufacturing processes and services provided and the various stages of manufacturing and services will be identified for the purpose of identification of resource cost. The direct resource cost will be directly allocated to the particular service of rail and the indirect resource cost will be allocated to activities with the help of cost drivers. Hence, different kind of services provided by the railways will be identified to obtain the resource cost. The services of railways can be divided into three broad categories, freight services, passenger services, and parcel business.

For the rail freight system the different resources are Rolling stock, Organizational structure, Infrastructure, Train operation and other resources like energy. These resources can be grouped under activities like train load, wagon load, combined traffic and high speed rail freight, dedicated freight corridor and others.

Step 2: Identification of activities:

After the identification of manufacturing processes and services, different activities involved with the manufacturing and the services are identified. The activities can be of basically four types:

(1) Unit level activities: These are activities for which the consumption of resources can be identified with the number of units produced.

(2) Batch level activities: The costs of some activities are driven by the number of batches of units produced or services produced in batch.

(3) Product level activities: The costs of some activities are driven by the creation of a new product line or service or maintenance of product and service.

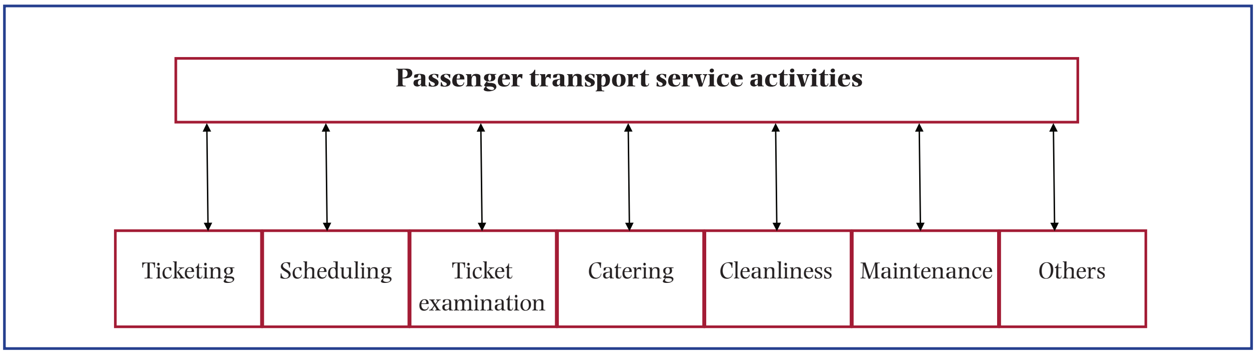
(4) Facility Level Activities: Facility level activity relates to the activities necessary for the maintenance of sustaining the product or services provided. For example, human resource activities, security services in rail.

Generally, the activities identified in railways are batch level and facility level activities.

Activities for Rail passenger services:

The services provided by railways can be broadly classified under passenger transport, parcel business and rail freight. The activities involved in passenger transport services will be identified as ticketing, boarding, ticket examination, catering, cleanliness, repair and maintenance, human resources, account and finance, etc.

Figure 4: Identification of activities for rail passenger services



Activities for Rail Freight Services:

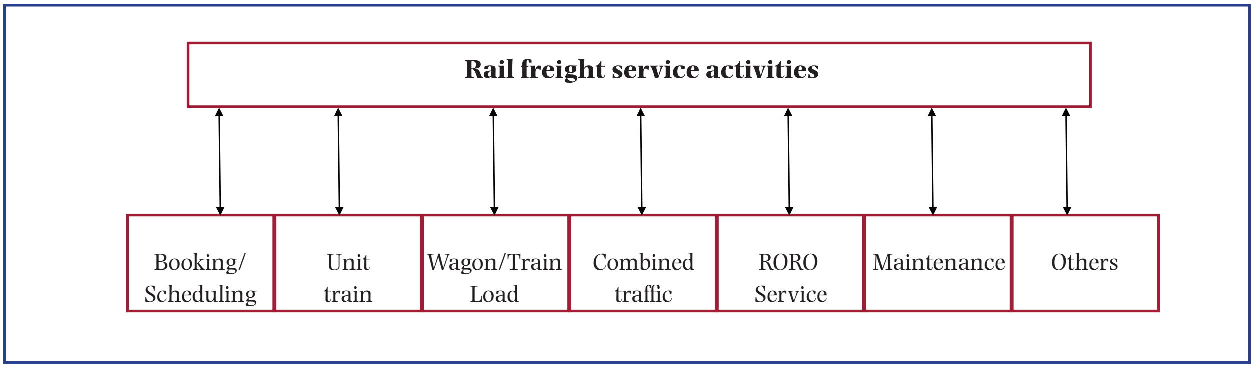
The different activities for the rail freight system can be train load, wagon load, unit train, combined traffic, high speed rail freight, dedicated freight corridor and others.

Train load activity serves to transport raw materials in bulk and the transportation time is less than one day. Wagon load is the oldest and traditional form of rail freight transport. It transports raw material and semi finished goods. The whole wagon is loaded or unloaded by the customer at loading platform. The loading or unloading can be for single wagon or group of wagons. Wagon load traffic serves the base market.

Unit train is the freight train where the rail acts as a conveyor belt to transport the freight in bulk. Unit train serves the specified customer as per the time table of customer. Generally, the unit trains carry iron ore, timber, steel, and oil.

High speed freight trains are used to carry parcels and mails. The transportation of high speed train usually takes place overnight with late departure and early arrival with some terminals before destination.

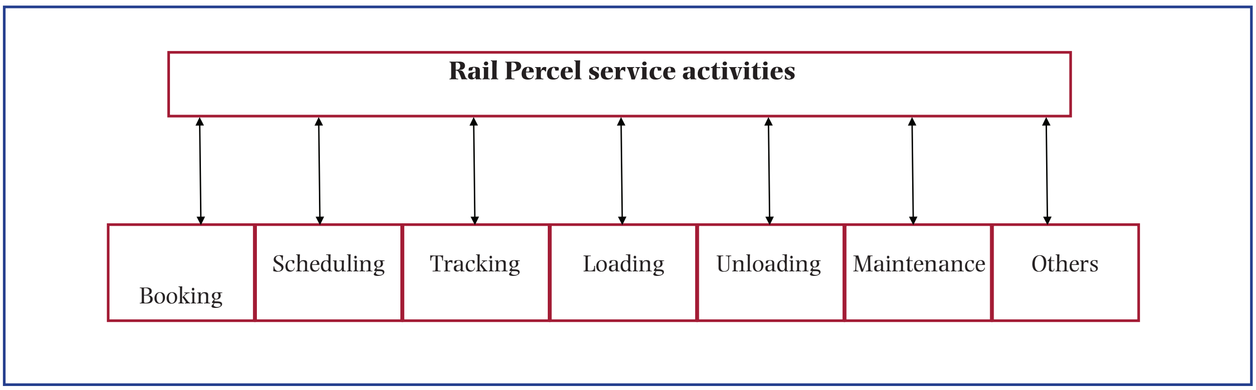
Figure 5: Identification of activities of rail freight service



Activities for Rail Parcel services:

The data of Indian Railways for 2011-12 revealed that railways transported approximately 7 million tonnes of parcels, causing revenue of nearly Rs 16 billion. However, parcel business is a loss-making activity for railways. The parcel business of Railways involves three major activities, booking, loading and unloading.

Figure 6: Identification of activities for rail parcel services



Step 3: Pooling of cost

Cost pool is defined by CIMA as, 'the point of focus for the costs relating to a particular activity in an activity based costing system.' It refers to the assignment of total costs to an activity. For example, the total cost incurred on the train ticket examiners will be ascertained. The total cost here will comprise of direct and indirect costs. The direct cost can be easily ascertained like total emoluments to the ticket checkers in a particular train on particular path. The example of indirect cost here will be the expense on water by railway in that coach on the staffs of catering, ticket checkers, cleaning staffs, security staffs and others. The indirect costs will be pooled and can be allocated on the basis of cost drivers.

Step 4: Determination of cost driver

According to CIMA, 'cost driver is any factor which causes a change in the cost of an activity, e.g. the quality of parts received by an activity is a determining factor in the work required by that activity and therefore affects the resources required. An activity may have multiple cost drivers associated with it.' In other words, cost driver means the factors which determine the cost of an activity. The cost drivers are the connecting link between the activities and the cost. The cost driver can be selected on appropriate basis. The cost drivers can be the following for different activities:

Services	Activity cost centres	Cost drivers
Passenger Transport	Ticket booking	Number of ticket booked
	Catering	Number of servings
	Finance and accounts	Number of employees
	Marketing	Number of employees
	Ticket examination	Number of employees, Number of ticket examined
	Administration	Number of employees
	Research	Number of employees, Number of activities and researches
	Public relation	Number of employees
	Human resource department	Number of employees
	Cleaning	Number of employees
	Repair	Number of repairs made during the period
	Track maintenance	Number of trains, kilometres
	Information technology system	Number of computers
Freight transport and parcel business	Traffic planning	Kilometres
	Research	Number of employees, Number of activities and researches
	Wagon loading	Number or weight of cargo loaded, number of wagons
	Repair and maintenance	Number of wagons repaired, kilometres
	Traction services	Kilometres gauge
	Wagon services	Number of wagon
	High speed freight train	Weight of cargo, kilometres
	Administration	Number of employees
	Warehousing	Number of employees, weight of parcel or freight
	Loading and unloading	Number of parcels, weight of freight
	Booking of parcel	Number of parcels

Step 5: Determination of cost driver rate

The cost driver rate will be computed with the help of suitable cost driver. Find total expense of a particular activity. Divide it with the help of cost driver. The value obtained will be the cost driver rate.

$$\text{Activity cost driver rate} = \frac{\text{Total cost of activity}}{\text{Activity cost driver}}$$

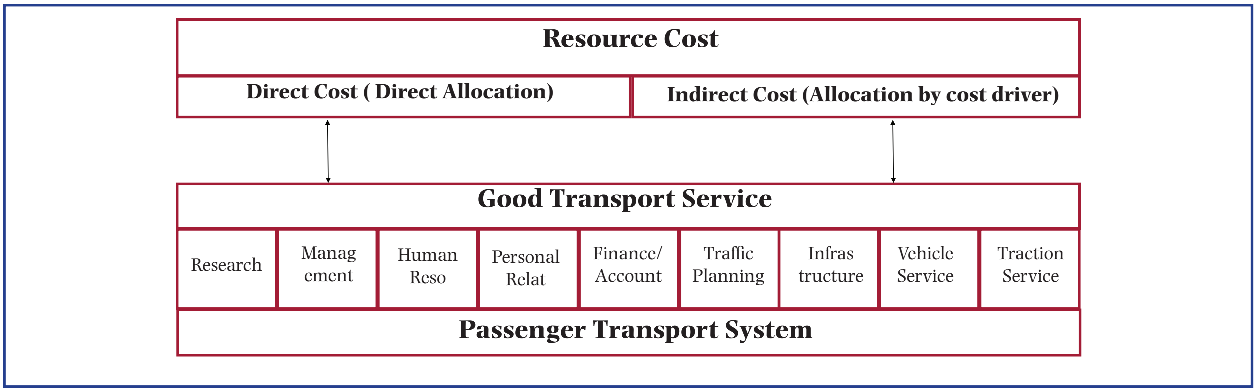
Step 6: Assignment of cost with the product or service

The final step in Activity Based Costing is to identify the cost with the final products which can also be called as cost objects. Now, the total indirect costs incurred can be distributed to each activity with the help of rate find by dividing the indirect cost with appropriate cost driver.

$$\text{Cost} = \text{Activity cost driver rate} \times \text{Resources consumed}$$

For example, the expense on maintenance of railway track can be apportioned to different rail on the basis of number of rails going through that particular track during particular period of time or on basis of kilometres. Then that indirect cost can be allocated to the particular train.

Figure 7: Activity Based Costing Model for Railways



Example of cost computation of passenger transport service with Activity Based Costing:

The cost computation for a particular passenger train between the two destinations for the year can be computed with the help of ABC costing in the following manner:

1. Find the direct costs associated with that particular train. The direct cost will be directly allocated to each train. The direct costs can be traced as the amount of store supplies issued to the train during the year, catering materials issued, salaries paid to the staffs working for that specific train during the year and other direct expenses.
2. The indirect costs can be the maintenance of railway track for which the exact cost cannot be identified for the specific train. It can be allocated in ABC costing suitably. The total maintenance cost during the year or given period for the track will be identified and pooled.
3. The cost driver for the apportionment of track maintenance cost can be the kilometre or number of trains, or number of train runs. However, the number of train runs during the period will be more suitable.
4. Then divide the total cost of track maintenance with the cost driver. This will be the cost driver rate.
5. Now, multiply the cost driver rate with the number of runs made by a particular train for which cost is computed. It will be the track maintenance cost allocated to the train. It will help to identify the high maintenance cost associated with the train.
6. Similarly, all the indirect costs can be allocated to a particular train with the help of suitable cost drivers.
7. The direct costs and allocated indirect costs will be added to find the total cost incurred.
8. It will help to decide the passenger fare per kilometre. The costing can be suitably made with the help of Activity based costing model.

Feasibility analysis of Activity Based Costing Model for Railways:

The application of activity based costing can bring the following advantages to Indian railways:

- The cost can be viewed not in terms of aggregate value rather it can be viewed in exhaustive form for each activity.
- The activities bearing more cost can be identified and the activity based management system for the cost control can be applied for that activity.
- Activity Based Costing helps to identify the value adding and non value adding services. The focus can be made on value adding services and the expenses on non value adding services can be eliminated. For, example, in the passenger transport activity, the food services, and cleanliness is value adding activities. However, the ticket examination by train ticket examiner (TTE) is done twice or thrice and ticket checking by two or three TTE can be avoided. This is non-value adding activities and expenses incurred on two or more train ticket examiners can be saved. The train ticketing examination should be strictly followed at once. The rationale behind activity based costing is that the attention can be focused on the value adding activities services while non value adding activities can be eliminated in the future.
- Activity based costing approach acts as a more suitable costing system for service companies providing services at large scale.
- It helps to determine appropriate costing.
- The appropriate costing method will pass on the benefits to public at large and railway intends to serve public.
- Activity based costing helps to analyse the cost in detail for each activity which helps the management to take necessary decisions.
- The services offered by the railway companies have to meet today's customer requirements and the services have to be produced efficiently to make them cost competitive. Higher productivity combined with greater attractiveness can improve profitability for rail freight.

Measures to be taken before the application of Activity Based Costing Model for Railways:

There are certain points which should be borne by railways before the implementation of Activity Based Costing model:

- Systematic identification of different activities of railways.
- Collection of realistic data.
- Selection of suitable cost drivers.
- Introduction of information technology software for the implementation of activity based costing system.
- Training of employees for the application of activity based costing approach.
- Proper communication network for effective data processing.
- Introduction of activity based management for the efficient implementation of activity based costing.
- Integration of activity based management with management information system.

Conclusion:

Reduction of cost and controlling of cost is a continuous process. Activity Based Costing is a costing system which tries to charge the indirect costs to the products and services fairly and suitably. However, it can be effectively implemented with the collective effort of employees by imparting training. The working system would be reviewed at regular interval to ensure the application of the model. The estimated expenditure on passenger operation of Indian Railways for the year 2017-18 has been budgeted as is Rs 77,000 crore while the receipt has been estimated as Rs 44,000 based on previous year data. The operational loss of Rs 33,000 should be efficiently administered to convert it into profit else the loss will reel off to the public at large in the form of hike in rail fare. Hence, the techniques of cost reduction and cost control can prove as a boon for the crown of our country. Activity Based costing system can be an effective tool for product or service costing. It will be helpful to identify the non productive activities and elimination of cost being incurred on those non value adding activities. Peter F. Drucker in his book Management Challenges for 21st century quoted "Traditional cost accounting focuses on cost of doing something whereas Activity Based Costing also records cost of not doing something..." MA

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Pivoting Business Growth With

ACTIVITY BASED BUDGETING

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An outgrowth of activity framework, linking workload and costs leads to Activity based budgeting (ABB). With a comprehensive activity based budgets, executives are able to create clear nexus to exercise control. Appropriation battles are common among functions during budgeting, challenging the methodology to benefit their respective functional cost is not new. Contrasting the budget methodologies will help to make a right choice and to align to the objectives and business goals.

Traditionally, incremental budgets have been in the public corporations until, US President Jimmy Carter introduced Zero-based budgeting in the state of Georgia in 1970. Conventional budgets provide accurate figures for variable costs as these are clearly linked to volumes of sales and production. Support costs were not aligned to the incremental process, as it failed to take into account the evaluation of existing activities. After World War II, money was tighter and required the objectives, outputs and expected resulted be part of the budgeting exercise. Detailed costs were to be given for every activity or program to manage and control. This has eroded the scope of adjustments for inflation, price changes and costs. It also helped both the organizations where quantification has to be justified like sales targets, labor workload, production etc and also for qualitative services in hospitals and food courts.

A basic requirement of ZBB is that each year, is prepared as if last year's financials did not exist. It was no more benchmarking last year's financial resources to be good for the current year. All assumptions have to rethought from scratch and need to be justified to factor in for the current year. Several question of how the activity be performed, should the activity be undertaken, how well the task has to be performed, should it be in-house or outsourced etc have helped to identify inappropriate activities thereby costs are assigned only to value added activities.

Criticism of ZBB focusses on its difficulties of implementation and being a time consuming process. It was not spared to be susceptible to political influences and pressures within and outside of the organizations.

Quite often ZBB has been synonym with activity based budgeting. While there are conceptual differences,focus is task based cost allocations than it being trend based budgets.ABB is more urbane version of traditional absorption costing. In simple terms, it uses cost drivers to help derive budgets. It is recommended to implement ABB by those organizations aligned to using of activity based costing. This envisage ABC framework, as pre-requisite for ABB. The foundation of activity framework postulates that activities consume resources to produce an output. Activities are considered to be basic cost objects. Two-staged procedure includes assignment of cost: from resources to activities and then from activities to output-related objects. Traditionally, the focus has been on the output-related objects like sales and production targets. With ABB, planning and budgeting commonly revolves around activities and targeting the same output and outcomes.

Broadly, ABBwould involve the following:

- Activity Identification
- Activity Analysis
- Assignment of costs
- Calculate Activity rates
- Assign costs to cost objects
- Prepare and distribute ABB

Leveraging the knowledge of ABB, the applications have been phenomenon and has been directional to business growth.

Application in Railways:

Business Standard in June 2015, publishedthat Indian railways despite overall operating ratio of 91% yet it is running many of its premium trains at a loss. An adhoc cost allocation made by the officials had a shocking result-major trains are not even recovering their operating expenses, for example the Calcutta metro system is spending Rs 300 for every Rs.100 it earns.

Indian Railways is the best case to emphasize for the need of activity based costing and budgeting and what could happen if companies try to overlook its importance.Cost dynamics play an important role in pricing decisions. Debroy committee has pointed out that in the present costing system, all annual expenses are allocated to different services and thus arrives at a unit cost for trains. However, since one does not know how much a specific train costs, one does not know how much of profits a specific train brings in.

In the railway budget of 2015-16, the Hon'ble Railway Minister, articulated a larger vision and strategy for accounting and cost reforms in Indian Railways. The focus envisaged is to ensure that all the public expenditure results in optimal outcome. Outlining, three integral modules, performance of cost and outcome based budgeting has been emphasized. Lasting benefits would accrue to the system by developing performance costing framework to identify appropriate cost and profit centers and then to allocated cost to such centers. Once costs and benefits are made available, pricing decisions, efficiency measurement and investment priorities can be driven.

REVENUE DETAILS	
TRAIN	**PROFIT / LOSE PER TRIP (IN ₹)**
Rajdhani	
New Del hi-Mum bai	3,14,516
New Delhi - Rajendra Nagar	2,57,716
Howrah - New Delhi	69,100
Sealdah - New Delhi	64,982
New Delhi - Dibrugarh Town	-6,34,211
Dibrugarh - New Delhi	-14,48,252
Satabdhi	
New Delhi - Habibganj	2,49,994
New Delhi - Amritsar	1,91,149
New Delhi - Kalka	1,56,548
Kalka- New delhi	71,528
New Delhi - Allahabad	-65,987
Duranto	
Pune - Nizamuddin	-33,204
Yasvsntpur - Howrah	-4,41,535
Mumbai - Howrah	-2,09,044
Yasvsntpur - Delhi	- 4,69,177
Lokmanyatilak - Ernakulum	- 10,90,480

Source: Bibek debroy Committee Report

Application in Aviation:

ABC and ABB are more used in the closed loop model of airline services. The strength of the model is that it has both sides of resource planning and control. All activities, within the loop are the bloodlines to adjust each time there is a change in the supply or demand. Closed loop is a continuous process from setting a plan to actual performance with new insights for betterment. This would include both the financial and operational loops, spanning with resource allocation, activities, demand requirement, price adjustments, products and services etc.

Connectivity has to established between activity based costing and activity based budgeting through resources and activities so as to strengthen the system to enable decision making and to sustain low cost carrier status. In order to provide lowest airfares to the customers, the airlines strives to reduce their direct operating cost by focusing on efficiency in airplane related costs or passenger related costs.

Known crew capacity and activity rate, the cost per flight hour is determined for actual crew consumption. Budgeting is based on the set number of flight hours with the calculated cost per flight hour. There are challenges with respect variable and zero fixed costs, planned and idle capacity and non-monetary resources, while this needs to be bridged with activity based resource planning tools and lean techniques.

Air Asia in its operations in India, strives to achieve low cost carrier status with ABC and ABB analysis leading to changing flight patterns and discontinue non-value added routes.

Air ASia India - As of 4th December 2014					
Pattern - 1					
ORGN	**DEST**	**STD**	**STA**	**BLK**	**T/A AT DEST**
BLR	**GOI**	**6:20**	**7:35**	**1:15**	**0:30**
GOI	**BLR**	**8:05**	**9:15**	**1:10**	**0:25**

BLR	COK	9:40	10:40	1:00	0:30
COK	BLR	11:10	12:10	1:00	1:05
BLR	GOI	13:15	14:30	1:15	0:25
GOI	BLR	14:55	16:00	1:05	0:25
BLR	JAI	16:25	18:50	2:25	0:25
JAI	BLR	19:15	21:40	2:25	0:25
BLR	COK	22:05	13:05	1:00	0:25
COK	BLR	23:30	0:30	1:00	
			AVERAGE	13:35	0:30
Pattern - 1					
ORGN	DEST	STD	STA	BLK	T/A AT DEST
BLR	IXC	9:40	12:35	2;55	0:25
IXC	BLR	13:00	16:00	3:00	0:30
BLR	MAA	16:30	17:20	0:50	0:30
MAA	BLR	17:50	18:40	0:50	
			AVERAGE	7:35	0:28

theflyingengineer.com/category/airline/companies/airasia-india/

The airline has cancelled its Bangalore – Chennai return early morning for a long time to address two problems: shortage of crew and a poorly performing route.

Application in SME Sector:

SME's are under tremendous pressure to sustain the competition in global economy. Thriving to achieve world-class levels of cost savings embracing proven supply chain and enhanced management systems proves costlier. Adoption of ABC has been seen slower due to constrained capital, both financial and human as they operate.

To address the imbalance between budget and actuals, adopt allocation of overheads to products based on single cost drivers leads to inaccurate pricing. To be competitive, ABC has to be implemented improving cost assignment process and determine the right price to charge. Despite complexity for SME to implement and other hand being costly, SME would reap long term benefits of (1) to filter profitable and unprofitable products/activities (2) establish cost control and (3) ensure competitive pricing.

Application in Service sector

Direct material and direct labor are not the cost categories in a service industry. It is the resource consumption that determine the charges for the services rendered. It's tricky to implement ABC in the service firms since employees work on various projects in a day and is time-effort based for each of these projects/programs. Practically, the systems are designed for the manufacturing process are configured to be used in the service firms.

Costing in the service sector need to be forward looking. It does not emphasize on valuing inventory and is hard to calculate standard cost to set price for services. Product profitability is a must and firms need to know the accurate cost associated with the services rendered. ABC and ABB has started to emerge in service sector and will be interesting application over a period of time.

Financial services including banks, Health care providers, Medicare firms, Insurance etc shall configure and align ABC to the category of services rendered, more as a cost management tool in order to make correct pricing decisions and to increase profitability.

Conclusion:

With globalization and technological changes, information is made available at the tap of fingers envisaging transparency and digitalization. CMA's have role to play and bring about cost consciousness that impact business growth. With the cost management techniques, pivoting business growth should be only goal that every organization has to strive thus strengthening the global economy and making it more competitive and qualitative. MA

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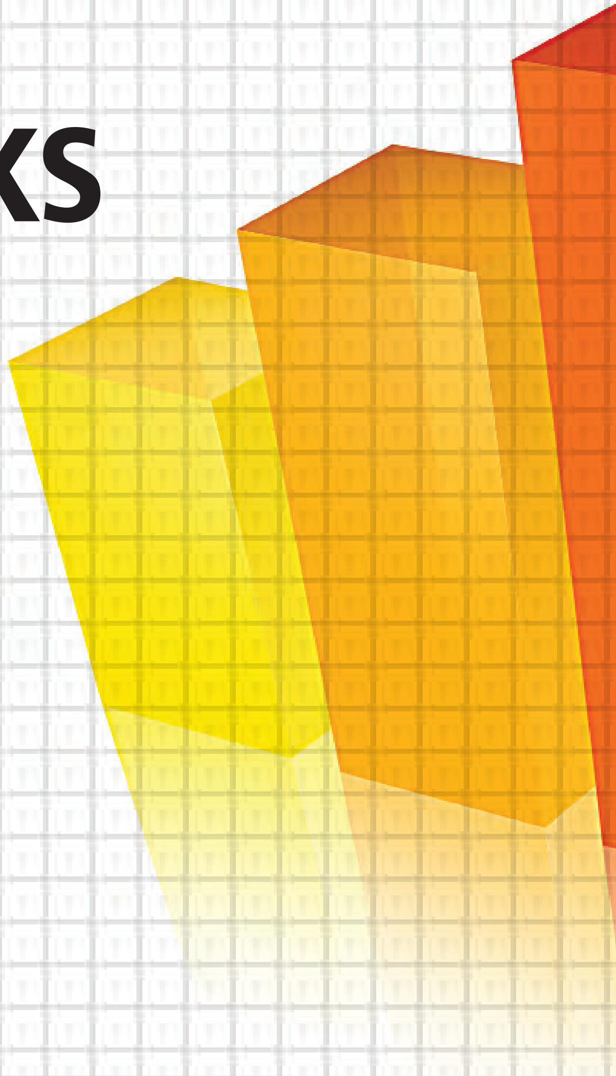
ACTIVITY BASED COSTING IN INDIAN BANKS



Costing of banking products and services, its customers' business, operational transactions and technology upgradation has been an undergoing activity ever since the modern commercial banks came in to business in India. However, not much data is available on the costing methods and models used by them before the Report of Banking Commission[1], headed by R K Saraiya, was published by the Government of India in 1972, where a study was published of the costing methods used by banks (but only few) and it observed that "cost accounting had not made any progress in the banking industry in the country" (Pp 273). The Institute of Cost and Works Accountants of India[2] (ICWAI) published a study in 1979 on cost accounting in commercial banking industry and had recommended that

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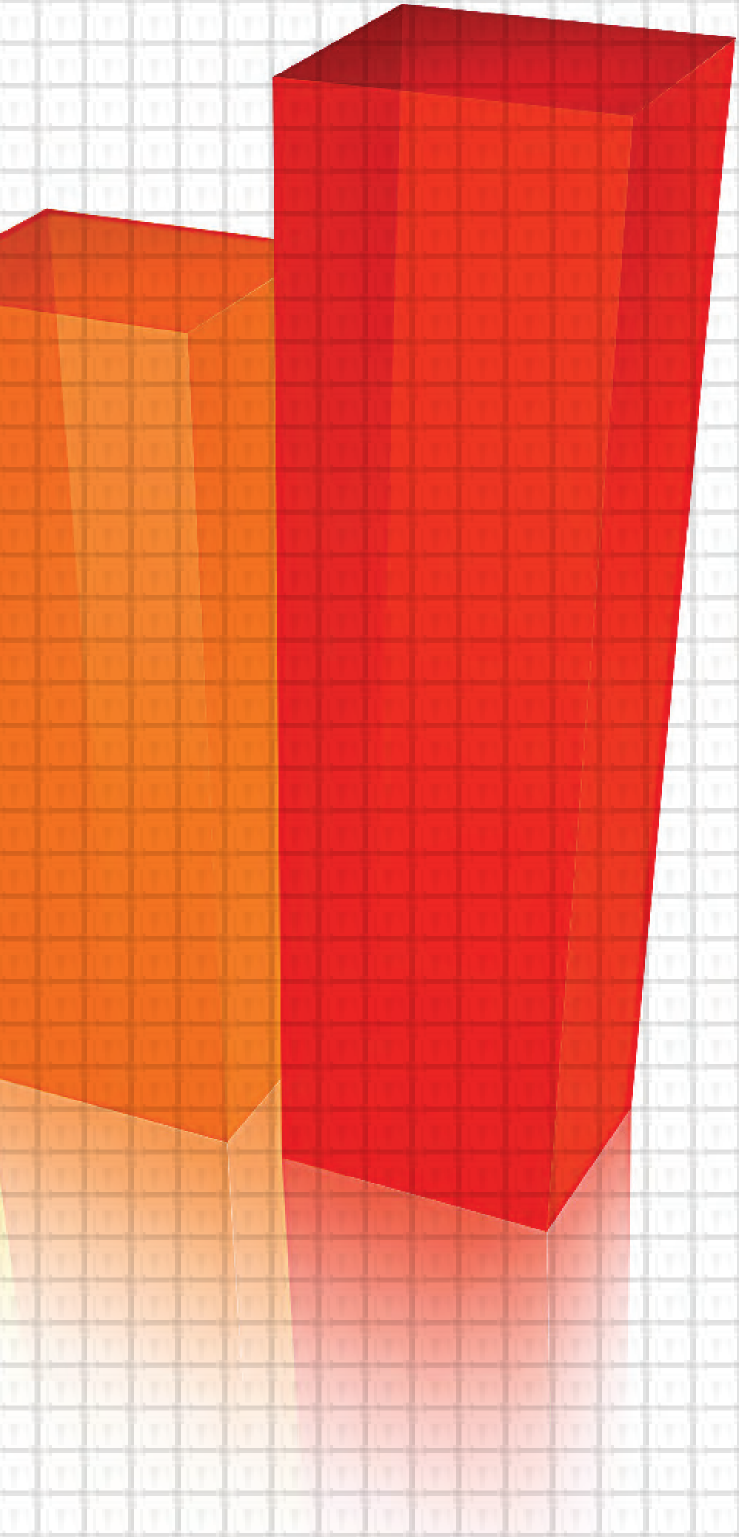
Indian Banks adopt functional costing system. However, M S Narasimhan and Ashok Thampy[3] observed in 2002, “There is no evidence to suggest that Indian Banks have adopted at least functional cost accounting system recommended by the ICWAI”.

