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The Management Accountant

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

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IDEALS
THE INSTITUTE STANDS FOR

❑ to develop the Cost and Manage-ment 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.

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MISSION STATEMENT

"ICWAI 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

"ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

DISCLAIMER

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

NOTIFICATION

Ref. No. DS-3/1/1/10 January 12, 2010

Finance (No.2) Act 2009, involving Assessment Year 2010-2011 will be applicable for the subjects Business Taxation (Intermediate) and Strategic Tax Management (Final) under Syllabus 2002 for the purpose of June 2010 term of Examination.

Arnab Chakraborty
Director-Studies

NOTIFICATION

Ref. No. DS-3/2/1/10 January 12, 2