Worldwide, there have been considerable interests shown to find out the appropriate costing structure suitable for service industries, especially banks. Ideas have moved from calculating direct and indirect costs to absorption and variable costing to treatment of joint costs to overheads and overhead allocation issues to applicability of activity based costing[4]. Developers of Activity Based Costing (Kaplan and Cooper, 1998)[5] suggest that service companies are ideal candidates for ABC.



Activity Based Costing

The conventional costing system was used mainly to find value of the closing stock of a trading/ manufacturing firm to financial accounting to arrive at the profit of that period. The conventional accounting system was not designed to provide cost information for strategic decisions[6]. The limitation of conventional costing system to provide information required for developing strategy was brought about by Kaplan[7]. Activity based costing was then found useful in using costing information for strategic decisions.

ABC is as a method of measuring costs and performance of activities, products, and customers (Gunasekaran, Marri, & Yusuf, 1999; Hilton, *et al.*, 2008). ABC assigns resource costs to cost objects such as products, services, or customers based on activities performed for the cost objects (Cooper and Kaplan, 1992; Chartered Institute of Management Accountants- CIMA, 2005). Wickramasinghe and Alawattage (2007) identify ABC as a post-mechanistic cost management approach in management accounting. ABC accurately reflects the resource consumption in production and distribution by attempting to trace costs to products or processes. ABC achieves this by accurately recognizing a causal relationship of cost drivers to activities (Holmen, 1995; Drury, 2004; Hilton, *et al.*, 2008). It identifies activities which consume resources, attaches costs to them, and assigns costs to products or processes that use these activities (Ismail, 2010).

Activity Based Costing in Banks

In commercial banks it was gradually accepted that ABC is a method of measuring costs and performance of activities, products, and customers. ABC assigns resource costs to cost objects such as products, services, or customers based on activities performed for the cost objects. ABC was also identified as a post-mechanistic cost management approach in management accounting. ABC accurately reflects the resource consumption in production and distribution by attempting to trace costs to products or processes. ABC achieves this by accurately recognizing a causal relationship of cost drivers to activities. It identifies activities which consume resources, attaches costs to them, and assigns costs to products or processes that use these activities.

Rui Vieira and Keith Hoskin[8] in their research paper, "*The Implementation of Activity BasedCosting in a Portuguese Bank*" have observed that, "After it was made clear that ABC was an importantfeature to provide the bank with cost information about unitary cost information to provideprofitability by product, customer segment, and channel, some attitudes changed, andmanagers began to accept it as they claimed the project as their own. Part of the problemmight have been that the accounting department initially did not feel they owned or managedthe project." It was felt by the researchers that the usual resistance to introduction of a new concept faced initial resistance within the bank, but continuous persuasion from th top management and the motivated team work resulted in adoption of Activity Based Costing in place of conventional cost accounting system.

Douglas T. Hicks,Edmond J. Olejniczak III, and Bradley A. Curell in their paper, "*Measuring Customer and Product Profitability at Community and Regional Banks in USA*"found that in most cases, activity costs is assigned as either a cost per transaction or a percentage add-on. Those activities most suited for percentage add-ons are general fund-raising, market/customer support, product/product line support and general and administrative activities. Those most effectively handled as a cost per transaction are transaction fund-raising, outside contractor support, and transaction fund-using."

Banks over time have come to this understanding that the conventional cost system of banking service is inadequate and inaccurate.The adoption of ABC system helps in calculating the costs of banking services in commercial banks more accurately.The adoption of ABC system helps in the pricing of banking services more competitive and scientific.

It is also understood that ABC is a costing methodology that identifies activities in an organization and assigns the cost of each activity with resources to all products and services according to the actual consumption by each. ABC tries to ascertain the factors that cause each major activity, cost of such activities and the relationship between activities and products produced. It is the main accounting tool to measure the cost of products and services of any bank.

Evolution of Adoption of Cost Accounting in Indian Banks

The Banking Commission Report 1972 and the Narasimhan & Thampy study in 2002, both have mentioned inadequate adoption of cost accounting methods in Indian Banks. Though as on date there is a greater awareness of adoption of costing accounting techniques in the Indian Banks, which we will be discussed in detail in this article, yet it has been a slow evolutionary process in the Indian Banks. There were reasons for this slow progress.

If we look at the profit & loss statement of three banks selected at random we will find that interest expenses are, in the range at 50-55% of the total expenses and the operating expenses are in the range of 18-26%, hence focus of the banks has been to reduce cost of deposits by bringing in more low cost deposits such as current and savings bank deposit customers.

Banks	Indian Bank	ICICI Bank	HDFC Bank
Interest Expenditure	57.73%	46.30%	49.4%
Operating Expenditure	18.45%	18.63%	25.7%

[Source: Published Profit & Loss Statements of the Banks 2015-2016]

It is not to mention that reducing operating expenses was not a priority. However, alternate methodologies like relying more and more on technology, closing down unviable branches, restricting the operational processes/systems and inculcating the habit of "a rupee saved is rupee earned" were followed more rigorously than to adopt cost accounting techniques to analyse the actual cost incurred in various operations of the bank.

The other cost factors such staff salary and selling, administrative and miscellaneous cost were reduced by increasing business per unit, thereby reducing over all cost.

The concept of Break Even Point of Bank Branches and Customer's business were also in vogue in branches in 1990s and it is still being used. The following case of a collection account of bills and cheques of a customer is analyzed at the bank to find out whether the customer's account is profitable or not.

Profitability of a Collection Account in a Bank*

Profit in the Collection Account: Income – Expenses
= Sales* Price per Unit of Sales – Sales* Cost per unit of Sales - Overheads
= Q*P – Q*V – F
Where Q = No of Units (Quantity)
P = Price per Unit
V = Cost per Unit (Variable Cost)
F = Overheads (Fixed Costs)
Break-even point means where profit is Zero:
B.E.P. = P = 0 = Q'*P – Q'*V – F
Where Q' is Quantity of Units sold at Break Even Point Level
0 = Q'(P – V) – F
or F = Q' (P – V)
or Q' = F/ (P – V)
Fixed Cost of handling this account for the last one Year, i.e. F
F = Salaries + Overheads = 24.24 + 7.31 = 31.61
V for Current Deposits = 0 (as no interest is paid on Current deposits)
V for Term Deposits = (Interest paid on TD/ Total Average Term Deposits) * 100
= 78.24/978*100 = 8%
P is income on Funds Deployed Notionally = (11.23 * 12)/(304.83 + 978) * 100
= 134.76/1283 * 100
= 10.50%
Notional income on Current Deposits = 10.50 – 0 = 10.50
Notional Income on Term Deposits = 10.50 – 8.00 = 2.50
Break Even Point in case only Current deposits are taken = 31.61/0.105 = 301 lakhs (Average Current Account balances for the Year)
Break Even Point in case Term Deposits are taken = 31.61/ 0.025 = 1264 lakhs (Average Term Deposits balances for the year)
Break Even Point in case Current deposits and Term deposits are taken [The ratio of Current deposits (305 lakhs) and Term Deposits (978 lakhs) are 1:3] = P – V = 10.50 * 0.25 + 2.5 * 0.75 = 4.5.
Therefore B.E.P. = 31.61/0.045 = 702 lakhs [Current deposits 176 lakhs and Term Deposits 526 Lakhs]
Margin of Safety = [(1283 – 702)/ 1283] * 100 = 45%
B. E. P. is at 55% of last year Sales [Current Deposits and Term Deposits]
A Competitor had entered at this stage and offered the Customer 50% of Sales (Current and Term Deposits).
Alternatives available for ABC Bank are:
Reducing F [which may be possible]
Say "NO" [i.e. Driving out the Customer]
Say "Yes" – and Explore Better Deployment of Funds
alternate scope of income like Service Charges (Fixed Quotation and Floating Quotation) per bill and collect it every quarter
Increase Current Deposit Balance and keep it as near the BEP **301 lakhs**
Source: Dr. K Satyanarayana, Ex-Professor, National Institute of Bank Management, Pune.
The figures are actuals of a real account from a Bank.

What is basically argued here is that banks though might not have consciously opted for a particular costing method/ technique/ model but were aware of the significance of costing in all aspects of the expenditure side of the Profit & Loss Accounts Statement of the bank. Various models were developed to suit bank's requirement. A case in point is using the same Break Even concept for bank branches, both newly opened as well as loss making branches. We give below an example of a branch case:

Break Even Analysis: The Case of a Personal Banking Branch

To start with: Profit = Income – Expenditure (Variable cost + Fixed cost)
= Sales – Variable cost – Fixed cost
= [No of units sold x price per unit] – [No. of units produced x cost per unit] – Fixed cost
p = QP – QV – F

Where, Q is the no of units sold
P is the price per unit
V is the variable cost per unit
p is the profit

At the Break Even Point Profit is Zero, therefore,
0 = Q'P – Q'V – F
or, Q'P – Q'V = F
or, Q'(P – V) = F, where Q' is the no. of units sold at Break Even Point,
or, Q' = F/ (P – V), (P - V) is also known as Contribution.

At the Bank Branch Q is nothing but the Business Mix i.e. Deposits + Advances

For Personal Banking Branch, Qp, i.e. the present Business Mix is = 1031 + 83 = Rs1114 lakhs;

And F = Salaries + other overheads – Non-interest income = [41.47 – 6.73*] + 6.40 – 2.21

* the amount of staff arrears paid in this year was deducted from the salaries paid at the branch
= Rs38.93 lakhs

And (P – V) = [Interest Income on Advances + Net interest income on Head office balances] –[Interest paid on Deposits]
= [7.67 + 104.97] – 83.60
= 112.64 - 83.60
= Rs29.04 lakhs

Now this (P – V) of Rs29.04 lakhs is for a business mix of Rs1114 lakhs at the branch. We have to find out the (P – V) for a rupee of business-mix, which is
= 29.04/ 1114 = 0.0261

Therefore the Break Even Point Business Mix of Personal Banking Branch is
Q' = F/(P – V) = 38.93/0.0261 = Rs1492 lakhs, i.e. with the existing CD ratio of 8% the business mix can be divided as [Deposits of Rs1372lakhs + Advances of Rs120lakhs].

For the Branch to Break Even, Strategy 1 available is to increase Rs378 lakhs [1492-1114 = 378] @ CD Ratio of 8%, to increase Deposits by Rs348 lakhs and Advances by Rs30 lakhs.

Looking into the past performance of the branch, an increase of Business Mix of Rs378 lakhs in one year appears to be of a bit of a tall order.

Let us therefore look at Strategy 2: To reduce F, i.e. the Fixed Cost at the Branch. Let us find out the breakeven Level of F' at the Branch:
Qp = F'/(P – V)
Or, F' = Qp x (P – V) = 1114 x 0.0261 = 29.04 lakhs;

i.e. Strategy 2 is to reduce Fixed cost from Rs38.93 lakhs to Rs29.04 lakhs, which may be possible with a combination of the following three strategies:

Increase Non-interest income, say by Rs2 lakhs;
Reduce Staff; and
Expenditure Management (A Rupee Saved is a Rupee Earned).

Strategy 2 is also not a full proof concept for the branch to break even, hence there is need for to look at Strategy 3, which is, improve (P – V), i.e. the Interest Margin available at the branch. The (P – V) at the break even point is:

$$Qp = F' / (P - V)'$$

Or, $(P - V)' = F' / Qp = 38.93 / 1114 = 0.0349$, i.e. an increase of 0.88% in interest margin will bring about the break even level for the branch without any increase in Business-Mix or Reduction in Fixed cost.

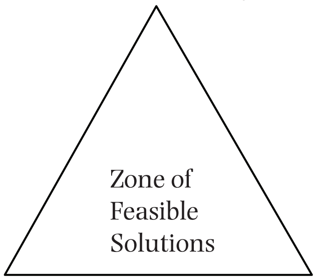
To pursue Strategy 3 is to do the following:

Increase the Yield on Advances by going for more High Quality High Yielding Advances and Reducing NPAs (Increase CD Ratio).

Reducing the Cost of Deposits by improving the Deposit-mix by going for more Low-No cost Deposits.

In reality a combination of all the Three Strategies are required to be pursued.

I: Increase Business-Mix by Rs378 lakhs



II: Reduce Fixed Cost by Rs10 lakhs **III: Improve Interest Margin 0.88%**

Hence for the Branch has a combination of above three Strategies I, II and III, depending on the SWOT of the Branch, it can work out the following possibilities:

1. Increase Business Mix say by 15% i.e. 15% of Rs1114 or Rs170 lakhs of additional business mix over the previous year, which could be little higher than the previous years;
2. Reduce the Fixed Cost by Rs5 lakhs by increasing Non-interest income, along with transfer of one MMG III officer from the branch and cost reduction by 10 % in overheads; and
3. Improve Interest margin from existing 0.0261 to 0.03, and increase CD ratio from present 8% to 20%

The Branch will earn a profit of:

$$\text{Profit} = Q''(P - V)'' - F''$$
$$= [1114 + 170][0.03] - [38.93 - 5.00]$$
$$= 38.52 - 33.93$$
$$= \text{Rs}4.59 \text{ lakhs}$$

Activity Wise Costing Initiatives:

Sometime in 195-96 the Reserve Bank of India directed banks to conduct an ongoing costing exercise and apprize the Reserve Bank of the results of such studies at periodical intervals. The objectives of the study were:

1. To analyze cost trends for cost control;
2. To enable comparison of cost results of the bank with the industry level and to take necessary corrective measures to control avoidable cost;
3. To appropriately price various services offered by the banks;
4. T0 enable systematic profitability analysis for finding out the cost of concessions offered to customers;
5. T0 facilitate cost-benefit analysis of different ; and undertaken by the bank;
6. To aid critical review of bank's systems and procedures; and
7. To work out break-even analysis of bank's various services/ activities.

The cost of each activity is generated in terms of three indicators as under:-

(i) Cost per voucher, i.e., cost per credit/debit entries;

(ii) Cost per Rs 100/- outstanding balance in case of deposits and advances (loans) and cost per Rs100/- of quantum of turnover in case of transactions, i.e., Demand Draft/ Pay order/ NEFT/ RTGS issued/ paid, Government Receipts/ Payments, cheques/ bills inward/ outward collection, etc.
(iii) Cost per account per annum.

Activity wise Cost (A Case of a Bank) (As of March 1996):

a) Deposits

The cost per voucher for savings bank was Rs9/- and current account was Rs12/- and term deposita was Rs42/-. The cost per voucher for total deposits were Rs13/-

The cost per account per annum for current account perannum for current was Rs498/-; savings bank was Rs94/- and for Time Deposit was Rs163/-.

b) Loans and Advances

The cost per account for total advances was Rs35/-, the cost for agricultural lending was Rs80/-.

The cost per account per annum for total advances was RS783/-. The Industry and Trade Sector cost was Rs1040/-, other advances Rs738/-, other priority sector lending was Rs659/-, Agricultural was Rs277/- and Small Sector Industries Rs151/-.

c) Other Activities

1. Remittances:

The cost of a Demand Draft issue was Rs25/-, Paying a Demand draft was Rs41/-, issuance of a Telegraphic Transfer was Rs83/-, Paying a TT was Rs65/-, issuance of a Pay Order was Rs29/- and paying a Pay Order was Rs 21/-, issuance of aMail Trnafer was Rs79/- and Paymnet of MT was Rs64/-.

2. Bills:

The cost to collect outward cheques/ Demand Drafts was Rs14/- and the bills was Rs71/-. Inward cheques/ Demand Drafts was Rs8/- and Bills was Rs54/-

3. Others:

The cost to issue an inland letters of credit was Rs669/- and Bank Guarantees was Rs356/-. The cost of each foreign transaction was Rs299/-. The cost of operation of one safe deposit locker was Rs47/-, Government receipts was Rs21/- and Government Payments was Rs27/-.

4. Other Instruments:

Cost of outstation cheques collected for clearing was Rs14/-.

Break Even Analysis for Deposits/ Advances Accounts:

a) Deposits

i) Current Account:

Cost per Account per Annum	Rs 497
Yield on Advances	13%

Break Even Point (BEP) = Fixed Expenses/ Contribution

= 497/0.13 = RS 3827 = RS 3900 (Say)

ii) Savings Bank Account:

Cost per Account	Rs 94
Interest Cost (average)	4
Yield on Funds	13%

BEP = 94/ 0.13 – 0.4 = RS 1045 = RS 1100.00 (Say)

iii) Time Deposits:

Cost per Account	Rs 163
Interest Cost (average)	10%
Yield on Funds	13%

BEP = 163/ 0.13 – 0.10 = RS5430 = RS 5500.00 (Say)

b) Loans and Advances

i) Small Scale Industries:

Cost per Account	Rs 151
Yield on Advances	12%
Cost of Funds (average)	7.5%

BEP = 151/ 0.12 – 0.075 = RS 3359 = RS 3400.00 (Say)

ii) Agricultural:

Cost per Account	Rs 277
Yield on Advances	12%
Cost of Funds (average)	7.5%

BEP = 277/ 0.12 – 0.075 = RS 6165 = RS 6200.00 (Say)

iii) Other Priority Sector Lending:

Cost per Account	Rs 659
Yield on Advances	12%
Cost of Funds (average)	7.5%

BEP = 659/ 0.12 – 0.075 = RS 14637 = RS 14700.00 (Say)

iv) Industry & Trade Advances:

Cost per Account	Rs 1040
Yield on Advances	12%
Cost of Funds (average)	7.5%

BEP = 1040/ 0.12 –0.075 = RS 23131 = RS 23200.00 (Say)

v) Other Loans and Advances:

Cost per Account	Rs 737
Yield on Advances	12%
Cost of Funds (average)	7.5%

BEP = 737/ 0.12 – 0.075 = RS 16390 = RS 16400.00 (Say)

Customer Profitability Analysis:

Customer Profitability Analysis, is a methodical attempt, which takes into account the income earned along with other benefits derived and after deducting the related costs in servicing the business placed by the customer with the bank. For customers who have been availing a mix of products, it may happen that the bank may be making a loss in one product, while it may be able to earn a profit from another product. It is therefore essential to take a holistic view of use of each product and then to find out whether the account as a whole gives the bank enough profit margin. On many occasions, it so happen that customers availing multiple products, may request for concessions on interest rate or opn commissions. All these requests come with the arguments that they are bank's valued customers, maintain a large deposit or have availed of large advances. However, placing a large deposit or taking a large advance does not necessarily make a customer profitable unless all aspects of their dealings with the bank are accounted for.

The profitability of an account depends on net surplus of the income received (interest income and non-interest income, e.g. exchange/commission earned) and costs incurred (interest expenditure-funding cost and non-interest expenditure, i.e. operating costs).

Incomes received are from:

- Interest earned on advances
- Fee based income from ancillary business including forex business, if any.
- Notional income from float funds generated because of ancillary business.

Costs incurred are from:

- Interest costs of deposits placed
- Operating costs (servicing) costs for ancillary business including forex business, if any.
- Funding cost of deposits for advances taken.

The income from advances is the interest or discount earned in such accounts. The cost of deposits (also known as cost of funds) is the interest paid by the branch (or the bank) on its average deposit liabilities.

For servicing all the products (facilities) availed of by the customer, operating costs are incurred. Operating costs are worked out by banks periodically, ideally once every year. The total number of transactions under each facility (product) multiplied by the transaction cost will give the servicing (operating) costs for that facility (product).

Besides, the following additional data as regard to the customer's account is also required:

i) Weekly average balances of deposit/advance accounts for a year;

ii) Interest paid on deposits/received on advances during a year;

iii) Number of transactions of deposits/advances/ collections and other ancillary facilities accounts; and

iv) Exchange/Commissions earned.

Example of a Calculation of Customer Profitability of a Corporate Customer

Modern Engineering Works Ltd. (MEWL) is a public limited company having its headquarters in one of the major metropolis (M1). It has four divisional offices at four other metros viz. M2, M3, M4 and M5. Modern bank is its main banker. Modern bank has sanctioned a cash credit limit of Rs5 crores with sub-limits of Rs50 lakhs each at M2, M3, M4 and M5 branches of the bank to be operated by the divisional offices of MEWL. The other products availed of by MEWL are:

1. Purchase of Cheques and Bills drawn outside the above metros tendered at the above branches. Modern bank has sanctioned a limit of Rs75 lakhs under this facility (product).
2. Collection account are maintained at cities C1, C2, C3 and C4 from where balances in thousands

are transferred to M2, M4, M5 and M1 branches respectively every Saturday by demand draft which is issued at par. Postages are recovered.

3. Remittance facilities like demand drafts, mail transfers and telegraphic transfers are offered by the bank and availed of by MEWL and these products are being charged at rates lower than the rates charged to public and other outside parties.

At the time of annual review of the account and its facilities MEWL has proposed to Modern bank that the miscellaneous services should be offered at par in view of the fact that they are solely banking with Modern bank and paying a huge interest on the cash credit limits. While making the above request MEWL has also informed the bank that if these facilities are not given at par they may switch to another bank which has agreed to extend such facilities.

Account Information:

Average weekly outstanding in the cash credit Account maintained at M1 during the year Rs 2.70 crores

Average weekly outstanding in the cash credit Accounts at

M2	Rs 40 lakhs
M3	Rs35 lakhs
M5	Rs20 lakhs
M4	Rs30 lakhs credit bal.

No of debit/credit transactions in the cash credit account during the year at

M1	12740
M2	1430
M3	1600
M5	720
M4	60

The transactions at the collection centres are as under:

	No. of Daily Credits	Average Balance(in Rs)	Amt. Of weekly remittance (Rs)
C1	30	8 lakhs	20 lakhs
C2	50	10 lakhs	25 lakhs
C3	40	12 lakhs	30 lakhs
C4	10	5 lakhs	10 lakhs

No. of Drafts Issued	4750
Amount involved	Rs35,63,700
No. of MTs issued	30
Amount involved	Rs 6,000
No. of TTs issued	100
Amount involved	Rs 4,70,000
No. of Cheques sent for Collection	1200
Amount involved	Rs 24,00,000
No. of Bills sent for collection	170
Amount involved	Rs 6,00,000
No. of Cheques purchased	650
Amount involved	Rs 72,15,000

Interest rate charged on Advances (cash credit) 15.5%

Cost of Funds (for every 100 Rupees) 7.5%

Cost per voucher

(i) Cash Credit (debit or credit)/ Current Account	Rs15/-
(ii) Drafts Issued/ Paid	Rs32/-
(iii) MTs issued/paid	Rs65/-
(iv) TTs issued/paid	Rs84/-
(v) Cheques sent for collection/realised	Rs 56/-
(vi) Bills sent for collection/realised	Rs145/-
(vii) Cheques purchased	Rs27/-

Average transit time considered for settlement of transactions

(i)	Drafts	7days
(ii)	MTs	8 days
(iii)	TTs	Nil

(iv) Cheques sent for collection (Date of realisation to the date of credit of in the account) 8 days

(v) Bills sent for collection (Date of realisation to the Date of credit in the account) 9 days

(vi) Cheques purchased (Date of purchase to date of respondingat the other branch) 6 days

Notional Income on Float funds 9%

Exchange on

(i)	Drafts/Mts/TTs	5 p%
(ii)	Cheques purchase	45 p%

Collection charges

(i)	Cheques	15 p%
(ii)	Bills	20 p%

Workout

1. Direct Advances

(a) No. of vouchers at all centres 16550

Cost per voucher Rs15/-
Servicing cost (16540 * 15) Rs2,48,250/-

(b) No. of vouchers at the 4 collection centres (daily) 130
Total number of vouchers for the year
300*130 = 39,000
Servicing cost (15*39000) Rs5,85,000/-

(c) Drafts issued per year (4*52) 208
Servicing cost (208*32) Rs6,656/-

(d) Notional Income of float funds in case of drafts @9% (issued at 4 collection centres)
8500000* 52 * 9 * 7/100 * 365 Rs7,62,904.10

(e) Average outstandings at 4 centres (M1, M2, M3 and M5) Rs365,00,000/-
Interest Rate 15.5%
Interest received Rs56,57,500/-/-

(f) Cost of Funds of Rs365 lakhs @7.5% Rs27,37,500/-

(g) Notional Income on funds which are held at M4 Rs30lakhs @7.5% Rs2,25,000/-

(h) Total Income (d + e + g) Rs 66,45,404.10

(i) Total Cost (a + b + c + f) Rs 35,77,406/-

(j) Net Result (Profit)(h - i) Rs30,67,998.10

II. Drafts Issued

No. of drafts issued 4750
Servicing cost 4750 * 32 = Rs1,52,000/-
Notional Income on Float Funds = 3563700 * 9 * 7/100 * 365 Rs6151.04
Exchange Received =3563700 * 5p/100 * 100 = Rs1781.85
Net result (Loss) Rs1,44,067.11

III. M Ts Issued

No. of M Ts issued 30
Servicing Cost = 30 * 65 = Rs1950/-
Notional Income on float funds = 6000 * 9 * 8/ 100 * 365 = Rs11.84
Exchange Received = 6000 * 5 p/100 *100 = Rs3.00
Net result (Loss) Rs1935.16

IV. T Ts Issued

No. of T Ts issued 100
Servicing Cost= 100 * 84 = Rs8400/-
Notional Income Nil
Exchange Received = 470000 * 5 p/100 * 100 = Rs235/-
Net Result (Loss) Rs8165/-

V. Collection of Cheques

No. of Instruments 1200
Servicing cost = 1200 * 56= Rs67,200/-
Notional income on Float Funds=
2400000 * 9 * 8/100 * 365 = Rs4734.25
Exchange received = 2400000 * 15 p/100 * 100 = Rs3600/-
Net Result (Loss) Rs58,865.75

VI. Bills for Collection

No. of Instruments 170
Servicing Cost = 170 * 145 = Rs24,650/-
Notional Income on Float funds =
600000 *9 * 9/100 * 365 = Rs1331.50
Exchange Received = 600000 * 20 p/100 * 100 = Rs1200/-
Net Result (Loss) Rs22,118.50

VII. Cheques Purchased

No. of Instruments 650
Servicing Cost= 650 * 27 = Rs17,750/-
Cost of Funds = 7215000 * 7.5 * 6/100 * 365 = Rs8895.20
Exchanged Received = 7215000 * 45 p/100 * 100 = Rs32,467.50
Net Result (Profit) Rs5822.30

Net Profit from the Account:

1. Net Income from Advances Account = Rs30,67,998.10
2. Net Loss from Demand draft issued account = Rs1,44,067.11
3. Net Loss from M Ts issued account = Rs1,935.16
4. Net Loss from T Ts issued account = Rs8,165.00
5. Net Loss from Cheques sent for collection account = Rs58,865.75
6. Net Loss from Bills sent for collection account = Rs22,118.50
7. Net Income form Cheques purchased account = Rs5,822.30
8. Net Profit from MEWL = Rs28,38,668.88

Profitability of MEWL = [Total Income generated from the Account – Total expenditure incurred on the Account]/[Net Loanable Funds
= [28,38,668.88]/[3,35,00,000]
= 0.0847
= or 8.47%

Loss of Income on account of the **request** of MEWL for extending at par facilities:

1. Exchange received on Issuance of DDs: Rs.1781.85
2. Exchange received on Issuance of MTs: Rs.3.00
3. Exchange received on Issuance of TTs: Rs 235.00
4. Exchange received on Cheques Purchased: Rs32467.50
5. Exchange received on Cheques sent for Collection: Rs3600.00
6. Exchange received on Bills sent for Collection: Rs1200.00

Total Loss Rs39287.35

Constraints in adopting Activity Based Costing in Banks

The main question emanating from the many paradoxes of cost accounting is why organizations keep usinguseless costing systems? The answer is that many organizations regard their cost systems as the lesser of two evils. They must have a cost system for financial reporting, decision-making decentralization, price justification, control and performance measurement. Since ABC requires more effort without delivering better results, most organizations hold on to their traditional cost systems[9].

Indian banks willy nilly have been moving towards accepting activity based costing along with still relying on conventional costing methods. MA

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Note: In some of the examples and cases shown above has depicted certain products like "mail transfers", which is now almost defunct, drafts and telegraphic transfers are also getting replaced by National Electronic Funds Transfers (NEFT) and Real Time Gross Settlements (RTGS). Banks are, in general, reluctant to share their latest data, hence the reliance on earlier data showing few now redundant products.

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REWARDING TALENTS: *Recognizing, Positioning & Showing Up Results*

We have earlier dealt with issues and ways of, and the criteria for, return on talents which in fact sought to underline the benefits that accrued to the organizations in which talented individuals are called in for putting their best foot forward, in the process, benefitting the organization in very many ways. Stress was laid on the treatment of the contribution made by the talented persons and the ways of treatment of their contributions in the accounts as also their treatment in the accounts. In many a case, especially in the services sector, talent is so fractionated that an individual's contribution cannot be easily distinguished; the fresh findings accrue to the team of experts, or the organization as a whole. Team attributes in fact drown the contributions of an individual, while the team may in fact constitute individuals who may not have made any contribution at all. This does not happen when individuals stand out as leaders in a group who, however, themselves believe in flattening the organizational structure, making the teamwork as the major focal point, by way of the participative work processes. Knowing the problem is a major task and, then, going about assessing the depth and breadth thereof are tasks that call for application of the best of acumen. The arrangement of wherewithal requires a leader who understands not only the nature and complexity of the problem but also has feel as to where the shoe pinches. All these were illustrated during the course of resurrection of the famous Chrysler and Fiat cars embracing not only two countries but also two continents. The whole story has been elaborately, yet pointedly, narrated by Bill Saporito & Auburn Hills in an article published in *Time* (December 19, 2011(pp. 22-27) entitled '*Power Steering: How the Boss of Fiat and Chrysler is driving an auto-industry revival'*. This is a poignant story but not unique as far as the

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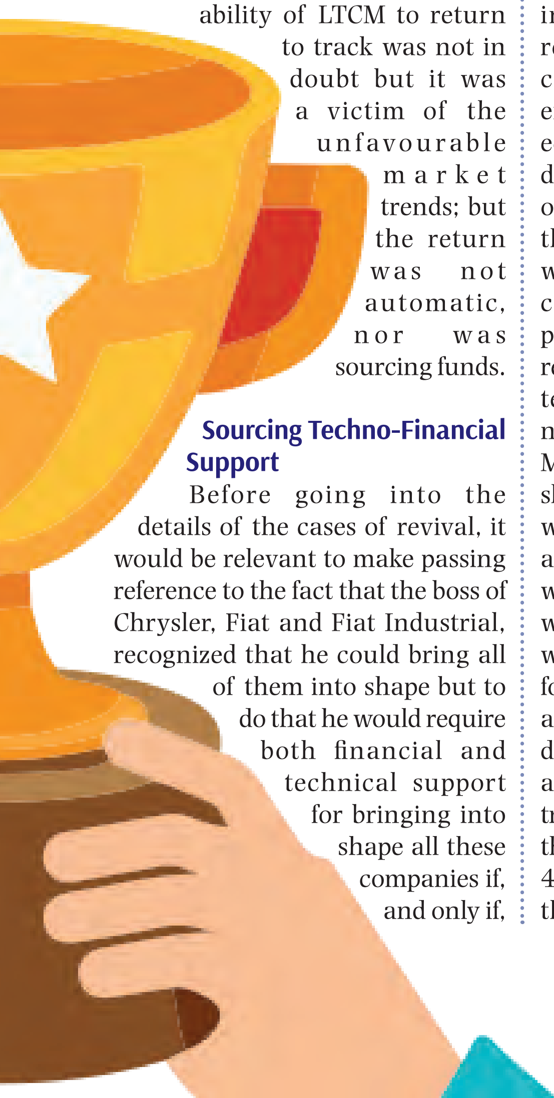
teeth of the problem are concerned. Apart from the vision of the captain in play of the resurrection story, in many of the situations similar to those of Fiat and Chrysler, revival would have been taken as ruled out in the obtaining conditions. And the obtaining conditions at that time were no simple matter at all, as explained later. Production in the automobile sector suffered most from the downturn of the economy while the revival process had to have a quality of vision and functional competence of the leader, apart from self-belief. In the case of LTCM earlier, during the tenure of Mr Greenspan, the Federal Reserve Bank had to extend its helping hand to shore it up with several billion dollars of help and assistance. The ability of LTCM to return to track was not in doubt but it was a victim of the unfavourable market trends; but the return was not automatic, nor was sourcing funds.



Sourcing Techno-Financial Support

Before going into the details of the cases of revival, it would be relevant to make passing reference to the fact that the boss of Chrysler, Fiat and Fiat Industrial, recognized that he could bring all of them into shape but to do that he would require both financial and technical support for bringing into shape all these companies if, and only if, he could muster techno-financial support, adequate for meeting the knotty problems in conditions where the economies in Europe and USA were in the shambles due to the rather unseemly deflationary conditions prevailing all over during 2008-9. Commercial banks and other such institutions were not adequately equipped either attitudinally or financially to combat the external economic threats with funds return of which in time was uncertain. Employment in the national economy nosedived and creation of new employment was far-fetched with the economic down-turn experienced during 2008-9, as stated earlier. For the revival of Chrysler the important point was that the automobile industry had the potential of rejuvenating the dull economic conditions with a kind of chain-effects on different sectors of the economy, interlinked as it is with different sectors, for overall revival of the economy at large. For all this, the kind of fund support needed was beyond the capacity of the commercial banks. The recovery process of the automobile industry required both techno-economic and techno-spatial support that was not available just for the calling! Marchionne figured that going in for shared parts of the two corporations would enhance returns to scale along with devices like renovation which was accomplished by the workers of the plants themselves, without having to close the plants for renovation purposes or hiring in a number of industrial engineers for dictating the exact sequence of each assembly process, workers were trained to use analytical tools to help them understand each process in the 400 or so work stations on the floor, thus saving costs, ensuring safety and attaining higher productivity. This raised many eyebrows within and without but the Leader put in charge of rejuvenation of Chryler and Fiat corporations was unmoved. As events demonstrated later, his expertise and years of experience in facing challenges and the required aetiological exercises so that his steps forward were unusual in of the instances that faced in the course of resurrection of the two major but faltering companies, Chrysler and Fiat on two sides of the Atlantic, in two different continents with discrete attitudes to facing challenges of gargantuan dimensions!

The Man Behind the Impossible Revival

The boss of revamped Chrysler *et al*, as stated by the authors is an Italo-Canadian Lawyer and Accountant, Sergio Marchionne did undertake the Herculean task of putting back the dysfunctional automobile companies in reckoning operating in different countries on both sides of the Atlantic. Who believed that the companies and their products could be put back on the rail, exuding the confidence that 'I knew I could help technically. And I had a guy who was willing to fund it' (*Cf.p.22*). The Guy was none other than Barack Obama. The Obama administration dished out several billions of dollars after the personal intervention by President Obama but not before a repartee with the critics. The President clearly saw the possibilities and appreciated the ability and integrity of Marchionne underlined by his Fiat experience, but the critics could not be silenced before the results of the deal were visible. In fact, Marchionne proved instrumental in averting the impending disaster, its ugly face started showing up in different quarters of the industrial world within the USA as also elsewhere. He played his cards so deftly with such a degree of assurance that convinced not only Obama administration but also employees in the related companies that something real was in the offing. All this was a stupendous task throwing up a challenge that awaited a head to head combat, literally. The act of *rerailing* a derailed automobile chain required a Herculean effort with millions of workers, suppliers and users waiting expectantly in a market situation which lacked guts. The inevitability of gradualness was sidelined for the moment and work started in full swing in both Italy and the USA, under the personal supervision of the captain of the team who had no fancy for the text-bookish approaches to finding solutions. One singular quality demonstrated by Marchionne was faith in his team, as much as faith in himself, instilling confidence in a situation which was anything but encouraging, to say the least. And his leadership was demonstrative enough to the effect that he knew what he was doing, in an atmosphere of gloom that he sought to wipe away. And all this was in the face of a challenge on which depended not only the recovery of the automobile industry but also the national economies of both Italy and the USA, nay, the world economy as a whole. As is well-known, the psychological impact of gloom has had a pervading effect. Primarily, the reforms also impacted all the related activities on both sides of the Atlantic in terms of generation of income, employment and restoration of faith of the team in successfully meeting the challenge, on one side, and restoring the concerned economies to order and generating both income and employment , on the other. All this acted as a morale booster in facing the multiple challenges posed, transgressing the automobile industries in both Italy and USA to the industrial sectors not only in the two countries – Italy and the USA - but also posed a challenge to the economic downturn experienced by the world as a whole. Marchionne all this while demonstrated what the nature of the problem was, how to approach it for an acceptable solution, considering the largeness of the problem and the relief it would bring in a reaction pattern akin to the *chain-link* system underlining that loss of faith in the market system has the knack of catching up like wild fire. The approach to the problem by Marchionne seemed audacious at times that made former Italian Prime Minister Mr Silvio Berlusconi furious when he remarked that 'Europe needs better leaders'. The comments were not taken kindly; he became furious.

The Indian Connections

To restore order thus had to have a conscious effort towards streamlining the entire chain of reactions. A word about the Indian connections regarding Fiat should be considered in order. It is interesting to note that even India was deeply concerned with the solution to the crisis; Fiat has been on the Indian roads for a considerable period, thanks to Premier Automobiles having its offices and factories in Bombay, now Mumbai. The stake thus was huge both in regard to Italy and the USA, in the main, but also to India, among other countries, the overall effects being pervasive enough particularly because of the fear psychosis generated all over. The corrective process thus required dealing with a pervading effect that respected no usual approaches to the issue and it was repeatedly demonstrated that the burning issue was no ordinary matter that admitted any delay or dilly-dallying. Admittedly, the stepping in by the Obama administration was crucial but only after the President was convinced that the leadership of Marchionne could be a decisive factor as his submissions oozed confidence in dealing with the problem of bringing the corporations and their products back on track. The issues were unique and the correctives also had to be equally unprecedented. As was demonstrated later, the dealing with the recovery process in all its dimensions called for courage, confidence and calculated moves which Marchionne had shown aplenty. The recovery process initiated by him had to have sensitivities in regard to all the steps he had taken, while he insisted on teamwork, regular eyeing of the progress in all the related directions, so that all the promises made earlier took a practical shape. This was not an easy task at all but he saw to it that the disciplined steps towards fulfilment of the objectives with fixed time-dimensions marked the progress of the work undertaken.

The Process of Resurrection

The process of resurrection of Chrysler and Fiat is an interesting story. The first one relates to what is technically called *aetiology*, stressing the reasons behind the debilitating problems of different dimensions affecting the normalcy of operations concerned, as it were! The downturn gulped not only in the automobile industries in Italy and the USA, but the world economy as a whole. Once assured of both the diagnosis of the problems and the required funds, Marchionne got down to his task, cleaning the table of old, traditional, hierarchical approaches to problems, dissecting them to every detail, delegating tasks and keeping a sharp vigil on how things were going and at what speed, as also with what results. The vigil introduced touched every detail concerning both inputs of resources and the outcome from efforts. He flattened the structure of organization with a complete task-orientation and watching every detail. In this process of going into every detail of the operations, services of many of the upper hands in the hierarchy were dispensed with; in their place, several of the lower strata of people with imagination, technical ability and acumen with a love for speed and innovation were brought in to ensure both quality and quantity of work done. The results of all this started showing up by and by, in fact much quicker than expected. One by one, all the varieties vehicles turned out by both Chrysler and Fiat spurred on the road on both sides of the Atlantic almost as a challenge to the downtrend, while at the same time ensuring that the vehicles turned out did have markets the world over. The captain's stance was underlined by his ability to drill down to the smallest detail of manufacturing or even advertising. In his own words, Marchionne emphasized, "We flattened the organization out. We reached out and brought people on the management team who had been buried underneath the classical hierarchy of corporate America." "They were given an opportunity to play with their own ways. These are the people who had been two or three layers down from the senior leadership"(p24). The motto was to remain absolutely focussed on the objective, but not to define methods of execution, which could vary from one to the other; the motto was to obtain results from the actions already taken and those programmed for.

Effective Buck up – A Prime Need

The leeway given was not without checks and balances as the captain of the team pursuing a mission kept a constant watch on how things were progressing. He kept reminding the authorities that the depth and breadth of the problems of a crisis of worldwide downturn could not be solved with traditional approaches. The mutuality of the combined experiences of both Fiat and Chrysler and expert computer assistance of Fiat helped in bringing to line and effectively sorting out many of the problems faced by both; while in Fiat the revamping problems were usual, in Chrysler, thanks to the several billion dollars of Government assistance, the financial problems were not as biting. This provided some breathing time, fully utilized by the renovators. By the time both of these corporations found their feet, several other corporations, like General Motors, were also recovering from the blow, though at a lower rate, following the adage of one begetting another. The results of all these efforts were writ large in both Chrysler and Fiat. Leadership, in the ultimate analysis, is not a quantitative thing. The trust put in the leader by the workers has to be attested by results. Leadership has to be manifest in terms of the results as Chrysler and Fiat demonstrated, traversing an unfriendly path with numerous doubting Thomases underlining the impossibility of the tasks undertaken. A fitting reply was possible only when the actual results of the organized efforts attested that the challenge to be met was successfully done. This was demonstrated by the fact that 'the amount the US Treasury lent to Chrysler amounting to \$ 5.1 billion after Marchionne took over the reins in June 2009 was repaid in full, with interest, six years ahead of schedule! Fiat also paid the Treasury \$500 million for its 6% Chrysler stake. Thus, the combined strength of the two Italo-American corporations demonstrated that given the will, stamina, competence, foresight, imagination and external moral support, the adversities of whatsoever dimensions can be successfully combated. However, such leaders, provision of necessary resources and uninterrupted progress are not available just for the asking, Much of the above discussion relates to dissection of a worldwide phenomenon of economic downturn, mainly in the countries of the *north*; those of the *south* were relatively unaffected, mainly as result of economic planning, albeit being on the last lap. However, with the economy thrown open and the *licence raj* withdrawn, protective lines were not as visible, as much as the intervention of the government dishing out funds for averting an onrushing catastrophe, as the Obama administration did, despite many a *doubting Thomas* lurking all around. Marchionne had to make his march through different kinds of rough weather calling for Herculean efforts for meeting the challenges.

The Indian Phenomenon

Under the bold experiment of planning in a democracy, the Central and state governments had in view the putting into action financing institutions under the control of both, so that the established industries could flourish, while those coming under the I(D & R Act, 1951), after renovation could find their feet. Many industrial units coming under the purview of the Act did have a national significance. Most unfortunately, as many critics underlined, industrial units which were nationalized failed to deliver results as expected of them. This was mainly because of *distance management practices* – beginning from appointments to their day-to-day actions and managerial performance. Good management does not ensue from shared freedom as the Chrysler or Fiat demonstrated. It is well established that a manager without discretion is not worthy of his designation and if he has confidence in his own ability and the ability of his team, he should be allowed to function towards realization of the objectives without any hindrance. The rewards from patience and non-interference accrued in terms of returning all the money that Barack Obama administration made available to Marchionne, even much before it was due, as noted earlier. With lifting of the controls, and economic planning being given a virtual good bye, the Indian economy has been relying more and more on the stock market, even if it is at the cost of really efficient, responsive management. Uncertainties that are germane to a democracy must be combated to restore the counterpoise. Thus, in all, considerable thought, patience and acumen that go into the strategizing thought and action must weigh in with the realization of objectives. A lot of leeway yet remains uncovered that should attract official and unofficial attention. Like virtue being its own reward, success in a venture accrues when the variety of inputs responds to requirements. Thanks to leadership of Marchionne, the limping corporations had come back on track. Return of the loan taken resulted from the team-effort that he organized. The dictum that costs and expenses are not the same, yet remains unrealized! The whole process of the illness and recovery underlines four 'C's, as the ruling mantra: Courage, Comprehension, Co-operation and Calculativeness ! Task-orientation did the trick.

The Rewards

The aforesaid pointers relate to the problems faced in putting back on rail the ailing automobile companies as a result of the economic downturn during 2007-09 in most countries of Europe and America and the act of bringing back on track the ailing automobile companies of Italy and America. The task was stupendous and called for Herculean effort for selecting the team and keeping the team at work of the highest quality. After fulfilling the task, we naturally ask what were the rewards. After completing the mission, the team was particular in returning the amount received from the Treasury in the USA. The two automobile companies received the benefits of scale economies though, apart from skills and scale economies, the operations of the two companies were not allowed to be mixed up. The amounts received from the US Treasury, were used exclusively for Chrysler. All the money received on loan from the US Treasury, having been returned before due dates, it should have been natural to consider what returns ensued as rewards. One can think of five rewards that ensued to the team, including of course the leader Mr Sergio Marchionne. One, the first and foremost was the amount received from the US Treasury at the intervention of Barack Obama, an unprecedented step. The courage of conviction that Marchionne displayed was convincing enough. Two, allowing the leader of the team to have freedom to act in a totally non-conventional way; the entire atmosphere of course had the assurance that no waste of funds would take place. Three, the leader of the team dispensed with all traces of hierarchy and the team was made an acronym underlining that T stood for togetherness, E for energising, A for actuation and M for measurement and control. Three, the funds that the US Treasury made available were accounted for separately and Fiat and Chrysler funds were never mixed up even though the expertise of Fiat was indeed used for the company. Four, the entire organization structure was flattened so that there was bossing over the people at work. This made the team a team. Lastly, the close scrutiny of every detail ensured that no waste of either funds or time or even expertise could take place. In all meetings he would appear unannounced hear the proceedings. The team leader was thus in a position to know and judge what was going on and thus achieve the impossible in the throes of the nationwide downturn. The Team Leader, Sergio Marchionne, had a close feel of what was going on, in the face of totally non-conventional and the prying eyes of critics looking for faults. Return of the funds before time silenced them all. MA

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Internal Financial Controls: Some Observations

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One of the significant developments in India in 2012 was the enactment of Companies Act, 2013. It is a comprehensive but concise legislation (470 sections as against 658 in the earlier Act) and is considered to be forward looking in that the Central Government enjoys the power to make rules, etc. through delegated legislation. Many of its provisions are internationally competitive.

The Act has introduced many new provisions in line with international developments. In this article, we consider one such area. Included in this category are Enterprise Risk Management (ERM) and Internal Financial Controls (IFC), among others. While there have been some publications on ERM (Jaggi, 2015; Banerjee, 2016), there is good scope for contributing to the existing literature on IFC in view of its importance and Guidance Notes issued by the Institute of Chartered Accountants of India (ICAI and KPMG in India). Hence, an attempt is made to share some of the aspects of IFC which may provoke research and publication.

Backdrop

Why and how Internal Financial Controls became an important issue throughout the world? The following few points give some indications.

- Financial crisis in the beginning of the century affected the business environment throughout the world and provided strong encouragement to politician and regulators to develop an effective monitoring mechanism for enhanced corporate governance and risk management techniques (e.g. in the USA, Sarbanes-Oxly Act in 2002, Dodd-Frank Wall Street Reform, and Consumer Protection Act in 2010).
- In many countries, the regulators introduced measures to revamp internal control system (ICS) to reduce, among others, risk of operations and enhance compliance with general principles of management and accounting system. To evaluate the role of corporate boards in implementing the ERM and understand the organisational links among mechanisms, one has therefore to examine the interaction.
- Professional bodies also highly recommend that all companies should develop their own policies and a framework for ERM,and introduce effective and efficient IFCs that will enable the top management to keep a watch over different aspects of corporate management.
- In India, the Companies Act, 2013 requires, in the context of preparation and presentation of Financial Statements, development and implementation of a risk management policy and operation of effective Internal Financial Controls by its Board of Directors for a listed company.

The Issues Involved

Internal Financial Control (IFC) is a fundamental element of corporate management. The management is responsible for effective and efficient operation of IFC. Therefore, there are many issues that concern IFC but we only touch upon a few among the followings:

- What is IFC and what are its objectives?
- What are its attributes? How is it expected to promote better corporate governance?
- Are there strategic, operational and people-oriented challenges? If so, how to overcome them?
- Are the developments in India in this respect in line with international trends?
- Are there interrelationships among internal financial controls, ERM and financial statements leading to high quality reporting and promoting value maximisation objective of the firm?
- What are potential areas of research in IFC?

Legal Provisions

(a) Provisions in the Companies Act, 2013:

A mandatory provision [section 134(5)(e)] has been introduced in the Companies Act for the directors to lay down internal financial controls for compliance by the company and (to report that) such IFCs are "adequate and effective". Explanation to sub-section (e) gives the purport of IFC.

It may be further stated that Directors' Responsibility Statement is part of Financial Statements which are subject to audit by an independent auditor.

Internal Financial Controls (IFC) are essential as tools for enhancing effectiveness of Enterprise Risk Management (ERM). The Directors' Responsibility Statement has to state that IFC "are adequate and operating effectively".

Internal Control has been operating as part and parcel of accounting and reporting systems since the early days of corporate history. Earlier, it was guided by the definition of SAP 6 in the following words (Gupta, 1998):

It is "the plan of organisation and all the methods and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The system of internal control extends beyond those matters which relate directly to the functions of the accounting system."

In most cases, therefore, internal control was an essential operating system. Internal audit has not been made compulsory for all organisations. But in big companies, particularly the listed ones, internal audit is required to be done. This has its impact on the statutory audit.

But the Companies Act, 2013 introduced internal financial controls by replacing the term "internal control".

Interestingly, the explanation given after sub-section (5)(e) of Section 134 of the Act of 2013 in respect of Internal Financial Controls appears almost the same. It is given below:

Explanation- For the purpose of this clause, the term "internal financial controls" means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

We have already given some of the reasons for introduction of the term "internal financial controls" earlier (Section 2).

(b) Guidance Note issued by the ICAI:

The Institute of Chartered Accountants of India (ICAI) issued a Guidance Note on IFC in November, 2014. It was revised and issued on 16th September, 2015. Section IV of the Guidance Note deals with audit of IFC over Financial Reporting (Clauses 67 to 165). This regulation has been designed based on the Sarbanes Oxley Act – Internal Control Section. KPMG in India also issued in 2016 Internal Financial Control Perspectives.

Some of the important points of ICAI Guidance Note are quoted below:

67. This guidance provides direction that applies when an auditor is required to report under Clause (i) of Sub-section 3 of Section 143 of the 2013 Act on whether the company has in place adequate internal financial controls over financial reporting and the operating effectiveness of such controls.

68. Effective internal financial controls over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. If one or more material weaknesses exist, the company's internal financial controls cannot be considered effective.

69. Because a company's internal financial controls over financial reporting cannot be considered effective if one or more material weaknesses exist, to form a basis for expressing an opinion, the auditor must plan and perform the audit to obtain appropriate evidence that is sufficient to obtain reasonable assurance about whether the material weaknesses exist as of the balance sheet date. A significant deficiency or material weakness in internal financial controls over financial reporting may exist even when financial statements are not materially misstated.

71. The auditor should use the same system of internal financial controls over financial reporting to perform his or her audit of internal financial controls over financial reporting as management uses for its annual evaluation of the adequacy and effectiveness of the company's internal financial controls.

73. In a combined audit of internal financial controls over financial reporting and financial statements, the auditor should design his or her testing of controls to accomplish the objectives of both audits simultaneously:

To obtain sufficient evidence to support the auditor's opinion on internal financial controls over financial reporting as of year-end.

Some portions of this Guidance Note are reproduced from Auditing Standard (AS) 5, An Audit of Internal Control over Financing Reporting.

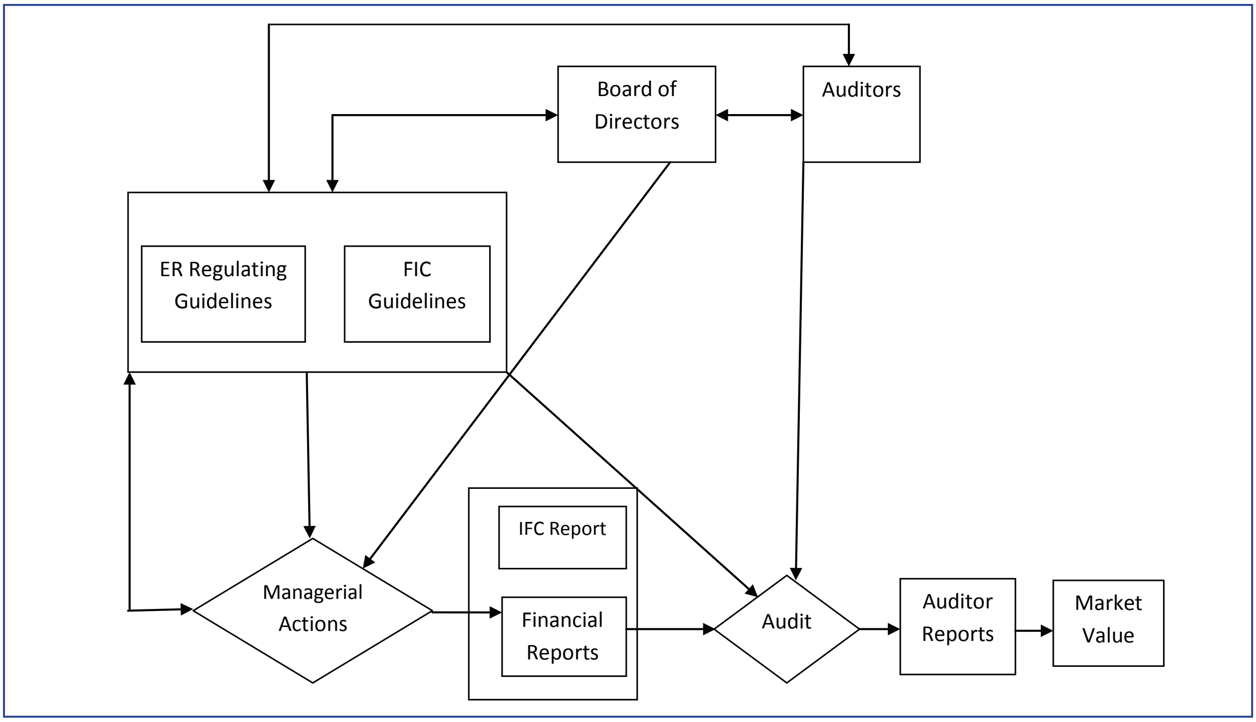
Interrelationship among ERM, IFC, FS and Value Maximisation

This interrelationship can be summed up in the following steps:

- Managerial activities will have to take into consideration IFC and ER requirements (which will be implemented by the committees set up by the corporate board).
- The Board of Directors will have an overall responsibility to ensure that managers follow IFC and ER regulations.
- Managerial actions will be reflected in the financial statements.
- Auditors will audit financial statements as well as IFC and ER Systems.
- Based on audited information, there will be market reaction to financial information, which will be reflected in market value of the firm.

The above relationship is shown in Diagram 1.

Diagram 1
Organisational links among ERM, IFC, FS, Audit Report & MV



Conclusion

A snap shot of various regulatory provisions in respect of IFC has been given above. The ICAI regulation comes into effect from 1st April, 2015. Therefore, corporate practices in this context will pin point to what extent and how these guidelines have been implemented by the listed companies in India. This can be compared with international developments. Nevertheless, it opens up scope for further research, both conceptual and empirical. While conceptual research may lead to some policy decisions by the regulators, a good empirical research will be highly useful to all the stakeholders of the company in India. MA

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Motivation and Concern for use of FINANCIAL DERIVATIVES

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Financial Derivatives are the new age corporate risk management tools adopted by corporates world-wide. Most of the large corporate entities are using financial derivatives to hedge their exposures against varieties of risk. But still financial derivative has not become the universally accepted risk management technique. However, companies are also apprehending about the risk of using financial derivatives in risk management. In this paper, we have tried to unearth the possible determinant and motivating factors as well as the concerns of the corporate entities in using derivatives as an accepted risk management tool. Data has been collected through Google Forms from various sources like corporates, executives of broking firms, executives of consulting firms and other financial experts like university professors and researchers. The findings of the survey imply that Indian corporates pretty much interested in overall risk reduction and they frequently use derivative instruments in managing foreign exchange risk, interest rate risk and moderately use derivatives in commodity risk management.

Survey results and Discussion:

Bodnar et al. (1995) conducted a postal survey on US non-financial corporations regarding derivatives and risk management practices and pattern of use of derivative instruments and supported by some other studies such as (Howton, S.D., Perfect, S.B., 1998),. Berkman, H., Bradbury, M. E., Hancock, P., & Innes, C. (2002) and Brailsford, T. J., Heaney, R. A., & Oliver, B. R. (2003) undertaken two different studies to figure out the motives of Australian corporates to use financial derivatives. Similarly, there are empirical studies on pattern of derivative use in New Zealand(Berkman et al.,1997), Canada (Jalilvand, 1999), Belgium (De Ceuster et al., 2000), Sweden (Alkebäck and Niclas, 1999), Taiwan, UK and Singapore (Khim and Liang,1997) at different point of time. In the given research work, we conduct an investigation but not based on companies because the response rate in survey of India corporate is not so impressive (8% in Anand, M., & Kaushik, K. P., 2008), but based on the opinion of the financial professionals about the perception of Indian companies in respect of use of financial derivative instruments for risk management purposes. The survey questionnaire used is broadly focuses on the motivational factors influencing the companies to go for using financial derivatives as well as the concerns of companies about not using derivatives.

The survey link was sent initially to 10 respondents through e-mails. The respondents are requested to complete the survey to make its usable. Based on 4 replies received from the pilot mailing, minor changes were made to the original survey. It was then decided to send the survey to around 250 respondents out of which only 69 usable responses have been received for which at least two follow ups or reminders would have made. The key areas being:

(a) Which derivatives are used, and which type of exposure they are used for;
(b) Reasons for using derivatives;
(c)Factors of concern in derivatives usage;

Our questionnaire clusters around three important questions. As it is mentioned above, we wanted the respondent to answer that according to them which kind of derivative instruments are mostly used by the Indian firms; motivation for using derivatives and concerns of using derivative instruments. The detail analysis of responses to every question in the questionnaire is presented below:

What kinds of derivatives companies are using to manage exposures to financial risks?

Here we have tried to ask for responses about the kinds of derivative instruments used such as OTC forwards, exchange-traded futures, OTC options, exchange-traded options, swaps to manage exposures like: currency exposure, interest rate exposure, commodity exposure, equity market exposure.

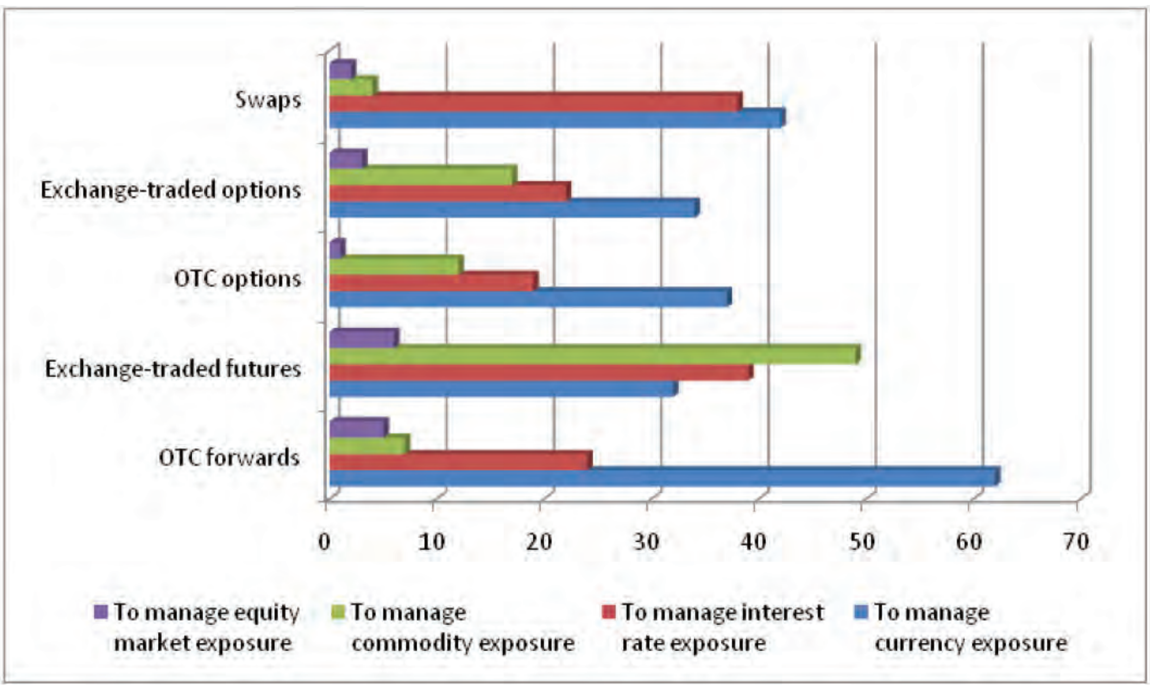
Table-1
Derivative Instruments and Risk Matrix

Kinds of derivative instruments	*To manage currency exposure*	*To manage interest rate exposure*	*To manage commodity exposure*	*To manage equity market exposure*
OTC forwards	62(89.85%)	24(34.78%)	7(10.14%)	5(7.24%)

Kinds of derivative instruments	To manage currency exposure	To manage interest rate exposure	To manage commodity exposure	To manage equity market exposure
Exchange-traded futures	32(46.37%)	39(56.52%)	49(71.1%)	6(8.69)
OTC options	37(53.62%)	19(27.53%)	12(17.39%)	1(1.44%)
Exchange-traded options	34(49.27%)	22(31.88%)	17(24.63%)	3(4.34%)
Swaps	38(55.07%)	42(60.86%)	4(5.79%)	2(2.89%)

The table-1 along with figure-1 explain about the responses we have got regarding kinds of derivatives companies are using to manage your exposures to financial risks. The table clearly shows that according to the respondents, Indian companies are highly using the OTC forward contracts to hedge risks. Typically, companies use OTC contracts to hedge currency exposures, interest rate exposures. As per the data, 62 out of 69 respondents (89.85%), the Indian companies are using OTC forwards for hedging against exchange related risks. OTC contracts are not so widely used for managing commodity price exposures market related risks. Similarly, the maximum use (71.1%) of exchange traded future is for commodity derivatives. Also, exchange traded futures are used for currency exposures (46.37%) and for interest rate exposures (56.52%). In the same line, 53.62% of the respondents opine that Indian companies use OTC options for currency exposures. 27.53% and 17.39% of respondents say that OTC options are used for interest rate and commodity exposures respectively. Exchange traded options are used for currency, interest rate and commodity exposures at 49.27%, 31.88% and 24.63% respectively according to the data. In regard to swaps, responses say that its highest use (60.86%) is for hedging interest rate exposures. Next best use (55.07%) of swap is for managing currency exposures. But swap is not so popular to be used against commodity risks and financial market risk. The overall responses say that all derivative contracts are normally used for currency exposures and interest rate exposures. Very nominal proportion of responses says that equity market exposures are hedged by derivative contracts.

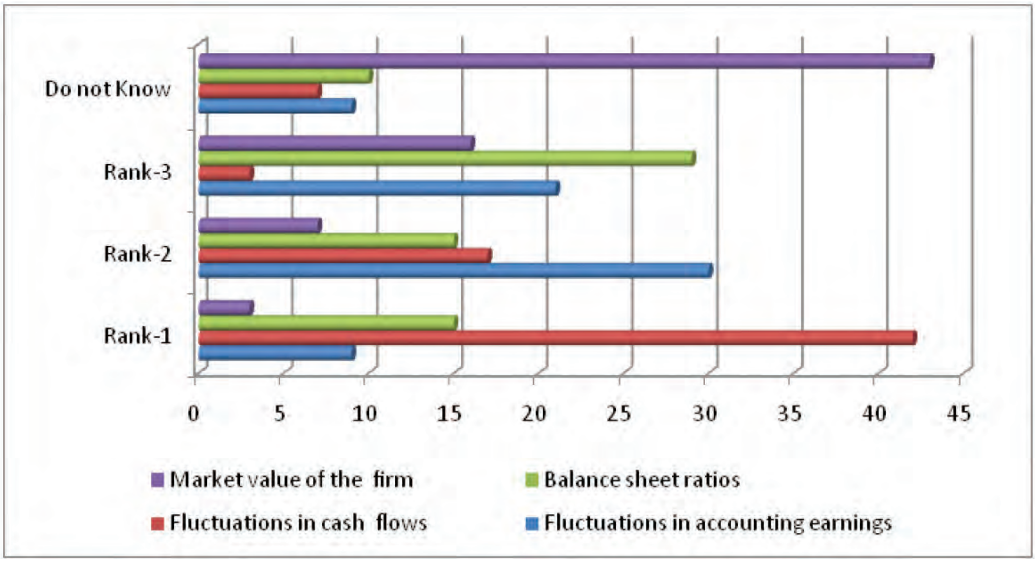
Figure-1: Types Derivative Instruments Used for Managing Financial Risks



In which purposes (motivating factors), derivative instruments are used?

In this question, we tried to seek answers about the nature of risks hedged such as fluctuations in accounting earnings, fluctuations in cash flows, balance sheet ratios, market value of the firm, etc. by the corporate in India. We asked the respondents to rank the nature of risks hedged in a four-point ranked scale.

Figure-2: Ranks of Motivations to Use Derivatives



In the scale, rank-1 is the most important purpose of use of derivatives; rank-2 and rank-3 are the second and third best purpose of use of derivatives.

The responses to the above question of presented in the table-2 along with the graph (figure-2). It is very clear that Indian firms are more concern about the cash flows rather than accounting earnings or other financial indicators like financial ratios. But Indian firms hedge cash flows next to accounting earnings.

Table-2
Motivations of Hedging through Financial Derivatives

Nature of Hedging	Rank-1 (High)	Rank-2 (Moderate)	Rank-3 (Low)	Do not Know
Fluctuations in accounting earnings	15(21.73%)	24(34.78%)	21(30.43%)	9(13.04%)
Fluctuations in cash flows	42(60.86%)	17(24.63%)	3(4.34%)	7(10.14%)
Balance sheet ratios	9(13.04%)	15(21.73%)	35(50.72%)	10(14.49%)
Market value of the firm	3(4.34%)	13(18.84%)	10(14.49%)	43(62.31%)

Ha1: There is significant motivation for the entities to use derivatives as risk management tool.

Table-3

Chi-Square Tests for Motivations of Derivatives Use			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	140.928[a]	9	.000
Likelihood Ratio	131.857	9	.000
Linear-by-Linear Association	44.640	1	.000
N of Valid Cases	276		
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 17.25.			

Chi-square test has been used to test the hypothesis that whether there is any significance evidence of evidence of association between motivations for use of derivatives for hedging and their degree of significance. The Pearson Chi-square is found to be highly significant (^{2}=140.928, degrees of freedom=9 and <0.001) providing sufficient evidence for rejection of the null hypothesis that the motivation for use of derivatives and their level of importance are independent of each other. We also used Cramer's V and Phi test to assess the statistical significance of degree of association between the motivation to use derivative and their level of importance which is also found to be statistical significant at a very lowest level of Type-I error(<0.001). Our above discussed results are corroborated by the Motivation X Rank Cross-tabulation which is presented in the table-4.

Table-4

Motivations X Rank Cross-tabulation							
			Rank				Total
			High	Moderate	Low	Do not know	
Motivations	Fluctuations in accounting earnings	Count	15	24	21	9	69
		Expected Count	17.3	17.3	17.3	17.3	69.0
		% within Motivations	21.7%	34.8%	30.4%	13.0%	100.0%
		% within Rank	21.7%	34.8%	30.4%	13.0%	25.0%
		% of Total	5.4%	8.7%	7.6%	3.3%	25.0%
	Fluctuations in cash flows	Count	42	17	3	7	69
		Expected Count	17.3	17.3	17.3	17.3	69.0
		% within Motivations	60.9%	24.6%	4.3%	10.1%	100.0%
		% within Rank	60.9%	24.6%	4.3%	10.1%	25.0%
		% of Total	15.2%	6.2%	1.1%	2.5%	25.0%
	Balance sheet ratios	Count	9	15	35	10	69
		Expected Count	17.3	17.3	17.3	17.3	69.0
		% within Motivations	13.0%	21.7%	50.7%	14.5%	100.0%
		% within Rank	13.0%	21.7%	50.7%	14.5%	25.0%
		% of Total	3.3%	5.4%	12.7%	3.6%	25.0%
	Market value of the firm	Count	3	13	10	43	69
		Expected Count	17.3	17.3	17.3	17.3	69.0
		% within Motivations	4.3%	18.8%	14.5%	62.3%	100.0%
		% within Rank	4.3%	18.8%	14.5%	62.3%	25.0%
		% of Total	1.1%	4.7%	3.6%	15.6%	25.0%

Total	Count	69	69	69	69	276
Expected Count	69.0	69.0	69.0	69.0	276.0	
% within Motivations	25.0%	25.0%	25.0%	25.0%	100.0%	
% within Rank	100.0%	100.0%	100.0%	100.0%	100.0%	
% of Total	25.0%	25.0%	25.0%	25.0%	100.0%	

Table-5

Symmetric Measures			
		Value	Approx. Sig.
Nominal by Nominal	Phi	0.715	0.000
	Cramer's V	0.413	0.000
N of Valid Cases		276	

Which derivative contracts companies are mostly using for hedging?

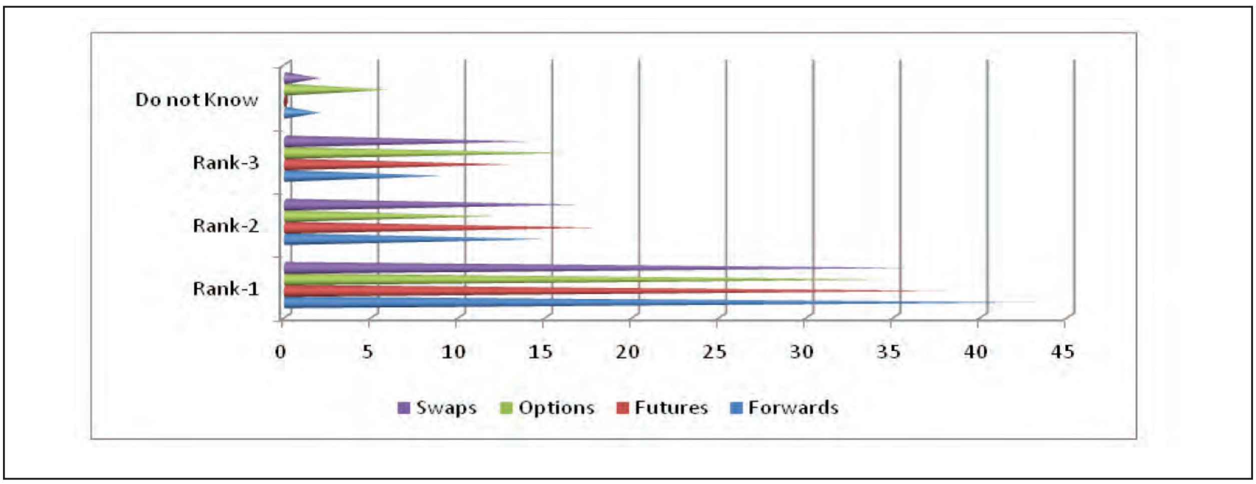
Through this question, we have tried to get response from the respondents about the use of important financial derivative contracts by companies in India. For that, we have taken four of important derivative contracts for obtaining responses.

Table-6
Proportion of Use of Different Derivative Contracts

Types of Contracts	Rank-1 (High)	Rank-2 (Moderate)	Rank-3 (Low)	Do not Know
Forwards	29(42.03%)	24(34.78%)	9(13.04%)	7(10.14%)
Futures	16(23.19%)	21(30.43%)	18(26.09%)	14(20.29%)
Options	11(15.94%)	9(13.04%)	24(34.78%)	25(36.23%)
Swaps	13(18.84%)	15(21.74%)	18(26.09%)	23(33.33%)

The table-6 and figure-3 explains that Indian companies use mostly forward and future contracts for hedging purposes. Together forwards and future contracts account for more than 65% of the derivative use according to the responses we have received placing them at rank-1. Similarly, options and swaps account for 35% of the derivative use at rank-1.

Figure-3: Ranks of Types of Derivative Instruments Used to Manage Risks



This implies that Indian companies are more interested in customised derivative contracts (OTC) in comparison to readymade derivative contracts. This is because forward contracts are cheap and can be appropriately customised as per the needs vis-à-vis the exchange traded derivatives, though there is a default risk in OTC contracts but it is not so detrimental to the interest of the parties because of robust Indian regulatory framework and sufficient understanding between the parties to honour the contract.

What are the issues or concerns about which companies are apprehensive of using financial derivatives?

With this question, we want to ask about the companies' perception about the demotivational factors for using derivatives. The various potential factors which we have chosen are on the basis of survey of prior literatures.

Table-7
Possible Concerns of Hedging

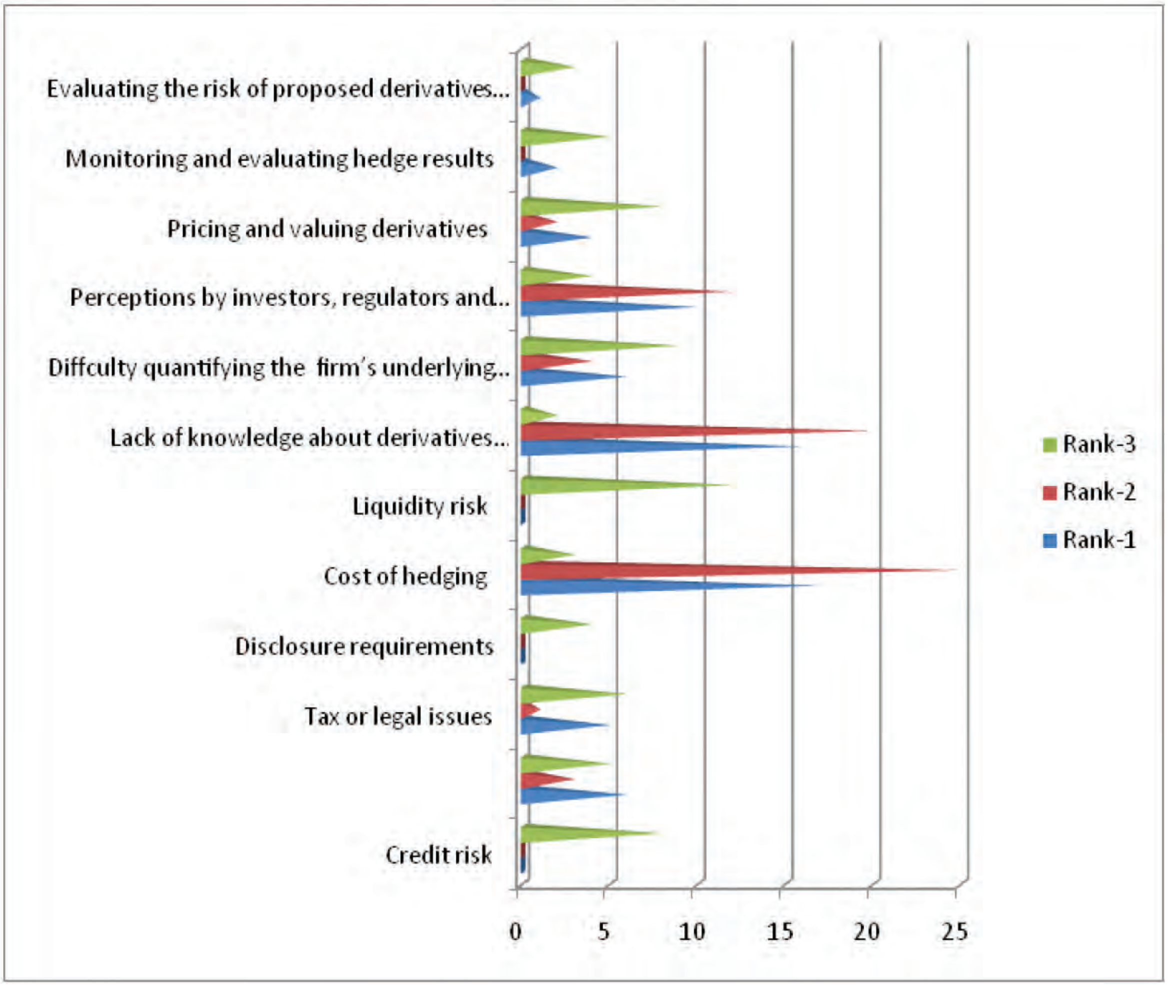
Possible Concerns	High	Moderate	Low
Credit risk	0	0	8
Uncertainty about qualifying for hedge accounting treatment	6	3	5
Tax or legal issues	5	1	6
Disclosure requirements	0	0	4
Cost of hedging compared to benefits	19	25	3
Liquidity risk	0	0	12
Lack of knowledge about derivatives within firm	16	20	2
Difficulty quantifying the firm's underlying exposures	6	6	9
Perceptions by investors, regulators and the public	10	12	4
Pricing and valuing derivatives	4	2	8
Monitoring and evaluating hedge results	2	0	5
Evaluating the risk of proposed derivatives transactions	1	0	3

Responses to this question clearly identify that there are certain important concerns which demotivates to go for using derivatives. Out of so many factors we have included in the questionnaire on the basis of our literature review, we found that cost of hedging is the most important concern for the companies to use derivatives. This implies that when companies are making a cost benefit analysis, the cost of hedging is more than the potential benefit that is going to accrue to the company. This is applicable for small companies whose exposures are not so substantial.

Lack of knowledge about derivatives within the companies is the next important for concern for companies. This is also applicable for small sized companies because they cannot afford to appoint experts having requisite knowledge in the field of derivatives. Because, if these instruments are not properly handled it may create reasons for mass destruction of the company as we have witnessed in case of Lehman Brothers, J.P Morgan, Baring Bank, etc.

Due to certain mishandling of derivatives, which created havoc for companies become a perpetual concern for companies which are thinking to use derivatives. Derivatives have been associated with a number of high-profile corporate events that roiled the global financial markets over the past two decades. To some critics, derivatives have played an important role in the near collapses or bankruptcies of Barings Bank in 1995, Long-term Capital Management in 1998, Enron in 2001, Lehman Brothers, American International Group (AIG) in 2008 and J.P Morgan in 2012. Warren Buffet even viewed derivatives as time bombs for the economic system and called them financial weapons of mass destruction (Berkshire Hathaway Inc., 2002). Norvald Instefjord (2005) made a study on – Risk and hedging: Do credit derivatives increase bank risk? His analysis identifies two effects of credit derivatives innovation – they enhance risk sharing as suggested by the hedging argument – but they also make further acquisition of risk more attractive. Similarly, some may perceive that derivatives can be very complex, as evidenced by the massive losses incurred by J.P. Morgan in 2012, which seem to have combined various measures of incompetence, ignorance, failure to comply with financial regulations, and corruption. United States Senator Carl Levin, Chairman of the Senate Subcommittee on Investigations, summarized the pervasive cynicism and concern when he stated: “Derivative values that cannot be trusted are a serious risk to our financial system” (14 March 2013).

Figure-4: Concerns of companies to Use Derivatives



It has not only created apprehensions for the companies, but also in the minds of investors. Government has also made stringent provision for accounting and disclosures of derivative exposures and SEBI with listing agreement requires mandatory disclosure of corporate risk management policies. This higher risk perception about derivative user firms in the minds of investors has created concerns for companies as this may discount the value of the company. We have also found in the responses which we have received by the survey, 16.12% respondents are of the opinion that perceptions by investors, regulators and the public responsible a lot for companies not going for derivatives.

There are few responses in favour of uncertainty about qualifying for hedge accounting treatment, tax or legal issues, difficulty quantifying the firm's underlying exposures, pricing and valuing derivatives, monitoring and evaluating hedge results, evaluating the risk of proposed derivatives transactions which are according to the respondents creating concerns for using derivatives by Indian companies.

Table-8
Concern X Rank Cross-tabulation

			Rank			Total
			High	Moderate	Low	
Concern	Credit risk	Count	0	0	8	8
		% within Concern	0.0%	0.0%	100.0%	100.0%
		% within Rank	0.0%	0.0%	11.6%	3.9%
		% of Total	0.0%	0.0%	3.9%	3.9%
	Uncertainty about qualifying for hedge accounting treatment	Count	6	3	5	14
		% within Concern	42.9%	21.4%	35.7%	100.0%
		% within Rank	8.7%	4.3%	7.2%	6.8%
		% of Total	2.9%	1.4%	2.4%	6.8%
	Tax or legal issues	Count	5	1	6	12
		% within Concern	41.7%	8.3%	50.0%	100.0%
		% within Rank	7.2%	1.4%	8.7%	5.8%
		% of Total	2.4%	.5%	2.9%	5.8%
	Disclosure requirements	Count	0	0	4	4
		% within Concern	0.0%	0.0%	100.0%	100.0%
		% within Rank	0.0%	0.0%	5.8%	1.9%
		% of Total	0.0%	0.0%	1.9%	1.9%
	Cost of hedging compared to benefits	Count	19	25	3	47
		% within Concern	40.4%	53.2%	6.4%	100.0%
		% within Rank	27.5%	36.2%	4.3%	22.7%
		% of Total	9.2%	12.1%	1.4%	22.7%
	Liquidity risk	Count	0	0	12	12
		% within Concern	0.0%	0.0%	100.0%	100.0%
		% within Rank	0.0%	0.0%	17.4%	5.8%
		% of Total	0.0%	0.0%	5.8%	5.8%
	Lack of knowledge about derivatives within firm	Count	16	20	2	38
		% within Concern	42.1%	52.6%	5.3%	100.0%
		% within Rank	23.2%	29.0%	2.9%	18.4%
		% of Total	7.7%	9.7%	1.0%	18.4%
	Difficulty quantifying the firm's underlying exposures	Count	6	6	9	21
		% within Concern	28.6%	28.6%	42.9%	100.0%
		% within Rank	8.7%	8.7%	13.0%	10.1%
		% of Total	2.9%	2.9%	4.3%	10.1%
	Perceptions by investors, regulators and the public	Count	10	12	4	26
		% within Concern	38.5%	46.2%	15.4%	100.0%
		% within Rank	14.5%	17.4%	5.8%	12.6%
		% of Total	4.8%	5.8%	1.9%	12.6%

	Pricing and valuing derivatives	Count	4	2	8	14
		% within Concern	28.6%	14.3%	57.1%	100.0%
		% within Rank	5.8%	2.9%	11.6%	6.8%
		% of Total	1.9%	1.0%	3.9%	6.8%
	Monitoring and evaluating hedge results	Count	2	0	5	7
		% within Concern	28.6%	0.0%	71.4%	100.0%
		% within Rank	2.9%	0.0%	7.2%	3.4%
		% of Total	1.0%	0.0%	2.4%	3.4%
	Evaluating the risk of proposed derivatives transactions	Count	1	0	3	4
		% within Concern	25.0%	0.0%	75.0%	100.0%
		% within Rank	1.4%	0.0%	4.3%	1.9%
		% of Total	0.5%	0.0%	1.4%	1.9%
	Total	Count	69	69	69	207
		% within Concern	33.3%	33.3%	33.3%	100.0%
		% within Rank	100.0%	100.0%	100.0%	100.0%
		% of Total	33.3%	33.3%	33.3%	100.0%

Ha2: There are concerns (apprehensions) for entities to use financial derivative as a risk management tool.

Table-9

Chi-Square Tests for Concerns of Derivatives Use

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	100.902[a]	22	.000
Likelihood Ratio	117.862	22	.000
Linear-by-Linear Association	.201	1	.654
N of Valid Cases	207		

a. 24 cells (66.7%) have expected count less than 5. The minimum expected count is 1.33.

Table-10

Symmetric Measures for Concerns of Derivatives Use

		Value	Approx. Sig.
Nominal by Nominal	Phi	0.698	.000
	Cramer's V	0.494	.000
N of Valid Cases		207	

Similarly, we also used Chi-square test to test the hypothesis that whether there is any significance evidence of evidence of association between concerns for use of derivatives for hedging and their level of significance. The Pearson Chi-square is found to be highly significant (^{2}=100.902, degrees of freedom=22 and <0.001) providing sufficient evidence for rejection of the null hypothesis that the concerns for use of derivatives and their level of importance are independent of each other. We also used Cramer's V and Phi test to assess the statistical significance of degree of association between the motivation to use derivative and their level of importance which is also found to be statistical significant at a very lowest level at less than 0.001. The results of Chi-square test are also supported and corroborated by the Concern X Rank Cross-tabulation which is presented in the table-8.

Conclusion

This survey is directed towards gathering information about stand of various financial professionals on motivating factors and challenges faced by the Indian companies to use financial derivatives as a risk management tool. In this survey, we sent questionnaire to more than two hundred finance professionals out of which we can be able to receive only 69 usable responses. The responses show that the foreign currency risk is the most widely hedged risk and the OTC forward contracts are most frequently used derivative instrument. It has also been found that Indian companies use derivative instruments to hedge against variations in cash flows unlike in the western world companies use derivative instruments to hedge against accounting earnings (Accrual Hedgers). With regard to the concerns of the companies to use derivatives, the responses show that the cost of hedging compared to benefits, lack of knowledge about derivatives within firm and perceptions of investors, regulators and the public are the three major constraints about which Indian companies are apprehensive of using financial derivatives. The chi-square test of hypothesis confirms and corroborates the above-mentioned results. MA

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Skill Development for Nation Building

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India has been facing a burgeoning problem of unemployment. Number of unemployment people has crossed millions and is still increasing. Govt. has taken a number of initiatives. There are a number of flagship programmes through which rural and urban unemployment may be addressed.

But these programmes did not touch even the fringe of this gigantic issue. Hence, the Govt. of India has envisaged a new programme on the premise that unemployment problem is not just a lack of employment. It is rather a problem of unemploybility of the major section of the work force. The youth do not have required skill to perform any kind of job and hence find no employment. In order to obviate these hurdles, the Government has decided to make the unemployed skilful and established an institution called National Skill Development Council.

The National Skill Development Council is an innovative concept having Pan India ramifications. Acquiring of skill is the natural instinct of mankind and from time immemorial the civilization has progressed by progressive change of skills from one generation to the other. Pre human history when people were hunter-gatherer of resources from natural surroundings had the need for lesser amount of skill and more of physical strength. Gradually, with the march of humanity, physical strength becomes less germane and mental aptitude of the persons became the prime mover of development. This transformation from physical to mental architecture was driven by a kind of energy, which later termed as 'skill'. In that sense, skill is an inherent component of human mind, which remains dormant unless it is triggered by some outside stimulus. This stimulus may take the shape of physical push or spiritual realization. Modern society prefers spiritual development of the mind since the days of Swami Vivekananda a century ago.

Unfortunately, during the last two centuries philosophy of mind had metamorphosed into socialist realism with the advent of Marxian concept of society, which he believed is related to labour and its exploitation. This concept has had its hey days for a considerable time but with the destruction of Soviet Union, the concept went into oblivion. Individuals became self centred, thus making production process skill less. But with the revolutionary change in production process, individual efforts became collective and skill becomes a necessary ingredient. While skill is a broad spectrum human function, its development requires proper parameters of skill. These parameters are multi faceted for which specialized training is necessary for each kind of skill. As we understand that the primary objective of the National Skill Development Council is to delineate the kinds of skill required for different segments of the society and it is the duty of the Council is to find out areas where there is lack of skill and where development of skill will lead to greater productivity leading to national growth in terms of higher GDP.

Vital aspects of development of skill in any sphere of life is very closely and intimately related with the foundation of mindset, which begins with the pattern and content of education of young population in the schools and colleges and how they are motivated during their studies and discourses.

The subject matter of skill development and competitive mindset is almost synonymous with national development. In fact, development of every individual life is to be viewed as a matter of competition and skill development, which depends first and foremost on intelligence development, imagination development and finally technical development as indicated by Sir Albert Einstein. Present education system needs to be thoroughly reviewed and must be based on finer, wider and deeper sense of a competitive perspective and far from just an income oriented mechanized career, which is the culture and mode of education of modern world. This was stressed by Swami Vivekananda long 100 years back and proclaimed ***'Education is the Manifestation of Perfection already in Man'*** and emphasized on ***'Man Making Education'***, which should be our aim and motto for the development of the Youth and subsequent building of the Nation. MA

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Analysis of Financial Statements in THE SUGAR INDUSTRY

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The basis for financial analysis, planning and decision making reflects in scientific analytical financial statement which mainly consists of Balance Sheet and Profit & Loss account of a sugar factory. This summarized financial report provides the operating result and financial position of a sugar factory and detailed analytical information contained therein is useful for assessing the operational efficiency and financial soundness of a sugar factory.

What is Financial Statement?

Financial statements are structured representation of the financial position and financial performance of an entity. Financial statements provide information about an entity's

i) Assets
ii) Equity & Liabilities
iii) Income and expenses, including gains and losses and
iv) Cash flows.

Significance of Analysis of Financial Statements

Financial analysis is useful and significant to different users in the following ways:

(a) Finance Manager: Financial analysis techniques enable the finance manager to make constant reviews of the actual financial operations of the sugar factory for analyzing the causes of major deviations, which may help in taking corrective action.

(b) Top Management: Financial analysis helps the Top Management in measuring the success of the company's operations, appraising the individual's performance and evaluating the system of internal control.

(c) Trade Payables: The traders are particularly interested in sugar factory's ability to meet their claims over a very short period of time, which evaluate factory's liquidity position.

(d) Lenders: Banks and Financial Institutions are concerned about the sugar factory's long term solvency and survival. They analyze the historical financial statements to assess its future solvency and profitability.

(e) Investors: Investors, who have invested their money in the sugar factory's shares, are interested in the sugar factory's earnings and present and future profitability to ascertain its effects on sugar factory's earning.

(f) Others: Economists, Researchers, Government etc., analyze the financial statements to study the economic conditions for price regulations, taxation and other similar purposes.

Tools of Analysis of Financial Statements

The most commonly used techniques of financial analysis are as follows:

A) Comparative Statements: The comparative Profit & Loss account gives an idea of the progress of business over a period of time. The changes in absolute money values and percentages can be determined to analyze the profitability of the business. This analysis is also known as 'horizontal analysis or Intra sugar factory analysis. Horizontal analysis compares each item with an item for a selected base year.

"One cannot be the finest without comparing with rest"

SUMMERISED COMPARATIVE PROFIT AND LOSS ACCOUNT FOR THE YEAR 2014-15 & 2015-16

YEAR	CANE CRUSHING	PRODUCTION	
2014-15	674765.310 MT	894855 QTLS	
2015-16	731132.950 MT	967000 QTLS	Rs.Lakhs

1) **INCOME**	**2014-15**	**2015-16**	**Diff. (+/-)**	**Change%**
1.1) Sugar Realization	26109.58	27801.88	1692.30	6.48
1.2) Bagasse	279.15	542.60	263.45	94.37
1.3) Molasses	948.16	1312.77	364.61	38.46
1.4) Other Income	163.29	485.05	321.76	197.06
TOTAL (1)	**27500.18**	**30142.30**	**2642.12**	**9.61**

2) **COST OF PRODUCTION**				
2.1) Raw Material Cost	20677.80	24070.15	3392.35	16.41
2.2) Manufacturing Overheads	2921.23	1685.72	(1235.51)	(42.29)
2.3) Salary & Wages	1393.13	1643.43	250.30	17.97
2.4) Administrative Exp.	444.12	525.19	81.07	18.26
TOTAL (2)	**25436.28**	**27924.49**	**2488.21**	**9.78**
GROSS PROFIT	**2063.91**	**2217.81**	**153.91**	**7.46**
3) Depreciation	269.91	309.51	39.60	14.67
4) Interest	1760.75	1848.54	87.79	4.99
5) TOTAL COST OF PRODUCTION (2+3+4)	**27466.94**	**30082.54**	**2615.60**	**9.52**
6) NET PROFIT (1-5)	**33.24**	**59.76**		

Interpretation:

During the financial year 2015-16 the factory crushed 7.31 lac MT of sugar crane & produced 9.67 lakh quintals of sugar as per the Balance Sheet of March 2016, the factory has holding sugar stock of Rs. 321.74Cr., this was mainly because of lower market price during financial year 2015-16. The sugar prices have gone far below the FRP, therefore sugar factory was compelled to carry over stock in an anticipation of better price in future.

The above table gives idea about deviation in absolute figures in rupees as compared to year 2014-15. The financial statements indicated in above table, is prepared for successive periods 2014-15 & 2015-16, where it shows the changes in percentages over a period of time.

B) Common Size Statements: The common size statements analysis compares each item with a base item of two different factories to realize where we actually stand as compared to other sugar factories and what the exact reasons of deviation are. This analysis is also known as 'Vertical analysis or Inter sugar factory analysis'.

"The difference between running and ruining the business is high cost"

Name of The Company	Financial Year	Variable Cost Rs. PMT	Fixed Cost Rs. Lakh	Income Rs. PMT	Contribution PMT
1	**2**	**3**	**4**	**5**	**6 =(5-3)**
X Sugar Mill	2015-2016	3786.54	2397.90	4122.69	336.14
Y Sugar Mill	2015-2016	3546.00	2425.10	4242.91	696.91

C) Trend Analysis: Trend analysis studies the financial history, operational results & financial position of a sugar factory over a series of years using the historical data to observe the percentage changes in selected data.

"Costing is strange racing where falling considered wining"

Trend Analysis						
SUMMARISED COMPARATIVE PROFIT AND LOSS ACCOUNT FOR THE YEAR 2013-14 & 2015-16						
		Rs. Lakhs		**TREND%**		
1) **INCOME**	**2013-14**	**2014-15**	**2015-16**	**2013-14**	**2014-15**	**2015-16**
1.1) Sugar Realization	21264.26	26109.58	27801.88	100.00	122.79	130.74
1.2) Bagasse	491.04	279.15	542.6	100.00	56.85	110.5
1.3) Molasses	1006.51	948.16	1312.77	100.00	94.2	130.43
1.4) Other Income	219.93	163.29	485.05	100.00	74.24	220.55

TOTAL (1)	**22981.74**	**27500.18**	**30142.3**	100.00	119.66	131.16
2) **COST OF PRODUCTION**						
2.1) Raw Material Cost	18138.73	20677.8	24070.15	100.00	114	132.7
2.2) Manufacturing Overheads	1226.14	2921.23	1685.72	100.00	238.25	137.48
2.3) Salary & Wages	1330.54	1393.13	1643.43	100.00	104.7	123.52
2.4) Administrative Exp.	263.7	444.12	525.19	100.00	168.42	199.16
TOTAL (2)	**20959.11**	**25436.28**	**27924.49**	100.00	121.36	133.23
GROSS PROFIT	**2022.63**	**2063.91**	**2217.81**	100.00	102.04	109.65
3) Depreciation	276.56	269.91	309.51	100.00	97.6	111.91
4) Interest	1727.26	1760.75	1848.54	100.00	101.94	107.02
COST OF PRODUCTION (2+3+4)	**22962.93**	**27466.94**	**30082.54**	100.00	119.56	130.95
NET PROFIT	18.81	33.24	59.76	100.00	176.91	316.51

The above table indicates financial trend is positive and the better financial management of the sugar factory year to year.

D) Ratio Analysis: It is a tool for comparison of the previous year's figures of the sugar unit, other entities, and the industry. It helps the management to take proper decision after analysis.

"Ratios are like true friends. They tell us our shortcomings and strengths"

FINANCIAL RATIO STATEMENT AND VARIANCES					
S.no	**Particulars**	**Concept**	**2014-15**	**2015-16**	**Variance**
A	**Liquidity Ratios**				
A.1	Current Ratio	Current Assets/ Current Liabilities	1.10	1.18	0.08
A.2	Working Capital (Rs.Lakhs**)**	Current Assets Less Current Liabilities	2590.92	5541.34	2950.42
A.3	Cash Profit (Rs.Lakhs**)**	Net Profit +Depreciation	303.15	369.27	66.12
A.4	D.S.C.R	Net operating Income+Int. +Dep. / Total Debt service	1.38	1.91	0.53

DSCR WORKINGS :

Rs.Lakhs

PARTICULARS	**2014-15**	**2015-16**
CASH AVAILABLE FOR DEBT SERVICE :		
NET PROFIT	33.24	59.76
ADD:DEPRECIATION	269.91	309.51
INTEREST ON TERM LOAN	548.72	248.45
TOTAL CASH AVAILABLE FOR DEBT SERVICE	**851.88**	**617.72**
DEBTS TO BE SERVICED :		
REPAYMENT OF TERM LOAN	66.54	75.50
INTEREST ON TERM LOAN	548.72	248.45
TOTAL DEBT TO BE SERVICED	**615.26**	**323.95**
D.S.C.R.	**1.38**	**1.91**
AVERAGE D.S.C.R.		**1.56**

Interpretation

Above statement show that, significant improvement in major liquidity ratios. Current ratio has increased from 1.10 to 1.18 in the year 2015-16. An ideal current ratio is 2:1.

"Absolute figures unless converted into relative ones are meaningless."

FINANCIAL RATIO STATEMENT AND VARIANCES					
S.no	**Particulars**	**Concept**	**2014-15**	**2015-16**	**Variance**
A	**Solvency /Leverage Ratio**				
A.1	Debt Equity Ratio	Total Debt/ Net Worth	2.56	1.40	-1.16
A.2	Solvency Ratio	Net worth/Total Assets	0.07	0.13	0.06
A.3	Fixed asset to Net worth Ratio	Net worth/Fixed Assets	0.72	0.82	0.10
A.4	Gross profit to Total Income Ratio (%)	Gross profit/Total Income	0.08	0.07	-0.01
A.5	Net profit to Total Income ratio (%)	Net Profit/Total Income	0.12	0.20	0.08
A.6	Gross Value added (Rs.Lakhs)	(Income -Rm-P&C-Pac)	6185.52	5516.14	-669.38
A.7	Net Value added (Rs.Lakhs)	Gross Value added-Depreciation	5915.60	5206.93	-708.67
A.8	Raw material to Value of output	(Raw material +Process & Chem.)/Value of output	76.04	80.65	4.61
A.9	Wages to Total Income (%)	Wages/Total Income	5.07	5.45	0.38
A.10	Interest to Value output (%)	Interest /Value output	6.4	6.13	-0.27
A.11	Net Profit to Equity (%)	Net profit/Equity	3.18	5.64	2.46
A.12	Capital employed Turnover ratio	Sales / Capital Employed	4.90	2.35	-2.55
A.13	Return on Capital Employed (%)	EBIT/Capital Employed	31.98	14.86	-17.12

Interpretation

1) The table shows that the total Debt Equity ratio has decreased in the year 2015-2016 from 2.56 to 1.40. During FY 2015-16 factory has raised soft loan from banks to pay FRP as per Government norms this has resulted substantial increase in outside liabilities.

2) The above table shows the gross profit ratio of the table indicates that the ratio in the year 2015 was 0.08 and in the year 2016 it decreased to 0.07.

"Analyzing is like dissecting. It may not change the past it can improve the future"

Variance Analysis Intra Firm Variance Analysis for the year 2014-15 and 2015-16					
Particulars	**2014-15**	**2015-16**	**Variance**	**AbsoluteVariance Rs. Lakh**	**Formula**
Cane Crushed Lakh MT	6.75	7.31	0.56	201.36	14-15yr's pmt contribution X excess crushing
1) Income From Operations	**PMT Income**		**PMT**		
1.1) Sugar Reliazation	3905.23	3802.58	-102.64	-750.45	PMT variance X 15-16 yr's crushing
1.2) Bagasse	41.37	74.21	32.84	240.13	PMT variance X 15-16 yr's crushing
1.3) Molasses	140.52	179.55	39.04	285.41	PMT variance X 15-16 yr's crushing
1.4) STOCK IN PROCESS	-35.79	-0.01	35.79	261.65	PMT variance X 15-16 yr's crushing
1.5) Other Income	24.20	66.34	42.14	308.13	PMT variance X 15-16 yr's crushing
TOTAL (1)	**4075.52**	**4122.69**	**47.17**		

2) Variable Cost	**PMT Expnediture**		**PMT**		
2.1) Cane Purchase & Related Exp	2627.84	2708.70	-80.85	-591.15	PMT variance X 15-16 yr's crushing
2.2) Sugarcane Purchase Tax	0.00	88.15	-88.15	-644.52	PMT variance X 15-16 yr's crushing
2.3) Cane H& T Expenses	432.86	494.76	-61.90	-452.60	PMT variance X 15-16 yr's crushing
2.4) Cane Supply Expens-es	2.62	0.16	2.46	18.00	PMT variance X 15-16 yr's crushing
2.5) Cane Feeding Exp.	1.12	0.40	0.72	5.27	PMT variance X 15-16 yr's crushing
2.6) Salary& Wages (20%)	41.29	44.96	-3.66	-26.78	PMT variance X 15-16 yr's crushing
2.7)Machinery Repairs & Maintenance	75.06	68.37	6.69	48.90	PMT variance X 15-16 yr's crushing
2.8) Process & Chemicals	34.65	32.93	1.73	12.63	PMT variance X 15-16 yr's crushing
2.9) Packing Expenses	59.73	43.08	16.65	121.72	PMT variance X 15-16 yr's crushing
2.10)Other Stores	23.30	28.15	-4.85	-35.49	PMT variance X 15-16 yr's crushing
2.11)Factory Overhead	240.18	58.03	182.15	1331.78	PMT variance X 15-16 yr's crushing
2.12)Interest on Working Capital Loan	179.62	218.85	-39.23	-286.81	PMT variance X 15-16 yr's crushing
TOTAL (2)	**3718.28**	**3786.54**	**-68.26**		
3) Contribution Rs. PMT Cane	**357.23**	**336.14**			
4) Fixed Cost					
4.1) Salary & Wages (80%)	1114.50	1314.74	-200.24	-200.24	Increase in Salary & Wages
4.2) Administrative Expenses	444.12	525.19	-81.08	-81.08	Increase in Adm. Exp.
4.3) Depreciation	269.91	309.51	-39.60	-39.60	Increase in Dep. Exp.
4.4) Interest on Term Loan	548.72	248.45	300.27	300.27	Decrase in Int. Exp
TOTAL (4)	**2377.25**	**2397.90**	**-20.65**		
Net Variance (+)/(-)				**26.52**	
Last year's Profit(+)/(-)				33.24	
Current year's Profit/ Loss (+)/(-)				**59.76**	

Interpretation

1) Variable cost

The total variable cost PMT has increased from Rs.3718.28 lakh to 3786.54 lakh as compared to financial year 2014-15. This is mainly due to increase in cane cost, sugar cane purchase tax and interest on working capital loan due to huge carryover stock of sugar.

2) Fixed cost

The total fixed cost has increased from Rs.2377.25 lakh to 2397.90 lakh as compared to financial year 2014-15. This is mainly due to rise in salary and wages, administrative expenses and deprecation expenditure.

3) Income From Operations

Income from operations includes value of sugar, molasses, bagasse & other income, here below detail analysis of decrease in per MT of sugar realization is done:

Factory has crushed 6.75 Lakh M.T. sugar cane in financial year 2014-15 and in the year 2015-16 there is an increase of 0.56 Lakh M.T. due to good rain fall and rise in per hectare sugar cane production. From the above statement, it shows higher sugar production of 0.72 Lakh Qtl. as compared to 2014-15. Sugar recovery has slightly declined by 0.03 % during 2015-16.

After examining the variance in crushing, production, recovery and sugar realization, the actual impact on Profit and Loss account comes to Rupees 750.45 lakhs which is calculated as under:

S.No.	Particulars				
A)	Decrease in Sugar Realization 102.65		Sugar realization variance PMT(Rs.) (A)	Cane Crushing current Year (B)	Decrease (In Lakhs) (C)C=(A)*(B)
			731133	750.45	
MICRO ANALYSIS OF DECREASE IN SUGAR REALIZATION					
B.1	Loss due to decrease in sugar realization	Avg. Sugar price per Qtl in201415 (Rs.)(A)	Avg. Sugar price per Qtl in 2015-16 (Rs.) (B)	Sugar Production in 2015-16 (Qtls) (C)	Loss in Lakhs D=(A)-(B)*(C)/1L
		2944.73	2875.07	967000	**673.61**
B.2	Loss due to low sugar recovery % 13.26172		Sugar Recovery in 2014-15 (%)(A)	Sugar Recovery in 2015-16 (%) (B)	Recovery Loss in (%) C= (B)-(A)
			13.22605	-0.03567	
B.2(a)	Less Sugar Production due to low sugar recovery 731133		Cane Crushing in Yr. 15-16 (in MT) (A)	Recovery Loss in % (B)	Sugar Production in Qtls (C) C=(A)*(B)/10
			-0.03567	2607.95	
B.2(b)	Loss due to decrease in sugar recovery in Rs. 2,607.95		Less Sugar Production (Qtls) (A)	Avg. Sugar price per Qtl in 2014-15 (Rs.) (B)	Amount In Lakhs C=(A)*(B)
			2944.73	**76.80**	
	Total Loss due to decrease in Sugar Realization (Rs. Lakh) (B.1 + B.2(b)				**750.45**

E) Cash Flow Analysis: It is the analysis of actual movement of cash inflow and outflow in an organization. The flow of cash into the sugar factory is called as cash inflow and the flow of cash out of the sugar factory is called as cash outflow. The difference between the inflow and outflow of cash is the net cash flow.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31-03-2016

S.no	Particulars	Amount	Amount
A	**CASH FLOW FROM OPERATING ACTIVITIES**		
A.1	Net Profit before tax and transfer to general reserve	70.74	
A.2	Depreciation expense	309.51	
A.3	Interest on term Loan	248.45	
	Operating Profit before working capital changes		**628.70**
	Adjustments for changes In Working Capital		
A.4	(Increase)/Decrease in current assets	(15,338.01)	

A.5	(Increase)/Decrease in advances & receivables	8,023.80	
A.6	Increase/(Decrease) in working capital Loan	2,333.66	
A.7	Increase/(Decrease) in current liabilities & provisions	3,825.70	(1,154.85)
	NET CASH FROM OPERATING ACTIVITIES		**(526.15)**
B	**CASH FLOW FROM INVESTING ACTIVITIES**		
B.1	Sale of Investment	624.45	
B.2	Purchase of fixed assets	(876.50)	
B.3	Payment of long term debts	(75.49)	
	NET CASH FROM INVESTING ACTIVITIES		**(327.54)**
C	**CASH FLOW FROM FINANCING ACTIVITIES**		
C.1	Amount raised through share capital	12.53	
C.2	Proceeds from Long term debts	2,885.17	
C.3	Interest Expense on term Loan	(248.45)	
	NET CASH FLOW FROM FINANCING ACTIVITIES		**2,649.25**
D	**NET(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)**		**1,795.56**
	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		106.81
E	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (D+E)**		**1,902.37**

Cash Flow Interpretation

The cash flow statement depicts that sugar factory has raised funds by redemption its Investment and issue of share capital as well from long term loan to meet operational expenditure and capital expenditure.

F) Funds Flow Analysis: *A Fund Flow Statement is a summarized statement of the movement of Funds from different activities of a sugar factory during an accounting period.*

"Know what you own and what you owe"

SUMMERIZED COMPARATIVE BALANCE-SHEET AS ON 31 ST MARCH, 2015 & 2016

(Rs. Lakh)

Particulars	2014-15	2015-16	Diff. (+/-)
A) OWN CAPITAL			
Share Capital	1046.91	1059.44	12.53
Reserves & Surplus	1045.28	1056.27	10.99
Profit & Loss A/c(+/-)	93.39	153.15	59.76
TOTAL (A)	**2185.58**	**2268.86**	83.28
B) LONG TERM DEBTS			
Term loan	2812.72	5151.52	2338.80
Soft Loan	295.81	220.32	(75.49)
Voluntary Deposits	2476.69	3023.07	546.38
TOTAL (B)	**5585.22**	**8394.91**	2809.69
C) CURRENT LIABILITIES			
Working Capital Loan	12283.43	14617.09	2333.66

Current liabilities/provisions.	12953.11	16778.81	3825.70
TOTAL (C)	**25236.54**	**31395.90**	6159.36
TOTAL LIABILITIES (A+B+C)	**33007.34**	**42059.67**	**9052.33**
D) CAPITAL INVESTMENT			
Gross Fixed Assets	7922.61	12510.96	4588.35
Less: Accum. Depn.	4903.79	5213.30	309.51
Less: Revaluation Reserve	0.00	3711.85	3711.85
Net Fixed Assets	3018.82	3585.81	566.99
INVESTMENT	2161.07	1536.62	(624.45)
TOTAL (D)	**5179.89**	**5122.43**	**(57.46)**
E) CURRENT ASSETS			
Current Assets	16836.37 32174.39		15338.01
Advances & Receivables	10884.28	2860.48	(8023.80)
Cash and Bank Balances	106.81	1902.37	1795.56
TOTAL (E)	**27827.46**	**36937.24**	**9109.78**
TOTAL ASSET (D+E)	**33007.35**	**42059.67**	**9052.33**
NET WORKING CAPITAL(E-C)	**2590.92**	**5541.34**	**2950.42**
NET WORTH(A)	**2185.58**	**2268.86**	**83.28**
Current Ratio (E ÷ C)	**1.10**	**1.18**	
Capital Employed (Net F.Asset + Net W.C.)	**5609.74**	**9127.15**	
Debt Equity Ratio (B ÷ A)	**2.56**	**3.70**	

"Finance is lifeblood of business only when it flows in the right direction"

FUNDS FLOW STATEMENT FOR THE YEAR 2015-16

I) **SOURCES OF FUNDS :**	**2015-16 Rs. Lakh**
A) Long Term Sources	
Depreciation	309.51
Share Capital	12.53
Reserves & Surplus	10.99
Profit & Loss A/c(+/-)	59.76
Term loan	2338.80
Voluntary Deposits	546.38
Decrease in Investment	624.45
Total Long Term Sources	**3902.42**
B) Short Term Sources	
Working Capital Loan	2333.66
Current liabilities/provisions.	3825.70
Decrease In Advances & Receivables	8023.80

Total Short Term Sources	**14183.16**
C) TOTAL SOURCES(A+B)	**18085.58**
II) APPLICATIONS OF FUNDS :	
A) Long Term Uses	
Capital Expenditure(Excl. Reval. Asset)	876.50
Decrease in Soft Loan	75.50
Total Long Term Uses	**952.00**
B) Short Term Uses	
Increase in Current Assets	17133.58
Total Short Term Uses	**17133.58**
TOTAL APPLICATIONS (A+B)	**18085.58**

Interpretation

From the funds flow statement sugar factory has generated Rs. 18085.58 Lakh funds during the Financial Year 2015-16, out of which long term sources is Rs.3902.42 lakh and short term sources is 14183.16 lakh. The use of long term funds is Rs.952 lakh and use of short term funds is Rs. 17133.57 lakh.

Conclusion

Financial ratio analysis and common-size analysis help to gauge the financial performance and condition of a sugar factory through an examination of relationships among these many financial items. A thorough financial analysis of a sugar factory requires examining its efficiency in putting its assets to work, its liquidity position, its solvency, and its profitability. We can use the tools of common-size analysis and financial ratio analysis, to help understand where a company has been. We then use relationships among financial statement accounts in pro forma analysis, forecasting the sugar factory's income statements and balance sheets for future periods, to see how the sugar factory's performance is likely to evolve. The above various types of financial analysis indicate the positive performance of sugar factory which is now a day's essential to turnaround the financial position of the sick units. MA

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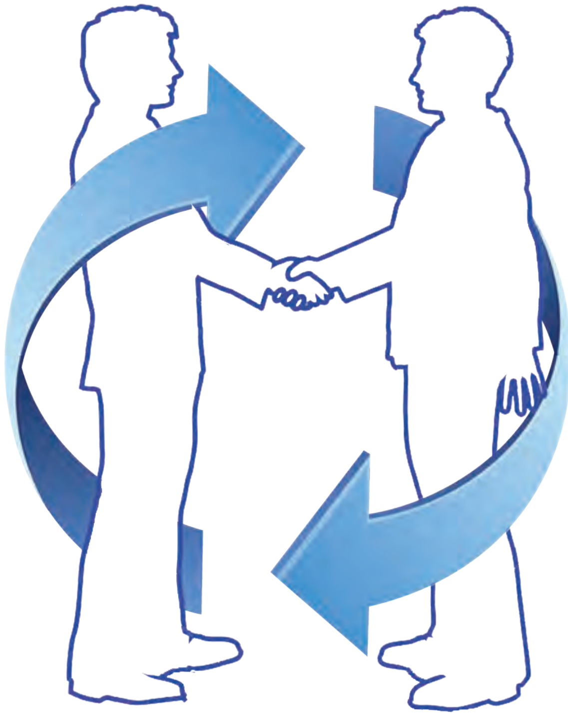
Clarification on the notification issued dated 21st September 2016 for CEP Credit Hours requirements for the block of three (3) years starting effective April 1, 2015 to March 31, 2018, to be complied with by Members holding Certificate of Practice above the age of 65 years which states that -

"The member should undergo minimum mandatory training of 50% of the minimum CEP hours per year and block of 3 years as per the category of the members holding Certificate of Practice below the age of 65 years, i.e. 7 hours per year and 25 hours in a block of 3 years."

Clarification : The above requirements shall be effective for renewal of CoP from FY 2018-19 onwards and will not be applicable for renewal of CoP for FY 2017-18.

Section 49 of the Indian Partnership Act, 1932



It is a settled principle that a Partnership firm has no separate legal status from the Partners and that all partners are individually liable for payment of the dues of the firm. However, Section 49 of the Act appears to limit the liability of a Partner by providing that the separate property of the Partner shall be applied first in discharge of his separate debts and surplus if any shall be applied in payment of debts of the firm and hence contrary to the very principles of partnership itself. We discuss hereunder the import of Section 49 of the Act and the ambiguity created thereby.

Hareesh Kolichala
Chief Manager (Law)
Union Bank of India
Kolkata

Section 4 of the Indian Partnership Act, 1932 provides as under :

"Persons who have entered into partnership with one another are individually called "partners" and collectively "a firm" and the name under which their business is carried on is called the "firm name". Some of the observations of the courts on this issue are as under:

In the case of Seodoyal Khemka Vs. Joharmull

Manmull [AIR 1924 Cal 74], it is held by the Calcutta High Court as under:

"A partnership (under Section 239 of Indian Contracts Act, 1872) is a relationship which subsists between persons; but a firm is not a person, it is not an entity, it is merely a collective name for the individuals who are members of the partnership. It is neither a legal entity, nor is it a person. [See per Lord Justice James in Ex parte Blain, In re Sowers (1879) 12 Ch. D. 522 : 41 L.T. 46: 28 W.R.334, and per Lord Justice Far well in Sadler v. Whiteman (1910)]. A firm name in truth is merely a description of the individuals who compose the firm. It is that and nothing more."

It has been laid down by the Privy Council in the case of the case of Bhagawanjee Goculdas Vs. Alembic Chemical Works Co.Ltd.,[1948 L.R.75Ind AP147] that Indian law has not given legal personality to a firm apart from the partners.

In the case of Munshi Ram Vs.Municiapl Committee [(1979)3 SCC 83], the Supreme Court held as under:

"7. Partnership as defined in Section 4 of the Indian Partnership Act, 1932 is the relation between persons who have agreed to share the profits of a business carried on by all or any of them for the benefit of all. The Section further makes it clear that a firm or partnership is not a legal entity separate and distinct from the partners. Firm is only a compendious description of the individuals who compose the firm."

The said position has been consistently reiterated by the courts from time to time while deciding the issues involving the status of Partnership and Partners and as such there is no dispute as to the position of law that a Partnership firm is not distinct from its Partners. However, Section 49 of the Act is an aberration and contradicts the very concept of partnership.

Section 49 of the Act provides as under:

Payment of firm's debts and of separate debts :

"Where there are joint debts due from the firm, and also separate debts due from any partner, the property of the firm shall be applied in the first instance in payments of the debts of the firm, and if there is any surplus then the share of each partner shall be applied in payment of his separate debts or paid to him. The separate property of the any partner shall be applied first in the payment of his separate debts and the surplus (if any) in the payment of the debts of the firm."

The Supreme Court had, in the case of Dulichand Laxminarayan Vs.CIT (AIR 1956 SC354) has

traced the origin of Section 49 as under :

"16. As pointed out in Lindley on Partnership, 11th Edition, at page 153, merchants and lawyers have different notions respecting the nature of a firm. Commercial men and accountants are apt to look upon a firm in the light in which lawyers look upon a corporation, i.e., as a body distinct from the members composing it. In other words merchants are used to regard a firm, for purposes of business, as having a separate and independent existence apart from its partners. In some systems of law this separate personality of a firm apart from its members has received full and formal recognition, as, for instance, in Scotland. That is, however, not the English Common Law conception of a firm. English Lawyers do not recognize a firm as an entity distinct from the members composing it. Our partnership law is based on English Law and we have also adopted the notions of English lawyers as regards a partnership firm.

17. Some of the mercantile usages relating to a firm have, however, found their way into the law of partnership. Thus in keeping accounts, merchants habitually show a firm as a debtor to each partner for what he brings into the common stock and each partner is shown as a debtor to the firm for all that he takes out of that stocks. But under the English Common Law, a firm, not being a legal entity, could not sue or be sued in the firm name or sue or be sued by its own partner, for one cannot sue oneself. Later on this rigid law of procedure, however, gave way to considerations of commercial convenience and permitted a firm to sue or be sued in the firm name, as if it were a corporate body (See Code of Civil Procedure, Order XXX corresponding to rules of the English Supreme Court Order XLVIII-A). The law of procedure has gone to the length of allowing a firm to sue or be sued by another firm having some common partners or even to sue or be sued by one or more of its own partners (see Order XXX, rule 9 of the Code of Civil Procedure), as if the firm is an entity distinct from its partners. Again in taking partnership accounts and in administering partnership assets, the law has, to some extent, adopted the mercantile view and the liabilities of the firm are regarded as the liabilities of the partners only in case they cannot be met and discharged by the firm out of its assets. The creditors of the firm are, in the first place, paid out of the partnership assets and if there is

any surplus then the share of each partner in such surplus is applied in payment of his separate debts, if any, or paid to him. Conversely, separate property of a partner is applied first in the payment of his separate debts and the surplus, if any is utilised in meeting the debts of the firm (see Section 49 of the Indian Partnership Act, 1932).

18. It is clear from the foregoing discussion that the law, English as well as Indian, has, for some specific purposes, some of which are referred to above, relaxed its rigid notions and extended a limited personality to a firm. *Nevertheless, the general concept of partnership, firmly established in both systems of Law, still is that a firm is not an entity or person in law but is merely an association of individuals and a firm name is only a collective name of those individuals who constitute the firm. In other words, a firm name is merely an expression, only a compendious mode of designating the persons who have agreed to carry on business in partnership. According to the principles of English jurisprudence, which we have adopted, for the purposes of determining legal rights ;there is no such thing as a firm known to the law; as was said by James, L. J. in Ex parte Corbett, In re Shand [1880 L.R. 14 Ch. 122."*

However, in the case of Nilkanth Balppa Mangave Shop & Anr., Vs.M/s.Raj & Co., {AIR 1982 BOM388}, the suit filed by the Plaintiff was decreed by the trial court against the firm as well as the Partners. The Partner Defendant resisted attachment of his deposit amount citing Section 49 of the Indian Partnership Act, 1932. The trial judge lifted the attachment upon the principles of the said Section holding that the separate property of the Partner should not be proceeded against and applied for the satisfaction of the decretal amount. It was held by the Bombay High Court as under while rejecting the view of the trial judge :

"4. No doubt, the principles underlying S.49 of the partnership Act have been applied when the question of firm debts are in issue, but those have been applied in principle and not by reason of the statute.

Section 49 has to be read along with Section 25 and if so read, it would indicate that, even while applying the provisions of Section 49, the debt by the third party can be recovered by proceeding against the partners. Before the principles underlying S.49 are pressed in aid, all the conditions that bear upon the principles must be available. In case of a decree which clearly makes the debt payable by the firm as such and also by each of the defendants, who may happen to be its partners, the principle is clearly not available.

5. The provisions of O.21, R.50(1) of the Civil P.C. are clearly enabling in nature and same permit a decree made against a firm to be executed in the manner as is indicated by cls.(a), (b),(c) thereof. That such a decree could be executed against the personal property of the partners is well settled. (See Topnmal Vs.M/s.Kundomal Gangarm-AIR 1960SC388 and Gajendra Narain Singh Vs.Johrimal Prahlad :AIR 1964 SC581). The provisions of this Rule are not intended for making it compulsory upon the decree-holder to exhaust the remedies in the manner laid down by cl. (A) or cl.(B) or cl. (C) .

6. It is obvious that these enabling provisions of O. 21 R. 50(1) govern the case of a decree which has been passed against the firm and not against the partners personally. Furthermore, as stated above, a court executing the decree cannot go behind the decree. It must take the decree, as it stands. For the decree is binding and conclusive between the parties to the suit. Therefore, when a decree is made not only against the firm but also against the partners personally, it follows that by recourse to any other method the executing court cannot refuse to execute the decree which is clearly a personal decree against the partners.

The question when such a personal decree is not made what should be the procedure to be

followed, is not relevant for determining such a position, suffice it to say that the provisions of O.21 R. 50(1) of the Civil P.C. are attracted when the decree is in terms against the firm and there is no personal decree against the other defendants who were jointed to the suit as partners.

7. When the decree is made by use of the words jointly and severally, there is no question of any ratable distribution of the liability. It is in those cases only where the liability can be ratably distributed inter se among the judgment-debtors on the terms of the decree that, presumably, the principles of S. 49 may be available for application. In all other cases the terms of the decree is determinative of the liability."

The Court had clearly indicated that the Section 49 of the Act should be read with Section 25 of the Act and the provisions of O. 21 R. 50(1) of Civil Procedure Code, 1908 (CPC) govern execution of a decree against a firm and Partners. Section 25 of the Partnership Act provides as under :

Liability of a partner for acts of the firm - Every partner is liable, jointly *with all the other partners and also severally for all acts of the firm done while he is a partner.*

It is clear from Section 25 of the Act that the liability of the partners is joint and several. It is open to a creditor of the firm to recover the debt from any one or more of the partners. Each partner shall be liable as if the debt of the firm has been incurred on his personal liability.

Order 21 Rule 50 provides as under: -

Execution of decree against firm :

(1) Where a decree has been passed against a firm, execution may be granted -

(a) against any property of the partnership;

(b) against any person who has appeared in his own name under rule 6 or rule 7 of Order XXX or who has admitted on the pleadings that he is, or who has been adjudged to be , a partner;

(c) against any person who has been individually served as a partner with a summons and has failed to appear;

Provided that nothing in this sub-rule shall be deemed to limit or otherwise affect the provisions of Section 30 of the Indian Partnership Act 1932 (9 of 1932).

(2) Where the decree-holder claims to be entitled to cause the decree to be executed against any person other than such a person as is referred to in sub-rule (1), clauses (b) and (c) as being a partner in the firm, he may apply to the Court which passed the decree for leave, and where the liability is not disputed, such Court may grant such leave, or, where such liability is disputed, may order that the liability of such person be tried and determined in any manner in which any issue in a suit may be tried and determined.

(3) Where the liability of any person has been tried and determined under sub-rule (2), the order made thereon shall have the same force and be subject to the same conditions as to appeal or otherwise as if it were a decree.

(4) Save as against any property of the partnership, a decree against a firm shall not release,

render liable or otherwise affect any partner therein unless he has been served with a summons to appear and answer.

The execution under this Rule may be granted against the partnership property. It may also be granted against the partners, in which case the decree-holder may proceed against the separate property of the partners."

Let us now discuss hereunder some more decisions of the various courts which held that the partners were personally liable for repayment of the dues of the firm on the basis of principles embodied in CPC.

In the case of N. Ranganayakulu Vs.J. Narasimharao and Company and Ors. [AIR 1971 AP 58], the Andhra Pradesh High Court held as under :

"15. It is pertinent to consider the effect of Rule 50 of Order 21. It provides that where a decree has been passed against a firm execution may be granted against any property of the partnership, against any person who has appeared in his own name under Rule 6 or 7 of Order 30 or who admitted on the pleadings that he is a partner. Execution may also be granted against a person who has been adjudged to be a partner or against a person who has been individually served with summons as a partner but has failed to appear. The underlying purpose of this rule, is that for the recovery of the debts of a firm recourse can be had not only to the assets of the firm but to other means of relation of the debt are also allowed. Apart from the assets of the firm, the partners who have been served with summons in such capacity and also persons who have been adjudged as partners can be made liable under the decree. The procedure also enables the judgment-creditor to proceed against a person who has been left out and has not been impleaded as a partner by having an adjudication of the Court that the person concerned was in fact a partner."

The judgment in the case of Dena Bank v. Bhikhabhai Prabhudas Parekh & Co. and Ors.,

[2001]247ITR165 (SC) can be beneficially referred to in the present context. The question arose for consideration by the Supreme Court in this case, inter alia, was whether the property belonging to the partners can be proceeded against for recovery of dues on account of Sales tax assessed against the partnership firm under the provisions of the Karnataka Sales Tax Act, 1957. In paragraph 18, it was observed as under:

"The High Court has relied on Section 25 of the Partnership Act, 1932 for the purpose of holding the partners as individuals liable to meet the tax liability of the firm. Section 25 provides that every partner is liable, jointly with all the other partners and also severally for all acts of the firm done while he is a partner. A firm is not a legal entity. It is only a collective or compendious name for all the partners. In other words, a firm does not have any existence away from its partners. A decree in favour of or against a firm in the name of the firm has the same effect as a decree in favour of or against the partners. While the firm is incurring a liability it can be assumed that all the partners were incurring that liability and so the partners remain liable jointly and severally for all the acts of the firm."

In the case of Maharani Mandalsa Devi and Ors. v. M. Ramnaram Private Ltd.and Ors., [1965]3SCR421 , while considering the scope of Order 21 Rule 50, the Supreme Court observed as under :

"A suit by or in the name of a firm is really a suit by or in the name of its partners. The decree passed in the suit, though in form against the firm, is in effect a decree against all the partners. Beyond doubt, in a normal case where all the partners of a firm are capable of being sued and of being adjudged judgment-debtors, a suit may be filed and a decree may be obtained against a firm under Order XXX of the Code of Civil Procedure, and such a decree may be executed against the property of the partnership and against all the partners by following the procedure of Order 21 Rule 50 of the Code of Civil Procedure" .

From the decisions as discussed above, it can be safely concluded that a decree obtained against the firm and partners can be executed against the property of the partnership and against all the partners by following the procedure prescribed in Order 21 Rule 50 of the Code of Civil Procedure notwithstanding Section 49 of the Act.

Therefore, Section 49 is in contradiction and repugnant to the principles enunciated by the courts as to the concept of Partnership firm as defined in Indian Partnership Act, 1932.

The Parliament has recently enacted Limited Liability Partnership(LLP) Act, 2008 where under it is clearly provided that LLP shall be a body corporate and a legal entity separate from its partners and the benefits of limited liability have been allowed to the Partners under Sections 27(3), 27(4) and 28(1) of the Act.

Whereas, it is not clear as to the object sought to be achieved by continuing Section 49 to be on the statute book when the position of law is well settled that a Partnership firm has no distinct and separate legal status from its partners. It has only created unnecessary confusion as to the personal liability of a Partner.

It is noteworthy that the Parliament has already amended Income Tax Act and introduced Section 188-A with effect from April 1, 1989 to make it explicit what is already implicit and removed the ambiguity as to the liability of the Partner to pay tax on the income of the firm in line with the decisions of the courts. Section 188-A of Income Tax Act, 1961 reads as under

Joint and several liability of partners for tax payable by firm.:

"188A. Every person who was, during the previous year, a partner of a firm, and the legal representative of any such person who is deceased, shall be jointly and severally liable along with the firm for the amount of tax, penalty or other sum payable by the firm for the assessment year to which such previous year is relevant, and all the provisions of this Act, so far as may be, shall apply to the assessment of such tax or imposition or levy of such penalty or other sum."

Therefore, there is a strong case for deletion of Section 49 from the Indian Partnership Act, 1932 to remove the ambiguity, especially, now, a Partner can limit his liability under Limited Liability Partnership Act, 2008. MA

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President and Vice President meeting Ms. Ebyan Mahamed Salah, Hon'ble Ambassador of Federal Republic of Somalia to India

Aftermarket audit to gain COMPETITIVE LEADERSHIP

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Aftermarket is an important source of revenue for many companies. Aftermarket involves any product, service or support provided over the complete life cycle of end customer vehicle, after the original purchase has been made (Bundschuh&Dezvane 2003). After-market revenues come from repair and maintenance of parts and service. Aftermarket revenue contribution to OEMs varies between 30-50% and is also highly profitable, as the gross margins vary between 35-50%. Effective aftermarket offers other advantages including customer loyalty, de-risk of business from economic downturns and higher margin business.

However, aftermarket brings its own challenges. Proliferation of multiple brands, lack of parts rationalization, poor parts and inventory management practices would need top management support and investment. OEMs are not only exposed to revenue leakages, but also ineffective customer and dealer experiences. According to a study by Genpact, revenue leakage can cost a typical US$1 billion service provider as much as US$80-100 million in missed revenues and US$10-15 million in lost profits. Revenue leakage occurs at any step in an organization's 'revenue value chain' which includes pricing, proposal, negotiation, contract management, order management, billing, accounts receivable and collections. OEMs often lose out on revenue due to ineffective deployment of resources, both products and people.

Aftermarket Audit: a comprehensive internal audit

There is a need for OEM's to conduct a comprehensive audit of all aftermarket operations including its dealers, warehouse, warranty, people and service. . In each of these steps, contract terms and conditions must be accurately captured and documented. Then the enterprise must act upon this information in a correct and timely manner. Traditional recovery audits are not the complete answer, as they miss the root causes - i.e. process inefficiencies. An effective aftermarket audit must not only capture the process, but customer experience, supply chain management, sales and service operations. Aftermarket audit is an internal audit, but can draw from some of the section of statutory audit reports.

For a comprehensive aftermarket audit, we propose auditing of four arrays of service: service product, service resources, service organization, and service operations (Armistead & Clark 1991, Cohen et al., 2006). This framework is based on Institute of Cost and Works Accountants of India (ICWAI) 2009 guidelines for an internal audit. An aftermarket audit is an appraisal of company's aftermarket operations, evaluation and monitoring of risk management, reporting and control practices. As an internal audit, aftermarket audit provides inputs on: control environment, risk assessment, control actions, information and communication and monitoring of complete gamut of aftermarket activities. We therefore recommend an aftermarket audit to capture:

- ✔ Service product encompasses identification of what strategic parts does the organization want to support, what are the service policies, aftermarket parts sales, committed free offerings, warranty cover, and the complete service plan.

- ✔ Service resources would entail the of field and off-field service resources, technicians, mobile service vans, mobile tools and fixtures, and their work plans. Work plan administration also includes workshop service, planned services, service training and certification, Bay management, etc.

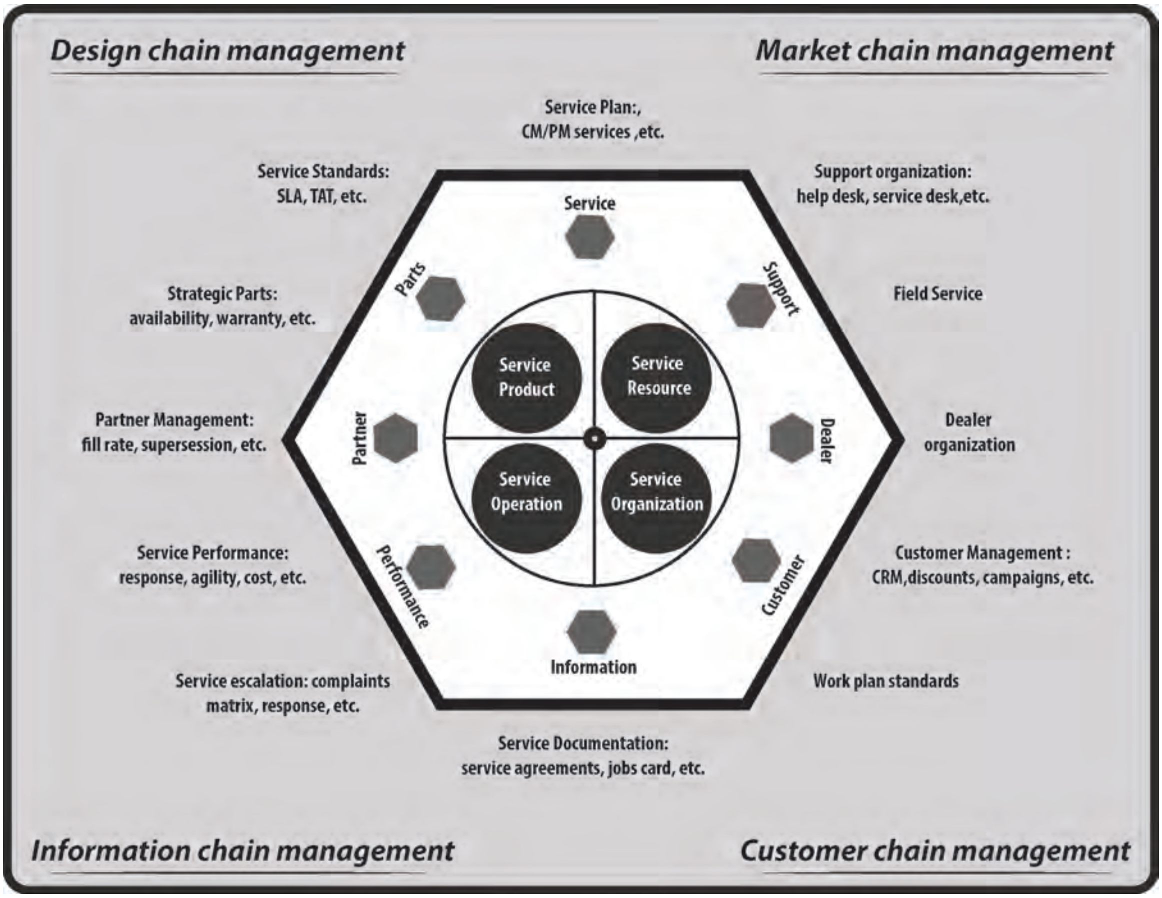
- ✔ Service organization refers to the dealer and OEM support network including help desk, service desk, parts desk, etc. Service organization would also define the service standards, customer complaint management, campaign management, and CRM.

- ✔ Service operations include the service documentation, partner management for fill rate, and availability, service protocols and service performance.

Figure 1 presents the scope and details of an aftermarket audit. This can be used at either an OEM level or OEM and its constituents (Dealers, partners).

Aftermarket audit must capture

- ✔ Lack of SOP adherence
- ✔ Operational problems
- ✔ Mismanagement
- ✔ Irregularities
- ✔ Lack of controls



Scope of Aftermarket Audit

As shown in the Figure 1, Aftermarket Audit must cover following areas:

- ✔ Parts administration broadly covers strategic parts planning, inventory management, in/out goods, parts pricing, discounts, parts claim management from customer and to the suppliers, etc. A lack of control of parts in transit can be used by any associate at the expense of the dealer. Parts that remain in transit indefinitely, or parts lost on the way are clear indication of a failure in the process or an operational mistake. Inventory control also becomes critical to reducing revenue leakages. Both lack of inventory and excess of it could cause significant losses.
- ✔ Service administration covers service planning, free and paid service plan, service requests and service campaigns management, etc. Lets just look at open repair orders. A repair order could remain open due to justifiable reasons or otherwise. An ineffective system could also lead to repair orders remaining open unintentionally. A major revenue loss is unmade service calls to existing customers or low coverage of campaigns. Customers may obtain their services from 3rd party providers causing a revenue loss and rendering the campaign ineffective. Goodwill is an area where adjustments are made beyond a certain period and sometimes for frivolous or unacceptable reasons. Extending goodwill is a management decision and hence must have the required protocols to support it. Add-on service is a huge area of leakage and customer dissatisfaction which happens when repair problems detected do not match with customer complaints. This happens when job card information is poor or service team coordination between shifts is not good. Comeback repairs, where problems reoccur or new ones prop up also are clear indicators of service administration.

- ✔ Support administration encompasses onsite and offsite field study, customized repair programs, workshop management, customer and partner help-desks, parts help desk to support dealers, etc. An example of revenue leakage is a field engineer who is out in the field fixing a product. While on-site, a problem with another product is uncovered. To maintain a high level of customer satisfaction, the field engineer fixes the product, but they cannot access the customer's contract and cannot know if the work is covered under the warranty. If it's not and the customer refuses to pay for the service, revenue is lost, customer satisfaction is impacted, and everyone loses.
- ✔ Dealer administration involves the complete sales, service and support process at dealer, pricing, dealer SOPs, dealer discounts, etc. Dealer's adoption of SOP on test drives, pick &drop , showroom experience or merchandize may not be consistent. Often dealers may not use factory fluids (engine oil, transmissions or coolants) or carry out extensions that may invalidate repair or void warranty. Leakages can happen when chargebacks are not raised. Scrap administration is another pain area if they do not stay in the parts department until parts claim payments are made. Sometime, small oversight opens a potential avenue for leakages and cause of major heartburn between OEMs and dealers. Lack of stamping on the repair order or lack of details of parts numbers or lack of initials of the receiver on repair order can all become potential irritants.
- ✔ Customer administration covers customer relationship process, pre-purchase and post purchase, campaigns, community programs, customer discounts, etc. Many organizations still develop sales contracts manually using 'cut and paste' processes. Pertinent clauses can be inadvertently left out, pricing can be wrong or outdated, terms and conditions can't be tracked, and clauses can't be well maintained for reuse in future contracts. The sales contract itself is often built from a series of other sales documents such as the customer proposal or statement of work, previous contracts, pricing catalogs, etc., all of which can impact potential revenue and create opportunities for error. Moreover, negotiations with customers can often lead to non-standard outcomes. Customers often produce custom pricing, unique payment terms, and one-off performance obligations resulting in non-standard terms and conditions. These non-standard terms are difficult for organizations to capture and report on across the enterprise. Complicated contracts always increase the likelihood of errors.
- ✔ Information administration covers the complete capture, storage, retrieval and use of aftermarket documentation right from service agreements, technical publications, service bulletins, etc. The root cause of warranty leakages is a lack of visibility into warranty coverage and costs. Complexity also adds to the management of warranty. Many companies lack comprehensive, easily accessible data about contracts, warranties, and entitlements. Many times the data is there; it's just difficult to access. If, for example, the contact center is not connected to all the contract and entitlement data, center staff may send out field technicians for support that is not actually covered under the contract. With the proper contract information readily available, service staff can recognize out-of-contract circumstances and sell the client the needed services. There is also a need for warranty and contract automation. Every service transaction can be delivered properly. This will ensure that the business doesn't under deliver or over deliver for what the customer wants and has paid for.
- ✔ Performance administration covers measurement of the dynamism of aftermarket services, the agility, speed of response, reliability of process, standardization, etc. The good old adage "What gets measured gets done", aptly sums up the role of performance measures. From a management perspective performance measurement systems are required for control and reporting. Traditionally, most performance measures are financial measures. However, accounting professionals have recognized the value of integrating financial and non-financial measures using Balanced Score Card (BSC) or Results Based Management (RBM) to provide a robust integrative view of the company. Companies without service or utilization measures may not be cost competitive. It is imperative to have measures like % of appointments completed on time, repeat calls to measure field service performance. Service contract uptime (% of uptime for an installed product covered by a contract), First time fix rate, Utilization, Mean time to repair, Mean time to complete, and Repeat visit are some key measures to evaluate the status of aftermarket in a company. It is importantly not only to capture measurement

of each outcome, but also to evaluate whether measures link individuals, departments and the organization as a whole. Audit also whether the measures are based on desired strategy and linked to long-term vision of growing aftermarket revenues.

- ✔ Partner administration covers the parts, service and support partner policies, SLAs, etc. Overpayments to suppliers due to pricing errors, rebates, and duplicate payments are a significant issue. They can create leakage of up to 1 percent of revenue, reduce cash flow by up to 5 percent, and inflate working capital requirements by up to 6 percent.

Being an internal audit, a comprehensive aftermarket audit can be conducted every 3 years or whenever major warranty and parts policy changes are announced. Consistent with the guide notes on Internal audit 2009 by ICWAI, aftermarket audit planning, complementing system auditing with pre-audit of various functions and reporting formats for management review can be customized for each company.

Conclusion

Aftermarket services and support do influence customer relationships to a significant level. Effective Customer care, parts management and service can enhance the effectiveness of aftermarket operations. Dealers and their management of moments of truth are crucial to reinforce the brand experience and service quality. An aftermarket audit can not only reveal the cost and service dimensions of current operations, it can help them to align the employees at all levels to be aware of their organizational goals and have the attitudes towards the services. An aftermarket audit can help a company:

- ✔ Efficiently manage their cost structure
- ✔ Develop systems and process that ensure consistent response and quality of delivery
- ✔ Streamline operations to reduce waste
- ✔ build cost effective business continuity mechanisms

The starting point for each OEM seeking to enhance an affective aftermarket strategy is different. But the challenges are common: increasing competition, quarter by quarter drop in new sales, new technology developments and legislative changes. A comprehensive aftermarket audit is a must to assess current state; uncover challenges, and an active evaluation of where their aftermarket future lies. MA

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Dr. V.S Chauhan, Chairman UGC, being felicitated by CMA Manas Kumar Thakur, President of the Institute on April 21, 2017

Reflection of Firm's Performance through Return on Equity *A study on Sensex Companies in India*

There are various Management Accounting indicators used by the firms to measure their performance. The important management accounting indicators are ROE, ROA, ROI, ROS, Cash Conversion cycle, Profit margin, Operating Cycle, Operating Profit, EPS, Return on Capital employed. This study uses the most common appropriate accounting-based measure i.e. ROE for assessing the efficacy of the performance of Sensex companies in terms of profitability

Frms Performances states the subjective overview of how well a firm uses its assets that support for revenue generation. In this paper, 30 component companies which are some of the largest and most actively traded stocks in BSE are taken. These 30 companies are representative of various Industrial sectors of the Indian economy. Accounting profitability of the companies can be measured with four indicators such as ROE, ROA, ROS and ROI. Out of these four most extensively used accounting measures we have taken ROE is an appropriate measure to reflect the firm's performance.

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Objective of Study

To assess the performance of 30 Sensex companies by using ROE measures

To study the smoothness in the forecasted value of ROE by comparing with actual ROE

Literature Review on Roe

Acheampong (2000) the ROE has a great influence on the company and country performances.

Herciu, Ogrean and Belascu (2011), Investors are least concern for any other profits they prefer to check on ROS, ROS and ROE, to know the cause and effect relationship i.e. cause may be sale, assets or Equity and effect is profit.

(Berman, Knight and Case, 2013) ROE says about the company's profitability that earned from shareholder's investment, but it depends on the company to distribute or reinvest Aimen Ghaffar (2014) ROE has a positive effect on the profitability and organisational performance

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Kritika & Vikas Choudhary (2015) As regard the impact of board size on firm performance the results suggest that for ROE (statistically significant)

It can be concluded that ROE can be considered as one of the measures to evaluate companies or firms performances. It should not be kept isolated.

'Sensex' listing Criteria: The Basic guidelines

Sensex states about the S & P BSE Sensex, which is the standard index of BSE (Bombay Stock Exchange). It considers the 30 top active companies in respect to their performance as well as in their respective sectors that are traded on BSE. It is the oldest stock index in India since 1986 which track the growth of the company, sectoral development and booms, and bust.

Listing Criteria in Sensex

FACTORS	LISTING NORMS
Net Tangible assets	• The organisation must hold Rs 3 crores of net tangible assets from last audited report
Net-Worth	• Minimum Rs 3 crores of Net-Worth (excluding revaluation reserves) from last audited report.
Track record	• As per sec. 205 of Companies Act, 1956 the company must produce its distributable profits for minimum two years. If the company makes any extraordinary profits then the net worth will go up to Rs 5 crores
Post-issue paid up capital	• Minimum Rs 3 Crores and Maximum Rs 25 crores will be the company's post-issue paid up capital. • The company is bound to make provision for trading in Demat securities and make an agreement with both the depositors.
Lot Size	• Less than Rs 1,00,000 shall not be the minimum application and trading lot size
Underwriting of the issue	• Underwriting issue shall be 100% • 15% shall be underwritten by Merchant Bankers in their own account.
Certification from Practicing Company Secretary	**Certificate from the applicant company/ promoting company (ies) stating the following:** • The company must not be coming under BIFR (Board for Industrial and Financial Reconstruction) • No petition is filed against the court which is accepted by court.
Market Making	• Minimum 3 years of Market making
	<u>OTHER REQUIREMENTS</u> • Companies official website is must • To make the company listed on BSE all the promoters must attain interview with Listing Advisory Committee • As per the circular issued by BSE on dated 26-11-2012, the company should file a compliance certificate by a Practicing Company Secretary under the guidance of the Institute of Company Secretaries of India.

Research Methodology

The data source is secondary. The sample period spans 10 years, from 2006-07 to 2015-16 there are 30 companies in the sample taken as per purposive sampling technique. The estimation of the adopted accounting measure is based on the annual balance sheets and income statement of this Sensex companies. The information is used in this study are from BSE database.

ROE is usually calculated by dividing Net Profit after Tax by average Share Holder equity. It represents the percentage of profit that the company makes for every monetary unit of equity invested in a company.

The following table highlights the ROE of 30 Sensex companies for the period 2007-2016

Table 1:

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Adani Port	27.88	11.2	15.6	21.35	24.7	25.4	28.82	24.71	21.77	23.47
Asian Paints	39.9	46.55	37.4	53.51	43.05	39.96	35.8	32.87	31.53	33.52
Axis Bank	19.31	17.45	19.14	18.93	19.18	20.29	18.75	17.63	17.87	16.97
Bajaj Auto	0	49.65	38.04	73.78	73.66	55.27	43.5	37.53	29.79	29.27
Bharti Airtel	42.84	38.29	30.2	26.27	13	8.6	4.49	5.42	8.27	5.51
CIPLA	19.88	18.66	23.06	20.63	15.44	15.68	17.55	13.74	10.58	12.23
Coal India Ltd.	36.89	28.12	11.04	40.29	35.84	40.24	39.19	33.3	33.15	38.45
Gail	23.03	22	19.75	20.04	20.55	19.34	16.28	14.87	9.26	6.38
Dr. Reddy	31.33	9.29	3.54	18.32	25.2	29.61	26.92	27	25.19	22.24
HDFC	19.38	17.69	17.18	16.71	17.02	18.9	20.64	21.69	19.94	18.65
Hero Motor Corp.	34.74	32.21	35.43	57.74	57.55	60.53	41.37	36	37.44	41.42
HDFC ltd.	26.1	24.68	12.98	15.91	18.95	19.92	19.53	18.7	16.84	16.64
HUL	62.47	81.97	134.89	86.91	77.6	82.07	99.28	112.45	97.05	98.72
ICICI Bank Ltd.	11.46	9.07	7.39	9.88	11.85	13.62	15.58	16.09	16.07	12.42
Infosys	41.97	37.13	39.29	29.98	27.76	28.95	26.68	25.45	25.89	24.86
ITC	27.87	27.51	25.29	28.97	32.57	34.84	35.19	35.51	32.78	29.71
L & T	32.32	25.44	23.75	22.46	18.11	18.06	15.5	12.99	11.05	11.07
Lupin Ltd.	29.34	39.71	38.62	34.65	29.37	24.54	28.93	29.7	30.27	22.35
Mahindra and Mahindra	36.75	29.73	21.59	26.81	23.76	20.08	20.84	21.25	11.89	11.91
Maruti Suzuki	24.93	21.84	13.35	23.47	17.64	10.93	13.27	13.53	14.88	17.87
NTPC	14.56	14.72	14.71	14.71	14.3	13.77	14.78	13.51	11.79	12.01
ONGC	27.99	27.55	24.16	19.28	20.66	21.24	16.89	16.2	10.38	10.08
Power Gridco	11.76	11.62	11.95	13.23	14.13	14.44	16.98	14.8	13.64	14.87

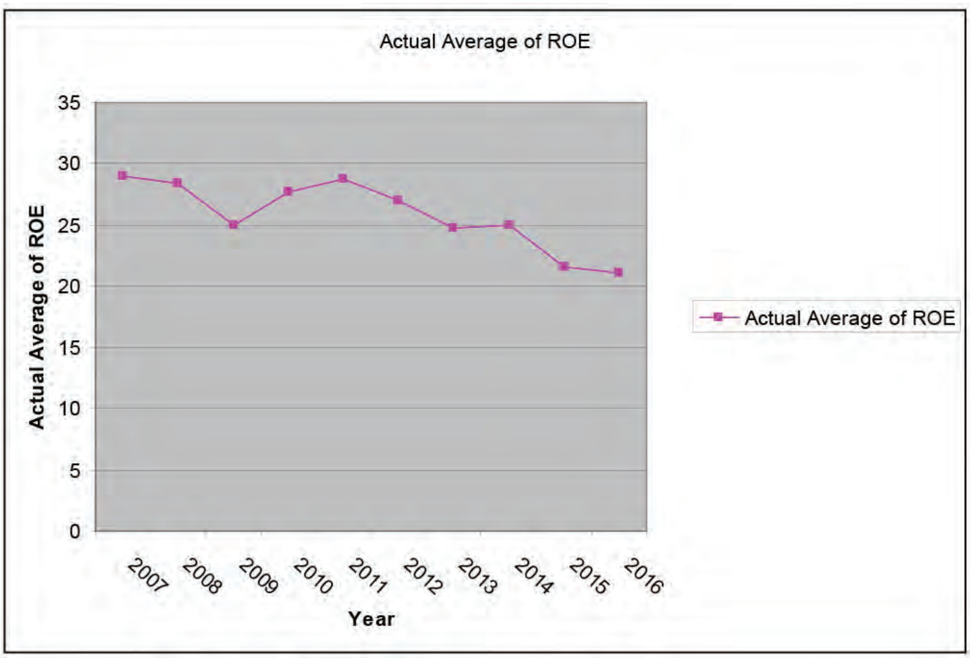
RIL	*20.49*	*24.24*	*14.66*	*18.16*	*12.85*	*11.61*	*11.2*	*11.03*	*10.82*	*11.25*
SBI	*16.6*	*17.76*	*16.72*	*15.45*	*13.42*	*16.69*	*15.85*	*10.64*	*11.35*	*7.48*
Sun Pharma	*33.51*	*38.06*	*29.9*	*17.84*	*20.35*	*23.36*	*24.76*	*28.86*	*21.07*	*18.13*
TATA Motors	*30.29*	*23.88*	*-28.4*	*26.19*	*66.08*	*53.01*	*29.86*	*25.77*	*23.07*	*21.82*
TATA Steel	*33.71*	*31.25*	*24.52*	*-11.04*	*27.54*	*6.71*	*-19.11*	*8.72*	*-15.63*	*-17.88*
TCS	*55.59*	*44.1*	*41.16*	*41.13*	*42.33*	*39.53*	*40.61*	*43.32*	*36.92*	*40.41*
Wipro	*35.99*	*30.6*	*32.09*	*29.16*	*25.78*	*21.66*	*21.66*	*25.67*	*23.5*	*20.77*
TOTAL	***868.8***	***852***	***749***	***831***	***860***	***809***	***741.6***	***749***	***648.4***	***632.6***
Average of 30 Companies	***28.96***	***28.4***	***24.97***	***27.7***	***28.7***	***27***	***24.72***	***24.97***	***21.61***	***21.09***

Source BSE database

From the above data, the average ROE of 30 companies has been computed.

The average ROE for the year 2006- 07 is found 28.96% which is highest during the period under study. However, the average Returns on Equity for the year 2015-16 were found lowest i.e. 21.09%. The movement of average Return on Equity during the period 2006-07 to 2015-16, is shown in the following graph

Graph-1:



From the above graph, it is found that the behavior of average ROE of 30 Sensex companies during the period from 2006-07 to 2015-16 was in bearish trend. This result has negative repercussion on Indian Capital Market under global view.

Actual and expected average ROE: A diagnostic comparison

To make the study more meaningful, a comparison between actual average ROE and expected average ROE has been made. For forecasting the expected average ROE, Exponential Smoothing Model is used.

GST

Exponential Smoothing Model: A conceptual framework and application

It is a technique or method of forecasting data without following any trend or seasonality. We consider the recent data to forecast rather than old data like in any other forecasting tools.

Traditionally, we denote the observed value as y and smoothed average as S.

Then,

S_1 undefined

$S_2 = y_1$

$S_3 = \alpha y_2 + (1 - \alpha) S_2$

and, generalized

$S_t = \alpha y_{t-1} + (1 - \alpha) S_{t-1}$

Where, α, the smoothing constant, takes the value from the range [0;1)

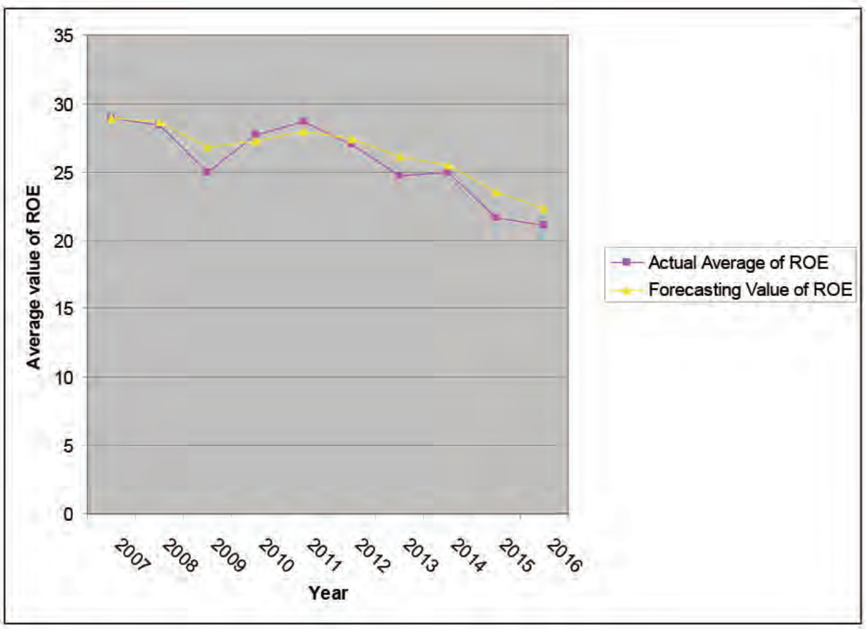
In this exponential smoothing model the α is taken as 0.5. The forecasted values of average ROE for the 10years have been computed and presented in the following table:

Table-2: Forecasted Value of Average ROE by Exponential Smoothing Model

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actual Average Of ROE	*28.96*	*28.4*	*24.97*	*27.7*	*28.7*	*27*	*24.72*	*24.97*	*21.61*	*21.09*
Forecasting Value Of ROE	28.96	28.68	26.82	27.25	27.96	27.46	26.09	25.53	23.57	22.33

From the above table, it can be interpreted that the Actual average of ROE and Forecasted value of ROE are both declining and followed the bearish trend. In the recent past, i.e. for the year 2015-16 the forecasted average value of ROE is found 22.33% which is higher than the actual average value of ROE i.e. 21.09%.

Graph-2:



Above Graph Showing the comparison lines between the Actual average of ROE and Forecasted value of ROE.

Results

The results of present studies show that the average ROE of 30 Sensex companies follows the bearish trend. As Sensex, being the India's capital market indicator, is directly reflected by the financial performance of the largest and most actively traded stocks, is not growing in comparison with the global capital market.

Conclusions

The responsibility of management of any company, the obligation of BSE and NSE for creating infrastructure facility to make the capital market most efficient and finally the duty of the regulators and policy makers (SEBI, RBI and MCA) of our country to simplify the regulatory framework so that it would have a positive synergy effect on the performance of all the listing companies with an objective to put our Sensex or NIFTY as benchmarked index in the global capital market. MA

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At the helm

Our heartiest congratulations to CMA Narender Kumar Bhola, a fellow member of the Institute, for his appointment as Director General, Corporate Affairs with effect from 1 April 2017. Prior to this he was Regional Director (Northern Region).

We wish CMA Narender Kumar Bhola the very best for all his future endeavours.

GST

Electronic-Way Bill
Major Hurdle in Ease of Doing Business

Draft rules were put on the public domain. Undoubtedly concept is very good but the way it has been drafted, it will defeat the purpose of "Ease of Doing Business". The salient features of draft are given below:

E-way bill to be generated for any movement of goods, whether by own transport or any modes of transport irrespective of tax invoice against taxable supplies or Bill of supply for exempted goods / non-taxable goods or delivery challan without invoice for movement of goods from one location to another location within the state of the same entity or delivery challan for job work. It should be generated in Part A and endorsed in Part B by the transporter / recipient of supplier as a consignee. Of course, it is for the movement of goods valued more than Rs 50,000/-. However, valuation will always require to be determined before movement of the goods.

When to be generated

- Movement of goods by registered person (including inward supply from unregistered person) having value exceeding Rs.50,000/- to be updated electronically in Part A of FORM GST INS-01 on common portal and generation of e-way bill before movement of goods.
- Details furnished in Part A of FORM GST INS-01 will be available for furnishing details in GSTR-1
- E-way bill can be generated and carried even if value of the consignment is less than Rs.50,000/- (optional)
- New E-way bill needs to be generated if goods are transferred from one conveyance to another in the course of transit by the transporter
- Consolidated e-way bill in FORM GST INS-02 to be generated by the Transporter when multiple consignments are intended to be transported in one conveyance
- SMS facility will be available for generation and cancellation of e-way bill
- Recipient of goods to confirm his acceptance / rejection on common portal within 72 hours, failing which it will be assumed to be accepted
- Cancellation of e-way bill is possible within 24 hours of generation, except when been verified in transit

Manner of issue of E-way Bill

- E-way will be generated in FORM GST INS-1 with a unique e-way bill number (EBN) as under:

CMA A. B. Nawal
Chairman
Taxation Committee
Institute of Cost Accountants of India

Particulars	Information to be furnished in	E-way bill to be generated by
Goods are transported by registered person as a consignor (whether in his own conveyance or a hired one)	Part B of FORM GST INS-01	Registered person as a consignor
Goods are handed over to a transporter	Part B of FORM GST INS-01	Transporter
Movement is caused by an unregistered to a registered recipient who is known at the time of commencement of movement of goods (in his own conveyance or a hired one or through a transporter)		Recipient of supply as the consign-ee
Movement is caused by an unregistered person – other case(in his own conveyance or a hired one or through a trans-porter)		Unregis-tered person or Trans-porter

Validity of E-way Bill

Validity shall be as under from the date of generation, subject to extension allowed by the Commissioner:

Sr. no.	Distance	Validity period (days)
(1)	(2)	(3)
1.	Less than 100 km	1
2.	100 km or more but less than 300km	3
3.	300 km or more but less than 500km	5
4.	500 km or more but less than 1000km	10
5.	1000 km or more	15

Movement of Goods:

- Documents to be carried by the person-in-charge of conveyance:
  - ✔ invoice or bill of supply or delivery challan
  - ✔ copy of the e-way bill or the e-way bill number - physically or mapped to a Radio Frequency Identification Device (RFID) embedded on to the conveyance
- Commissioner to specify situations in which the person-in-charge of conveyance will carry the following documents instead of the e-way bill:
  - ✔ tax invoice or bill of supply or bill of entry; or
  - ✔ a delivery challan, where the goods are transported other than by way of supply
- Invoice Reference Number to be generated from the common portal against tax invoice uploaded in FORM GST INV-1 which will be valid for a period of 30 days
- Information in FORM GST INS-01 shall be auto populated based on FORM GST INV-1
- Transporters, as specified, to obtain a unique RFID and get the said device embedded on to the conveyance and map the e-way bill to the RFID prior to the movement of goods
- RFID readers will be installed at places where verification of movement of goods is required to be carried out
- Officers may be authorised by Commissioner to stop the conveyance to verify the e-way bill / number for inter-state / intra-state movements
- If a vehicle is stopped / detained for a period exceeding 30 minutes, the transporter will upload the information in FORM GST INS-04.
- Physical verification of conveyances in case where information is received for evasion of tax and too once during transit unless specific information is received which warrants another verification
- Details of inspection and verification to be furnished online in Part A of FORM GST INS – 03 within 24 hours of inspection and final report in Part B of FORM GST INS – 03 to be recorded within 3 days of inspection

Issues:

- Whether all the transporters in the organized sectors and unorganized sectors will be equipped not only for generation / endorsement or consolidation for following the procedure mentioned above?
- Whether Inspector Raj through intercepting vehicles will come back? Why it is necessary for intra-state supplies?
- Why simple system is not suggested rather than so complex system?
- Trade & Industry will suffer heavily and hence such type of way bill should only be enforced for inter-state supplies. MA

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Eastern India Regional Council

EIRC jointly with the HQ organized a a seminar on 'Insolvency & Bankruptcy Code 2016 – Practical Aspects for

Bankers', at J.N. Bose Auditorium , CMA Bhawan, on April 21, 2017. The Seminar consisted of Inaugural Session followed by Technical Sessions and a Question-answer session. The important dignitaries of the Inaugural Session were Dr. M.S. Sahoo, Chairperson – Insolvency & Bankruptcy Board of India was the Chief Guest. Shri V.P. Singh, Member - Judicial, NCLT

– Kolkata, Shri Sanjeev Pandey, Deputy General Manager, Insolvency & Bankruptcy Board of India, Smt. Rekha Warriar, Regional Director of Eastern Region RBI, CMA J.K. Budhiraja, CEO – Insolvency Professional Agency ICAI & Senior Director (Technical) ICAI, CMA Kaushik Banerjee - Secretary ICAI & CMA Bibekananda Mukhopadyay - Chairman-EIRC-ICAI.

Amongst the other distinguished guests present in this programme were Smt. Dimple Bhandia, General Manager, RBI, CMA Kunal Banerjee, Past President of ICAI & Insolvency Professional of IPA ICAI, CMA S.S. Sonthalia Past Chairman-EIRC & Insolvency Professional of IPA ICAI, CMA Sanjay Lahiri, CMA & CMA Tapas Mallik the other two Insolvency Professionals of IPA ICAI & CMA Pranab Chakraborty, Vice Chairman-EIRC, CMA Shymal Kr. Bhattacharya, RCM-EIRC, CMA Arundhati Basu, RCM-EIRC apart from other valued guests & invitees from various banks .

A book on "INSOLVENCY & BANKRUPTCY CODE 2016-Practical Aspects For Bankers" published by The Institute of Cost Accountants of India , officially got released by the Dignitaries in the Inaugrual Session. The programme began with the welcome speech of CMA Bibekananda Mukhopadhyay, Chairman, EIRC of The Institute. He welcomed all guests and dignitaries and mentioned that the programme on IBC2016 organised for the Bankers was the first of its kind to take place in Kolkata. The Welcome

Speech was followed by the lighting of the lamp by all the dignitaries. Dr. M.S. Sahoo, Chairperson IBBI discussed about the various aspects of the Insolvency & Bankruptcy Code 2016. Shri Sanjeev Pandey, Deputy General Manager IBBI discussed about the its major areas & how it can help the Bankers to save an account turning into NPA. Smt. Rekha Warriar, Regional Director of Eastern Region RBI highlighted the major risks & issues faced by the Bankers at the time of loan disbursement. Shri V.P. Singh, Member - Judicial, NCLT – Kolkata explained elaborately on the subject. CMA Kaushik Banerjee Secretary ICAI mentioned some of the important points of IBC2016. CMA J.K. Budhiraja, CEO–Insolvency Professional Agency, ICAI gave an explicit presentation on the subject.

There was an interactive discussion , where the dignitaries Dr. M.S. Sahoo, Chairperson – Insolvency & Bankruptcy Board of India, Shri V.P. Singh, Member - Judicial, NCLT – Kolkata,

Shri Sanjeev Pandey, Deputy General Manager, Insolvency & Bankruptcy Board of India, Smt. Rekha Warriar, Regional Director of Eastern Region RBI, CMA J.K. Budhiraja, CEO – Insolvency Professional Agency ICAI & Senior Director (Technical) ICAI and the Insolvency Professionals suitably replied to all the queries of the bankers who attended the Seminar.

The Vote of thanks was proposed by CMA Arundhati Basu, Chairperson of the Professional Development & Continuing Education Programme Committee, EIRC of the Institute. She concluded by thanking everyone for making the Programme a grand success.

Northern India Regional Council

The Institute of Cost Accountants of India-Lucknow Chapter

The Chapter organized a seminar on 'CMA Abhyuday 2017 - Reinforcing India with CMAs' on March 19, 2017. Shri S.P. Singh, Vice Chancellor of Lucknow University, the chief guest, told about the need of professionals in current scenario and especially in education sector. Shri M.S. Sahoo, Chairman, Insolvency & Bankruptcy Board of India, the guest of honour briefed on the Code. Special Guest, Shri Sudhanshu Dwivedi, Director Finance , UPPCL discussed the need of professionals

in power sector. Vice President of the Institute, CMA Sanjay Gupta, Council Member, CMA Dr. I. Ashok, Chairman NIRC, CMA Ravi Sahni, Vice Chairman NIRC, CMA Sunil Singh, Treasurer, CMA Rajendra Bhati, Dr. Dinesh Tayagi, CEO, CSC E Governance, Smt R.H. Singh, DDG of UIDAI, Shri Rajiv Kumar, CEO-HAL, Shri A.K. Pritam, Regional Commissioner of P.F, Shri B. Madhav Reddy, CEO Karvy, Shri V Valte, Commissioner,

Central Excise, Lucknow, Shri Pugal T Associate, Vice President, Tally etc were among other eminent dignitaries present in the seminar.

The Institute of Cost Accountants of India-Jaipur Chapter

The Chapter on March 11, 2017 organized a workshop on GST at its premises. Chairman of the chapter, CMA P.R. Jat and CMA Pushpendra Singh Shekhawat were the speakers and explained various aspects of GST. On March 31, 2017 the Chapter organized a seminar on 'GST – Overview' at its

premises. Key Speaker CA Jatin Harjai, leading practitioner explained in detail about various practical aspects of GST. He informed that it is most likely to be implemented by 1st July,

2017 and in any case latest by 15th September, 2017.

Southern India Regional Council

The Institute of Cost Accountants of India-Bangalore Chapter

On February 18, 2017 the Chapter inaugurated 101st batch of oral coaching classes leading to June 2017 Examinations. Hon'ble Dr. Justice M. Rama Jois, Former Chief Justice, Haryana and Punjab, Former Governor, Bihar & Jharkand , Former Member of Parliament was present in the ceremony.

A CMA Career Counselling Programme was conducted on

February 27, 2017 at APS College, N R Colony, Bangalore.

The Chapter organized a Professional Development Meet

on 'Cost Audit-Practical Approach &Way Forward' at The Indian Institute of world culture, Bangalore on February 23,

2017 and CMA Srinivasan, Director, Cost, Central Excise, CMA Zitendra Rao, CMA Suryanarayana, Member, SIRC, CMA N Ramaskanda were present at the Meet. Karnataka CMA Convention-2017 'Global Economy-Steering India forward'

was held on March 11, 2017 organised by the chapter as well as Mysore, Mangalore & Bhadravathi –shimoga Chapters at Indian Veterinary research Institute, Bangalore and Prof. Vivek Moorthy, CMA S L Prasad, Dr. Murali Krishna B V., JCCT, GOK, Sri Bharadwaj Raghuraman and Sri B B Prasad, S. N. Rangaprasad were present in the convention.

The Institute of Cost Accountants of India- Visakhapatnam Chapter

The Chapter organized a Professional Development Programme on 'GST-Industry Preparedness' on March 25,

2017 at its premises. The speaker CA Sudhir stressed on the key terms in GST like origin to destination based tax, taxability of free supply of services, casual dealer concept, place of

supply and online matching of tax credit.

The Institute of Cost Accountants of India-Coimbatore Chapter

The Chapter organized a Professional Development Program on GST Procedures & Issues on March 11, 2017 and CA Muralidharan. R, Practicing Chartered Accountant, Erode was the speaker of the programme. Another Professional Development Programme on GST-An Overview and Scope was held on March 18, 2017 and Sri Rajendran. K, Asst Commissioner of Central Excise, Coimbatore was the speaker of the programme. As per HQ circular, International Women's

Day was celebrated on March 8, 2017 and chief guest Dr. Shilpa Shah, Life Style Health Consultant, Coimbatore spoke on 'Natural Health for Women'. A career counselling programme was conducted at Sree Saraswathi Thyagaraja

College, Pollachi on March 8, 2017 by chairperson CMA Meena Ramji. The Chapter organised an industrial oriented

training for final students from March 4, 2017 onwards.

The Institute of Cost Accountants of India-Hyderabad Chapter

On March 3, 2017, the Chapter organized a programme on 'Value Addition by CMA' and CMA M. Gopalakrishnan, Past President of the Institute was the speaker of the programme. CMA M. Gopalakrishnan elaborately discussed about the importance of performance appraisal report and how it carries the essence of a cost audit report. On March 4, 2017 a training programme was held on 'Strategic Dimensions of

Cost Accounting' at Pendekanti Institute of Management, Ibrahimbagh, Gandipet, Hyderabad. CMA KVN Lavanya, Vice Chairperson, CMA D. Zitendra Rao, Member, SIRC and Smt. Sudha Murthy, Faculty were the speakers of the programme.

CMA Lavanya explained with adequate illustrations the various pricing strategies and in the cost-competitive era, how firms like Walmart, KLM Airlines, the TATAs, Apple etc still retained their cost competitiveness. CMA Zitendra Rao elaborated about the costing process, its impact on products and competition and how cost management may be used to stay ahead in the competitive world.

The chapter conducted workshops on GST

- Hindustan Aeronautics Limited (HAL) at Avionics Division, HAL Township, Balanagar
- National Mineral Development Corporation
- Bharat Dynamics Limited (BDL) , Kanchanbagh

On March 8, 2017 the chapter celebrated International Women's Day on 'Global Corporate Trends - Women Leadership' in association with ICSI-Hyderabad Chapter, Institute of Directors and Institute of Public Enterprise at IPE, Osmania University. The program witnessed CMA Manas Kumar Thakur, President, as chief guest and CS Sheela, CS Rasheeda, CMA Manjula and Smt. Vinulata as the speakers. The speakers highlighted as to why there is dearth of women in leadership roles despite more number of women joining the middle management roles. Various Investor Awareness

Programmes were conducted on different dates of March 2017 at different districts of Andhra Pradesh. On March 8, 2017 a Press Meet had been conducted and attended by CMA Manas Kumar Thakur, president of the Institute. The President detailed the need of CMAs to the society and how students will be benefitted by pursuing the course. On March 9, 2017, a programme on 'Women as Entrepreneurs and Directors' was held at Hotel Katriya, Raj Bhavan Road, Hyderabad and the Deputy Commissioner of Police, North Zone, Smt B. Sumathi,

the Chief Guest, Smt. K. Ramadevi, President of ALEAP and Smt Sujana Prabha, Vice-President of Vivekananda Seva Samithi of the Bharat Vikas Parishad, Hyderabad Chapter celebrated the day with the concerned theme. On March 18, 2017 a programme on 'Improving Productivity using Office Automation' was held at CMA Bhavan, Himayatnagar, Hyderabad and CMA TCA Srinivasa Prasad, Advisor (ERP), NMDC LTd., Former Executive Director, (F&A – ERP) SAIL was the speaker and he provided certain tips for faster working with MS Office applications and the Windows explorer. On March 24, 2017 an industrial visit had been organized for the students to T.S Dairy Development Cooperative Federation Ltd, Vijaya Dairy at Hyderabad to know the process of production, method of costing adapted, marketing structure, different types of products, etc. On March 30, 2017 a joint programme with ICAI and ICSI was held with the support of Ministry of Corporate Affairs on 'Corporate Social Responsibility' at ni-msme, Yousufguda, Hyderabad. Sri S.B. Gautham, Regional Director (Ser), MCA, CS S. Balachandra, Company Secretary in Practice, CA Ganesh Balakrishna and Sri N. Krishna Murthy, Registrar of Companies, AP & Telangana were the speakers and they highlighted that the professional Institutes shall prevail upon the corporate sector for compliance of CSR as per the provisions of the Companies Act. After the inaugural session, CS Sunku Balachandra explained the need for CSR for a country like India and how actively corporates have to take it up for nation building. On March 30, 2017 an interactive session on 'Ind AS era-issues in Cost Audit' was held and CMA D. Zitendra Rao, Practising Cost Accountant was the moderator of the session.

The Institute of Cost Accountants of India-Trivandrum Chapter

The Chapter on March 8, 2017 celebrated Women's Day at its premises. CMA Lakshmi V, Practicing Cost Accountant spoke about lots of opportunities for women in government and private sector. Women's subcommittee was formed with CMA Lakshmi V, as Chairman and CMA Smitha V S, CMA Rajitha R & CMA Aswathy Sunder as three members

and Smt Jaya R as convener to look after women's needs at the chapter. Chairman, CMA G.S Manoharan Nair & Women's Committee Chairman, CMA Lakshmi V and students

representative, Dr. Rajani R V planted saplings.

Western India Regional Council

The Region organized the valedictory session of 12 Days Pre Campus Orientation Programme of WIRC held at Mumbai on 25 March 2017. CMA Debasish Mitra, Chairman, Students, Member's and Chapter Co-ordination Committee, WIRC, CMA Kalpana Mukherjee, DGM-Finance, Sequent Scientific Ltd, Guest of Honour, CMA R. Jayashri, Asstt Vice President (F & A), Reliance Industries Ltd, Guest of Honour, Mr. P. Srinivasan, CFO, NOCIL, Chief Guest were among the eminent dignitaries present during the session. Regional Cost Convention 2017 of WIRC was conducted at Ahmedabad on 25th & 26th February 2017 jointly with Ahmedabad Chapter on the theme 'Paradigm

Shift In Doing Business'. The Convention was inaugurated by Chief Guest Hon Dr. Kiritbhai Solanki, Member of Parliament, Ahmedabad West, President of the Institute CMA Manas Kumar Thakur, Shri Ajay Das Mehrotra, IRS, Principal Commissioner of IT & Govt. Nominee in the Institute. CMA P V Bhattad, Immediate Past President & CCM, CMA Pradip Desai, Chairman, WIRC, CMA Kailash Gandhi, Vice Chairman WIRC and Convener of RCC, CMA Laxman D. Pawar, Hon. Secretary WIRC and CMA Vinod Savaliya, Chairman, Ahmedabad Chapter were on the dais. In the 1st Technical Session under the Chairmanship of CMA Amit Apte, CMA Hiranand Savlani & CMA Deodhar presented Industry points of view on GST-The Road Ahead and emphasized GST as radical change. In 2nd technical session, 'Doing Business Digitally', under the Chairmanship of CMA Harshad Deshpande, speakers Shri R K Saraf gave detail account of initiatives taken by Govt of India towards digital India project with its benefits & challenges. Dr. Kalpesh Parikh with his expertise on "Cloud Computing & Security" gave broad insight of "New Normal" & '(In) security & Risk mitigation emphasized security as prime for survival. In

3rd Session on 'Tax Techniques for Business Value Creations' under the chairmanship of CMA Debasish Mitra, speaker CMA Ashok B Nawal, council member emphasized that business value comes from vision, change Management, enhancement of stakeholders' value & use IPR etc. On 2nd day in the 4th technical session on 'Bankruptcy & Insolvency Code & NCLT & Role of Cost Accountants / Professionals' under the Chairmanship of CMA Manubhai Desai, CMA J K Buddhiraja gave a detailed presentation on Insolvency & Bankruptcy Code 2016. 5th Technical session on "Govt. Initiatives for Business & Doing business through innovations and Advanced Technologies" under the Chairmanship of CMA Neeraj Joshi, Shri Sunil Shah, MD, Motivation Engineers & Infrastructure Pvt. Ltd. dealt in detail the concept with his professional experience and emphasized CMAs to be innovative. Souvenir

was released at the hands of Shri Ajay Das Mehrotra, IRS, Principal Commissioner of IT & Govt. Nominee in the Institute on the occasion. The session was concluded by vote of thanks offered by CMA Shriram Mahankaliwar, Chairman PD Committee, WIRC.

The Institute of Cost Accountants of India-Pimpri Chinchwad Akurdi Chapter

The Chapter organized a seminar on 'Activity Based Costing (ABC)' on March 4, 2017 at CMA Bhawan. CMA Ashish Deshmukh, chairman of the chapter focused on how Activity Based Costing can be implemented and covered the following topics under ABC Implementation Guide for Indian Railway. On March 11, 2017 the Chapter organized a seminar on 'Profit Optimization by integrating Cost & Energy Audit (ECORE)' at CMA Bhawan. The first session was conducted by Dr. Ravi Deshmukh, Managing Director-PPS Energy Solutions. In his speech, he focused on importance of energy and the second session was conducted by CMA Dhananjay Kumar Vatsyayan and he highlighted on the following points under profit optimization by integrating cost & energy audit. The Chapter

organized a seminar on 'GST – Final Draft Provisions' on March 17, 2017 and faculty CMA L D Pawar, Secretary & RCM, WIRC focused on the GST rates which have been approved by the GST Council. The Chapter conducted communication and soft skills training for intermediate students from 25th, 27th

and 29th March 2017 at CMA Bhawan. Eminent faculty in communication & soft skills, Mr. Sunil Mirchandani conducted this training for three days for the benefit of students.

The Institute of Cost Accountants of India-Surat South Gujarat Chapter

The Chapter celebrated silver jubilee programme on March 23, 2017 at its premises and Blood Donation Camp had been organized by the chapter. On March 24, 2017 inaugural session of silver jubilee was organized and chief guest of the session was Shri B. S. Agrawal, President the Southern Gujarat Chamber of Commerce and Industries. CMA Amit Apte, CCM and Chairman PD, Banking and Insurance Committee of the Institute, gave scientific data comparison about production and consumption of sugar by sugar industries in India and abroad for last 10 years. CMA D. V. Joshi, past president, elaborated the history of the sugar industries. CMA P. H.

Desai, chairman WIRC, CMA R N Bhave, founder chairman of the chapter and renowned faculty on IFRS also graced the occasion. CMA Amit Sahane, Secretary Pune Chapter and CMA Nilesh Kekan and Mr. Krunal Shah were also the faculties and they gave technical knowledge like key processes in sugar industries. On March 25, 2017 the Chapter organized a seminar on 'GST- One Nation One Tax ease of doing

Business' and CMA V S Datey, CMA Malav Dalwadi and CA Avinash Poddar were the faculties. CMA V S Datey explained basis of forthcoming GST implementation and complexities involved. CMA Malav Dalwadi explained in details the formalities and process of filing various returns and CA Avinash Poddar explained in brief about the GST. On the same day students of the chapters were felicitated by Shri B A Parikh, Vice President of Sarvajanik Education Society, Surat and former Vice Chancellor of the Veer Narmad South Gujarat University. CMA Ashok Nawal, Council Member and Chairman of Taxation Committee of the Institute complimented the chapter for its Silver Jubilee and blessed the meritorious students especially the Rank holders.

The Institute of Cost Accountants of India-Ahmedabad Chapter

The Chapter organized a CEP on 'Emotional Freedom' on March 25, 2017 at its office. CMA P D Modh, faculty for the CEP elaborated on the topic. The Chapter arranged press meet on February 24, 2017 at its office. CMA Manas Thakur,

President, CMA P H Desai, Chairman WIRC, CMA Vinod H Savalia, Chairman of the Chapter and managing committee members of chapter attended the Press Meet and provided information to the media about result of Foundation, Intermediate and Final course of Dec'16 session examination, also explained about the bright future for CMAs in practice and service.

CUSTOMS

Notifications:

Tariff:

- Seeks to exempt goods, falling under the First Schedule to the Customs Tariff Act, 1975, when imported into India by or along with a unit of the Army, the Navy, the Air Force or the Central Paramilitary Forces on the occasion of its return to India after a tour of service abroad, from basic customs duty (BCD), CVD and SAD subject to the specified conditions.

[Notification No. 17/2017-Cus,dt. 21-04-2017]

- Seeks to exempt goods falling under chapter 30 of first schedule of Customs tariff Act 1975, for supply under Patient Assistance Programme run by specified pharmaceutical companies

[Notification No. 16/2017-Cus,dt. 20-04-2017]

- Seeks to amend 8/2011 dated 14.2.2011 so as to extend the exemption of additional duty of Customs to specified jute products imported from Nepal

[Notification No. 15/2017-Cus,dt. 20-04-2017]

- Amendment to Notification No.41/1999-Cus to align the said notification with para 4.36 of FTP 2015-20 by omitting the word 'for export' in the proviso to the notification

[Notification No. 14/2017-Cus,dt. 18-04-2017]

- seeks to further amend notification No.12/2012-Customs, dated 17.03.2012 so as to allow the following changes regarding duty free import of raw sugar [1701], allowed vide notification No.12/2017-Customs dated 5th, April, 2017: 1. Time line for availing TRQ benefit (duty free) for import of raw sugar [1701] has been extended from 12.06.2017 to 30.06.2017. 2. Actual user condition has been prescribed for importing raw sugar at Nil rate, availing TRQ benefit for manufacture of white/ refined sugar. 3. A time line of 2 months, from the date of filing of bill of entry or the date of entry inwards, whichever is later, is being prescribed to convert raw sugar into white/ refined sugar.

[Notification No. 13/2017-Cus,dt. 13-04-2017]

- Seeks to amend Notification No.12/2012-Customs, dated the 17th March, 2012, so as to allow duty free import of raw sugar upto a quantity of 5 lakh MT under Tariff Rate Quota (TRQ) upto and inclusive of 12th June 2017

[Notification No. 12/2017-Cus,dt. 05-04-2017]

- Seeks to amend Notification No. 69/2011-Customs, dated 29th July, 2011 so as to provide deeper tariff concessions in respect of specified goods imported under the India-Japan Comprehensive Economic Partnership Agreement (IJCEPA), w.e.f. 1st of April, 2017.

[Notification No. 11/2017-Cus,dt. 31-03-2017]

- Amendment to Notification No.12/2012-Customs, dated the 17th March, 2012, so as to impose basic customs duty of 10% on wheat and Tur, with immediate effect.

[Notification No. 10/2017-Cus,dt. 28-03-2017]

- Amendment to Notification No.12/2012-Customs, so as to reduce the basic customs duty from 30% to 10% on sunflower seeds falling under tariff item 1206 00 90 [i.e. other than of seed quality] for the purposes extraction and refining of oil subject to actual user condition, for the period from 1st April, 2017 to 30th September, 2017

[Notification No. 09/2017-Cus,dt. 01-03-2017]

- Inclusion of Hazira (Surat) Port in the list of ports mentioned in Export Promotion (EP) Schemes Notifications

[Notification No. 08/2017-Cus,dt. 23-03-2017]

Non-Tariff:

- Rate of exchange of conversion of the foreign currency with effect from 21st April, 2017

[Notification No. 40/2017-Cus (NT),dt. 20-04-2017]

- Tariff Notification in respect of Fixation of Tariff Value of Edible Oils, Brass Scrap, Poppy Seeds, Areca Nut, Gold and Sliver

[Notification No. 39/2017-Cus (NT),dt. 13-04-2017]

- Amendment to notification no. 78/2014-Customs (N.T.) dated 16.09.2014

[Notification No. 38/2017-Cus (NT),dt. 13-04-2017]

- Customs (Settlement of Cases) Amendment Rules, 2017

[Notification No. 37/2017-Cus (NT),dt. 12-04-2017]

- Rate of exchange of conversion of the foreign currency with effect from 7th April, 2017

[Notification No. 33/2017-Cus (NT),dt. 06-04-2017

- Rate of exchange of conversion of the foreign currency with effect from 6th April, 2017

[Notification No. 32/2017-Cus (NT),dt. 05-04-2017]

- Seeks to notify Foreign Post Offices

[Notification No. 31/2017-Cus (NT),dt. 31-03-2017]

- Seeks to further amend notification No. 63/94-Customs (N.T), dated the 21st November, 1994

[Notification No. 30/2017-Cus (NT),dt. 31-03-2017]

- Customs (Advance Rulings) Amendment, Rules 2017

[Notification No. 29/2017-Cus (NT),dt. 31-03-2017]

- Regarding the Deferred Payment of Import Duty (Amendment) Rules, 2017

[Notification No. 28/2017-Cus (NT),dt. 31-03-2017]

- Regarding the Bill of Entry (Forms) Amendment Regulations, 2017

[Notification No. 27/2017-Cus (NT),dt. 31-03-2017]

- Regarding the Bill of Entry (Electronic Integrated Declaration) Amendment Regulations, 2017

[Notification No. 26/2017-Cus (NT),dt. 31-03-2017]

- Regarding amendment to Notification No. 40/2012-Customs (N.T.), dated the 2nd May, 2012

[Notification No. 25/2017-Cus (NT),dt. 31-03-2017]

- Regarding the Handling of Cargo in Customs Areas (Amendment) Regulations, 2017

[Notification No. 24/2017-Cus (NT),dt. 31-03-2017]

- Tariff Notification in respect of Fixation of Tariff Value of Edible Oils, Brass Scrap, Poppy Seeds, Areca Nut, Gold and Sliver.

[Notification No. 23/2017-Cus (NT),dt. 31-03-2017]

Anti Dumping Duty:

- Seeks to levy definitive anti-dumping duty on import of â Flexible Slabstock Polyolâ originating in or exported from Thailand for a period of five years (unless revoked, superseded or amended earlier).

[Notification No. 13/2017-Cus (ADD), dt. 11-04-2017]

- Seeks to levy anti-dumping duty on the imports of â Linear Alkyl Benzeneâ originating in or exported from Iran, Qatar and Peopleâ s Republic of China for a period of five years (unless revoked, superseded or amended earlier).

[Notification No. 12/2017-Cus (ADD), dt. 11-04-2017]

- Seeks to amend notification no. 01/2017-Customs (ADD) dated 05.01.2017 vide which definitive anti-dumping duty was levied on the import of â Jute Productsâ viz. Jute Yarn/Twine (multiple folded/ cabled and single), Hessian fabric and Jute sacking bags from Bangladesh or Nepal for a period of five years.

[Notification No. 11/2017-Cus (ADD), dt. 03-04-2017]

- Seeks to order provisional assessment on imports of "1,1,1,2-Tetrafluoroethane or R-134a " ,originating in or exported from People's Republic of Chinaby M/s. Zhejiang Sanmei Chemical Ind. Co., Ltd. (Producer/Exporter) [China PR], M/s Zhejiang Sanmei Chemical Products Co., Ltd (Exporter) [China PR] and M/s Jiangsu Sanmei Chemical Ind. Co., Ltd (Producer) [China PR] into India, till the finalization of New Shipper Review initiated by DGAD, vide notification No.15/22/2016-DGAD dated 27.02.2017.

[Notification No. 10/2017-Cus (ADD), dt. 24-03-2017]

- Seeks to impose anti-dumping duty on the imports of Indolinone originating in or exported from the People's Republic of China up to and inclusive of 20th November, 2019.

[Notification No. 09/2017-Cus (ADD), dt. 24-03-2017]

CENTRAL EXCISE

Notifications:

Non-Tariff:

- Seeks to amend CENVAT credit Rules, 2004 to allow the importer of the goods to take Cenvat credit on basis of the challan of payment of service tax by the said importer on the services provided by a foreign shipping line to a foreign charterer w.r.t. goods destined for India.

[Notification No. 10/2017-CENT dt. 13-04-2017]

- Central Excise (Settlement of Cases) Amendment Rules, 2017

[Notification No. 09/2017-CENT dt. 12-04-2017]

- Central Excise (Advance Rulings) Amendment, Rules 2017

[Notification No. 08/2017-CENT dt. 31-03-2017]

SERVICE TAX

- Seeks to amend Service Tax Rules, 1994 so as to,(i) Specify the importer as defined under clause (26) of section 2 of the Customs Act, 1962 (52 of 1962) of goods as the person liable for paying service tax in case of services provided or agreed to be provided by a person located in non-taxable territory to a person located in non-taxable territory by way of transportation of such goods by a vessel from a place outside India up to the customs station of clearance in India. (ii) Provide an alternate mechanism for calculating and paying service tax, Swachh Bharat Cess and Krishi kalyan Cess.

[Notification No. 16/2017-Service Tax dt. 13-04-2017]

- Seeks to amend notification No. 30/2012-ST dated 20.06.2012 so as to specify the importer as defined under clause (26) of section 2 of the Customs Act, 1962 (52 of 1962) of goods as the person liable for paying service tax in case of services provided or agreed to be provided by a person located in non-taxable territory to a person located in non-taxable territory by way of transportation of such goods by a vessel from a place outside India up to the customs station of clearance in India.

[Notification No. 15/2017-Service Tax dt. 13-04-2017]

- Seeks to amend Point of Taxation Rules, 2011 with effect from 22nd January, 2017 so as to provide the point of taxation of services provided by a foreign shipping line to foreign charterer w.r.t. goods destined for India as the date of bill of lading of goods in the vessel at the port of export.

[Notification No. 14/2017-Service Tax dt. 13-04-2017]

- Service Tax (Settlement of Cases) Amendment Rules, 2017

[Notification No. 13/2017-Service Tax dt. 12-04-2017]

- Service Tax (Advance Rulings) Amendment, Rules 2017

[Notification No. 12/2017-Service Tax dt. 31-03-2017]

INCOME TAX

Notification:

- In exercise of the powers conferred by clause (iii) of the proviso to section 269ST of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies that the provision of section 269ST shall not apply to receipt by any person from an entity referred to in sub-clause (b) of clause (i) of the proviso to section 269ST.

2. The notification shall be deemed to have come into force with effect from 1st day of April, 2017.

[Notification No.28/2017, F.No.370142/10/2017-TPL]

- In exercise of the powers conferred by section 139A and section 285BA, read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:—

1. (1) These rules may be called the Income –tax (Seventh Amendment) Rules, 2017. (2) It shall be deemed to have come into force from the 1st March, 2017.
2. In the Income-tax Rules, 1962, in rule 114B, in the fourth proviso, for the figures, letters and words "28th day of February", the figures, letters and words "30th day of June" shall be substituted.

[Notification No. 27/2017/F. No. 370142/32/2017-TPL]

- In exercise of the powers conferred by clause (c) of sub-section (2) of section 80JJAA read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income-tax (6th

Amendment), Rules, 2017.

(2) They shall come into force from the 1st day of April,2017.

2. In the Income-tax Rules, 1962 (hereafter referred to as the Principal rules), for the existing rule 19AB, the following rule shall be substituted, namely:-

"19AB. Form of report for claiming deduction under section 80JJAA. Report of an accountant which is required to be furnished by the assessee along with the return of income under clause (c) of sub-section (2) of section 80JJAA shall be in Form No. 10DA."

3. In the principal rules, in Appendix II, for the 'Form No. 10DA', the following Form shall be substituted.

[Notification No. 26/2017 /F. No. 370142/3/2017-TPL]

➤ In exercise of the powers conferred by sub-section (3) of section 115BBF, read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:—

1. (1) These rules may be called the Income-tax (5 th Amendment) Rules, 2017.

(2) They shall come into force on the1st day of April, 2017.

2. In the Income-tax Rules, 1962 (hereafter referred to as the principal rules), after rule 5F, the following rule shall be inserted.

[Notification No. 25 /2017/F. No. 370142/1/2017-TPL]

➤ In exercise of the powers conferred by clause (46) of section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies for the purposes of the said clause, the Science and Engineering Research Board, a board constituted by Central Government, in respect of the following specified income arising to that Board, namely:—

(a) grants (revenue and capital) received from Central Government;

(b) interest received or accrued on bank account either saving or on fixed deposits with banks;

(c) refund of unspent amount received back from the institutions to which Science and Engineering Research Board had given a grant earlier; and

(d) other incomes like receipts as per the Right to Information Act, 2005 (22 of 2005) and scrap sale.

2. The provisions of this notification shall be effective subject to the conditions that the Science and Engineering Research Board,—

(a) shall not engage in any commercial activity;

(b) activities and the nature of the specified income remain unchanged throughout the financial years; and

(c) shall file return of income in accordance with the provision of clause (g) of sub-section (4C) section 139 of the Income-tax Act, 1961.

3. This notification shall deemed to have been applied for the financial years 2013-2014, 2014-2015, 2015-2016, 2016-2017 and 2017-2018.

[Notification No. 24/2017/ F. No.196/15/2013-ITA-I]

➤ In exercise of the powers conferred by clause (46) of section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies for the purposes of the said clause, the Madhya Pradesh Electricity Regulatory Commission, a Commission constituted by the State Government of Madhya Pradesh, in respect of the following specified income arising to that Commission, namely:—

(a) amount received as petition fees;

(b) amount received as interest on savings;

(c) amount received as fines and charges; and

(d) other incidental income received as Grants, sale of tender documents, processing fees, certified copying fees, sale of old newspapers, license fee, vehicle rent, interest on loans to staff, Right to Information receipts, receipts from 'Distribution of Tariff Book'.

[Notification No. 23/2017/F. No.196/27/2014-ITA-I]

➤ In exercise of the powers conferred by section 139 read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income-tax (Fourth Amendment) Rules, 2017.

(2) They shall come into force with effect from the 1st day of April, 2017.

[Notification No. 21/2017/ F.No.370142/5/2017-TPL]

➤ Whereas, a Third Protocol amending the Agreement between the Government of the Republic of India and the Government of the Republic of Singapore for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income was signed at New Delhi on the 30th day of December, 2016 (hereinafter referred to as the Third Protocol);

And whereas, the Third Protocol entered into force on the 27th day of February, 2017, being the date of the later of the notifications of the completion of the procedures as required by the respective laws for the entry into force of the Third Protocol, in accordance with Article 6 of the Third Protocol;

Now, therefore, in exercise of the powers conferred by sub-section (1) of section 90 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies that all the provisions of the Third Protocol, as annexed hereto, shall be given effect to in the Union of India.

[Notification No. 18/2017/ 500/139/2002-FTD-II]

➤ In exercise of the powers conferred by clause (d) and clause (e) of proviso to clause (5) of section 43 and section 282A read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income –tax (3 rd Amendment) Rules, 2017.

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

2. In the Income-tax Rules, 1962,-

(I) in rule 6DDB, in sub-rule (1), for the word, brackets and letter "Member (L)", the words and brackets "Member (Income Tax)" shall be substituted;

(II) in rule 6DDD, in sub-rule (1), for the words and brackets "Member (Legislation)", the words and brackets "Member (Income Tax)" shall be substituted;

(III) after rule 127, the following rule shall be inserted

[Notification No. 17/2017/F.No. 370142/4/2017-TPL]

➤ In exercise of the powers by sub sections (1) and (2) of Section 120 of the Income-tax Act, 1961) (43 of 1961), the Central Board of Direct Taxes hereby makes the following amendment to the notification of the Government of India, Ministry of Finance, Department of Revenue, Central Board of Direct Taxes, number S.O.2483(E), dated the 30th September, 2009, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii).

[Notification No. 16 /2017/ F. No.187/3/2017-ITA-I]

Contributed by

Taxation Committee

Institute of Cost Accountants of India

At the helm

Our heartiest congratulations to CMA Debasish Bandopadhyay, a member of the Institute, and ROC Delhi, for being posted with the duties of DII, Corporate Affairs with effect from 1 April 2017. Prior to this he was Regional Director (Northern Region).

We wish CMA Debasish Bandopadhyay the very best for all his future endeavours.

Role of CMAs in Activity Based Costing & its Applications

Assisting in Designing and ImplementingActivity Based Costing (ABC) System:

Designing and implementing a good Activity Based Costing system requires intimate knowledge of many parts of the organization's overall operations. This knowledge can only come from the people who are familiar with those operations. Here CMAs can act as a consultant to facilitate the management in developing effective framework of Activity Based Costing (ABC) System in the organization. They can also help to identify the appropriate methodologies to ensure the sustainability of an ABC system helping to realize the informational needs of its users.

Customer Profitability Analysis:

Customer Profitability Analysis has become an important new management accounting tool based on recognition that each customer is different and that each amount of revenue does not contribute equally to the firm's profitability. Customers utilize company resources differently; thus customer costs vary from one customer to another. At this juncture, CMAs can apply ABC technique to assist manager in identifying customer activities and track those costs that are allocated to specific customers. This can provide management with unique information about customers and customer segments. It would also facilitate in protecting existing highly profitable customers; price-fixation of expensive services based on cost-to-serve; discounting to gain business with low cost-to-serve customers and attempting to capture high-profit customers from competitors.

Service Sector:

The role of service sector's contribution in Indian economy is gradually mounting up over the last two decades. The CMAs can help out management in the decision making purpose regarding Price-fixing mechanism, Break-even analysis, Productivity and Profitability. The CMAs can apply ABC as a tool for determining true costs in the service sector and help companies to outline better decisions or strategies based on more accurate costing information. ABC can allocate activity costs to service, or customer that consumes resources in order to compute profitability and provide cost-effective and timely information better than traditional accounting system.

Applicability of ABC method in the Health Sector:

One of the decisive challenges of healthcare profession is to measure actual costs in real time. All payers like the Centers for Medicare & Medicaid Services, employers, consumers/patients, etc. are willing to pay for healthcare services based upon real costs with a reasonable margin. Obviously, having clinical/business analytics to provide real time cost accounting information to all relevant providers, payers and managers with decision support alerts is essential to actively manage costs when it can do measurable good. CMAs can apply Time-driven, Activity-Based Costing here to provide high quality but reasonable cost care.

Applicability of ABC method in the IT Sector:

With the proliferation of computer-related services, the explosion in data communication, and ongoing trends toward globalization, managers in high-tech industries are considering new ways to manage and control costs. The fact that most Information Technology (IT) services have varied degrees of intangibility creates constraint to measure the costs of the services delivered. The resulting model provides a managerial tool to compute productivity and efficiency and is currently being used for IT cost chargeback and process improvements. The costs of IT services could be more accurately and meaningfully charged to the clients/users under ABC method. The professionals like CMAs can help managers assess which activities could be reduced or eliminated.

ABC Method for sustainable infrastructure:

Infrastructure is the backbone of acceleration of growth in India. In a populous country like ours with increasingly growing levels of consumption and industrialization, prompt development of infrastructure such as Railways, Power, Ports, Highways, Economic Zones, Smart Cities among others, is not just a need of an hour but a pre-requisite for growth and sustainability. Thus to achieve higher productivity and profitability with optimum duration and optimum cost, application of ABC is unparallel. ABC can contribute to evaluate the cost and performance efficiency of companies in a more exact way. It makes the management practices more transparent, too.

Project Cost Analysis:

Many business improvement projects may need considerable capital expenditure, and it will be indispensable therefore to do a cost benefit analysis to establish whether it is worthwhile going ahead. In this juncture, CMAs can apply Activity Based Management (ABM) to supply more accurate information about the potential savings from a particular project, therefore leading to a more accurate assessment. After completion of a business process improvement project, many businesses do not measure the benefits achieved by the project, and in some cases fail to take full advantage of them. ABM enables management to identify which activities or processes it is spending the most on, and where the biggest financial savings can be made. It can also identify activities where management believes big improvements can be made.

ACTIVITY BASED COSTING
WITH REFERENCE TO LOGISTICS SERVICES

Activity-based-costing is a way of identifying the costs associated with operational activities so that handling and other service contract pricing and cost reduction efforts may be improved. It allocates manufacturing overhead by assigning indirect costs to several different cost pools, then dividing each cost pool by its associated cost driver to obtain several different rates that can then be used to allocate overhead to different products/services. Efficient handling of costs can provide distinct advantage over the competition.

Activity Based Costing :

- Determines the actual cost of doing business
- Identifies the areas in which costs may be reduced
- Highlights operations inefficiencies for improvement
- Draws attention to activities which are done markedly efficiently so that the principles employed may be applied elsewhere in the operations
- Enhances price negotiation with vendors and other suppliers

Cost Management is more and more important in the case of transport & logistic companies such as the railways, aviation, bus transit systems, ports etc. These companies need reliable information on the efficiency of their services. **The currently used cost calculation procedures however don't meet the requirements of up-to-date management principles and new costing methods for such industries shall be found to overcome problems resulting in distorted information.** A possible solution can be the adaptation of activity based costing methodology to transportation specific management processes.

Examples of cost systems attributed to the various activities in Logistics Services #

Activities Costs	1.Checking lines & Infrastructure	2. Propping up the tracks	3. Removing and cutting grass	4. Transport supervision	5. Checking work done by external suppliers	6. Clearing snow and ice	7. Cleaning buildings	11. Maintenance and checking infrastructure	13. Building maintenance	17. Infrastructure electrical maintenance	18. Mechanical maintenance of tracks/ roads	19. Goods carriage maintenance	20. Carpentry	21. Cleaning racks and stations	23. ESS maintenance	25. Maintenance of overhead cables	34. Ticket sales
Personal costs	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	X	
Maintenance equipment		x						x		x	x	x	x		x	x	
Maintenance material		x						x			x	x	x		x	x	
Consumable work-shop material											x	x	x				
Cleaning materials							x							x			
Consumable elec-trical material								x							x	x	
Miscellaneous material								X			X	X	X		X	x	
Miscellaneous maintenance								x		x	x	x	x		x	x	
Other cleaning service							X							x			
Maintenance of ticket machines																	x
Depreciation:																	

- transport engine		x	x					x							X	x	
- transport equipment		x	x					x							X	x	
- transport workshop machines										X	x	x	x				
- ticket machines																	x

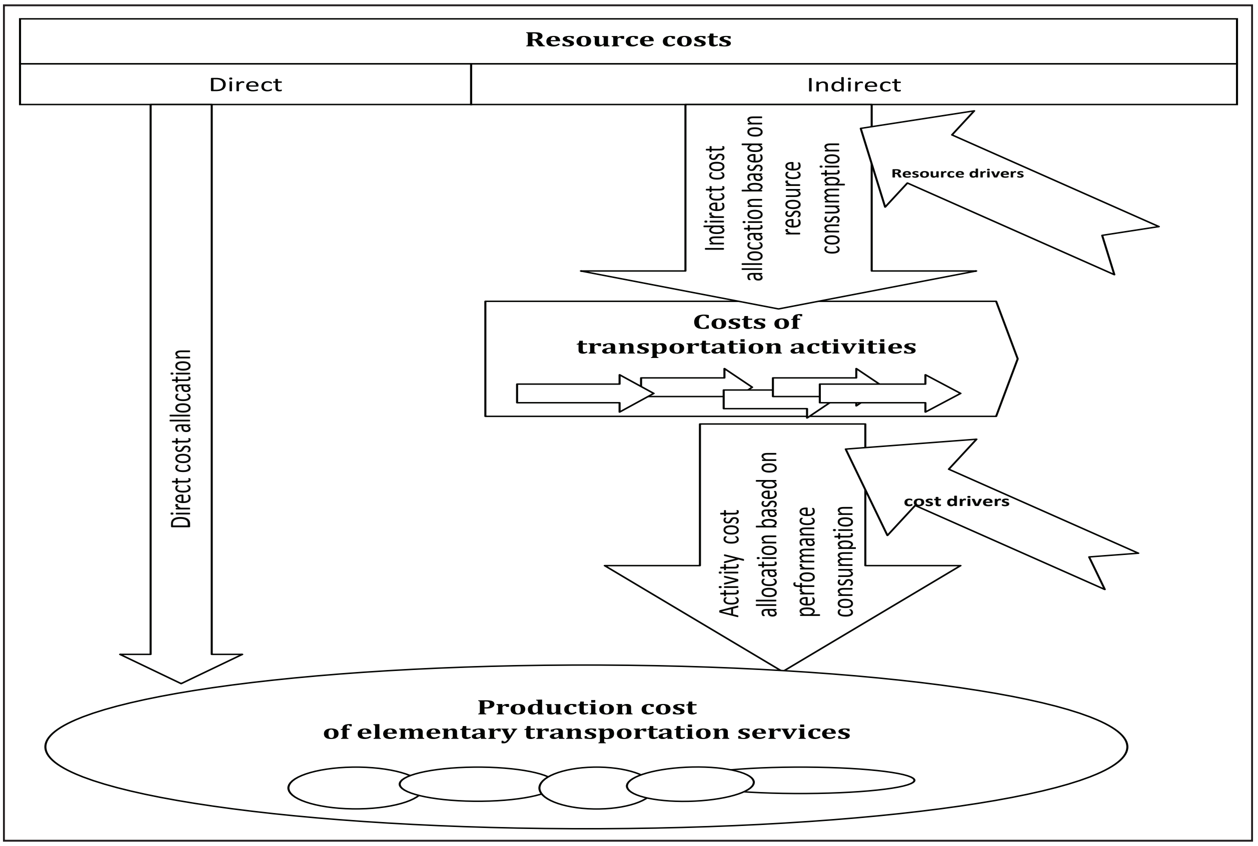
#parameters may vary according to the sectors

The basic idea of improving rail/ports/aviation transport costing is to include technology parameters into the calculations. Thus indirect costs can be allocated to profit objects through using technology performance flows instead of ad-hoc distribution keys. When applying the activity based costing (ABC) approach, cost elements which cannot be allocated to profit objects directly shall be assigned to activities taking part in the production of elementary transportation services. Technology systems deliver performance indicators for each activity, which enables a more exact distribution of these costs among elementary services as profit objects.

Attribution of activity costs to the cost destinations

	Overhead cables	Level crossings	E.S.S.	Track sections	Sta-tions/ Ports	Bridges tunnels	Trans-ports
1. Checking lines and infrastructure	x	X	x	x		x	
2. Propping up tracks				x			
3. Removing and cutting grass				X	X		
4. Supervision	X	X	X	X	X	X	
5. Checking work done by suppliers	X	X	X	X	X	X	
6. Clearing snow and ice				X	X		
7. Cleaning buildings					X		
11. Maintenance/checking infrastructure	X	X	X	X		X	
13. Building maintenance					X		
17. Railway/ports/airport electrical maintenance							X
18. Railway/ports/airport mechanical mainte-nance							X
19. Railway/ports/airport infrastructure main-tenance							X
20. Carpentry					X		X
21. Cleaning trains / Buses / stations / Ports					X		X
23. Maintenance of ESS		x	x				
25. Maintenance of overhead cables	x						

This figure illustrates the comprehensive operation mechanism of ABC model. It relies on the general methodology but shall be adapted to the specific management and technology characteristics of rail transport/service companies.



Suggestive activity based costing model for transportation sector

The adaptation of the ABC methodology to rail specific business procedures is a possible solution to make management related decision making practices more reliable in the case of rail companies. After having a clear picture of the activities and the performance flows in the rail company, cost allocations can be carried out in a transparent and exact way. Moreover, accounting and calculation procedures between different companies operating in rail business are also more transparent by extending the improved costing methodology to inter-company relationships.

Attribution of cost items to the cost destinations

	Overhead cables	Level crossings	E.S.S.	Track sections	Stations / Ports	Bridges and tunnels	Transports
Consumable materials:							
Sleepers				X			
Road metal-slabs				X			
Tracks and points				X			
Material for tracks				X			
Material for building maintenance					X		
Electrical material for stations					X		
Material for electrical systems	X	X	X				X

Level crossing material		X					
Overhead cable material	X						
Mechanical maintenance material							X
Electrical energy		X			X	X	X
Water					X		
Bodywork material							X
Supply of services:							
Premises maintenance					X		
Building maintenance					X		
Station maintenance					X		
Bodywork maintenance							X
Mechanical maintenance							x
Air conditioner maintenance					X		
Railway/port maintenance	X	X	X	X	X	X	
Depreciation:							
Head Office					X		
Terminals					X		
Self-cleaning toilets					X		
Air-conditioning system at Trento					X		
Trains /Ships / Buses							X
Miscellaneous cost items:							
Fuel for heating stations					X		
Surveillance services					X		X
Transport insurance							X
Infrastructure insurance					X		
Rubbish disposal					X		
Inspections and certification	X	X	X	X	X	X	X
Total costs attributed							

Transport companies are service oriented organizations. Induction of various Cost and Management techniques related to service sectors will not only enhance the efficiency and performance but also helps for the cost control/ cost reduction in this sector. Activity based costing (ABC) for cargo handling, berthing, pilotage, railways activity, etc., should be performed at regular intervals and a management information system must be there to analyse the performance for decision making to the management for achievement of better results by way of performance and profitability.

ABC in service sector, especially the transportation, has become increasingly important for companies whose markets are becoming more competitive. Since ABC is really about cost management, using it allows service companies as well as manufacturing companies to reduce and control their costs in order to make correct pricing and other decisions, and to increase their profitability. It is likely to continue to become more prevalent in the service industry in the future.

 # an exploratory initiative

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – JUNE- 2017

FOUNDATION COURSE EXAMINATION

Day & Date	Foundation Course Examination Syllabus-2012 Time 2.00 p.m. to 5.00 p.m.	Foundation Course Examination Syllabus-2016 Time 2.00 p.m. to 5.00 p.m.
11th June, 2017 Sunday	Fundamentals of Economics & Management	Fundamentals of Economics & Management
12th June, 2017 Monday	Fundamentals of Accounting	Fundamentals of Accounting
13th June, 2017 Tuesday	Fundamentals of Laws & Ethics	Fundamentals of Laws & Ethics
14th June, 2017 Wednesday	Fundamentals of Business Mathematics & Statistics	Fundamentals of Business Mathematics & Statistics

Examination Fees

Foundation Course Examination	**Inland Centres**	**Rs. 1200/-**
	Overseas Centres	**US $ 60**

1. **The Foundation Examination will be conducted in Offline, descriptive (Pen & Paper) mode only**. E**ach paper will be of 100 marks and for 3 hours duration.**

2. Application Forms for Foundation Examination can be filled up either through online **or** in offline mode.

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. Demand draft should be made in favour of The Institute of Cost Accountants of India, payable at Kolkata. 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 31st March, 2017 and with late fees of Rs. 300/ is 10th April, 2017. 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 10th April, 2017.

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 August, 2017.**

DR. D. P. NANDY
Director
(Examination)

*** For any examination related query, please contact exam.helpdesk@icmai.in**

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

INTERMEDIATE AND FINAL COURSE EXAMINATION TIME TABLE & PROGRAMME – JUNE 2017

	PROGRAMME FOR SYLLABUS 2012		PROGRAMME FOR SYLLABUS 2016	
Day & Date	**Intermediate Time: 2.00 P.M. to 5.00 P.M.**	**Final Time: 2.00 P.M. to 5.00 P.M.**	**Intermediate Time: 2.00 P.M. to 5.00 P.M.**	**Final Time: 2.00 P.M. to 5.00 P.M.**
Sunday, 11th June, 2017	Financial Accounting	Corporate Laws and Compliance	Financial Accounting	Corporate Laws & Compliance
Monday, 12th June, 2017	Laws, Ethics and Governance	Advanced Financial Management	Laws & Ethics	Strategic Financial Management
Tuesday, 13th June, 2017	Direct Taxation	Business Strategy & Strategic Cost Management	Direct Taxation	Strategic Cost Management – Decision Making
Wednesday, 14th June, 2017	Cost Accounting & Financial Management	Tax Management & Practice	Cost Accounting	Direct Tax Laws and International Taxation
Thursday, 15th June, 2017	Operation Management and Information Systems	Strategic Performance Management	Operations Management & Strategic Management	Corporate Financial Reporting
Friday, 16th June, 2017	Cost & Management Accountancy	Corporate Financial Reporting	Cost & Management Accounting and Financial Management	Indirect Tax Laws & Practice
Saturday, 17th June, 2017	Indirect Taxation	Cost & Management Audit	Indirect Taxation	Cost & Management Audit
Sunday, 18th June, 2017	Company Accounts and Audit	Financial Analysis & Business Valuation	Company Accounts & Audit	Strategic Performance Management and Business Valuation

EXAMINATION FEES

Group (s)		Final Examination	Intermediate Examination
One Group	(Inland Centres) (Overseas Centres)	Rs. 1400/- US $ 100	Rs. 1200/- US $ 90
Two Groups	(Inland Centres) (Overseas Centres)	Rs. 2800/- US $ 100	Rs. 2400/- US $ 90

1. **Application Forms for Intermediate and Final Examination has to be filled up either through online or 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. Demand draft should be made in favour of The Institute of Cost Accountants of India, payable at Kolkata. 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, 2017 and with late fees of Rs. 300/- is 10th April, 2017. 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 10th April, 2017.**
5. **The Finance Act 2016 will be applicable for the Subjects Direct Taxation, Indirect Taxation(Inter) and Tax Management & Practice(Final) under Syllabus 2012 and Direct Taxation, Indirect Taxation (Inter) Direct Tax laws and International Taxation and Indirect Tax laws & Practice (Final) under Syllabus 2016 for the purpose of June 2017 term of Examination.**
6. **The Companies (Cost Records & Audit) Rules 2014 as amended till 14 July 2016 will be applicable for Paper 10 - Cost & Management Accountancy (Intermediate) and Paper 19 - Cost and Management Audit (Final) under syllabus 2012 and Paper 12- Company Accounts & Audit(Inter), Paper 19 – Cost & Management Audit(Final) under Syllabus 2016 for June 2017 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) under syllabus 2012 and Paper 6- Laws and Ethics (Inter) and Paper 13- Corporate Laws and Compliance (Final) under Syllabus 2016 to the extent notified by the Government at least six months prior to the date of the examination. For details visit clarification issued by Directorate of Studies.**
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, 2017.**

*** For any examination related query, please contact exam.helpdesk@icmai.in**

DR. D.P. NANDY
Director (Examination)

Insolvency Professional Agency of Institute of Cost Accountants of India

Insolvency Professional Agency of Institute of Cost Accountants of India (IPA of ICAI)

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

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

Enrol and Register as an Insolvency Professional

Enrollment is Open: For Professionals & Advocates and Graduates having Management Experience

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

1. **He/she has passed the *'Limited Insolvency Examination'*, conducted by the Insolvency & Bankruptcy Board of India (IBBI) and**
2. **Has/she has ten years of experience as -**
   - **(a) a cost accountant enrolled as a member of the Institute of Cost Accountants of India,**
   - **(b) a chartered accountant enrolled as a member of the Institute of Chartered Accountants of India,**
   - **(c) a company secretary enrolled as a member of the Institute of Company Secretaries of India, or**
   - **(d) an advocate enrolled with a Bar Council. enrolled with a Bar Council,**

OR

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

Professional may function as:

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

Why to enrol as Insolvency Professional ……

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

CMA J. K. Budhiraja

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

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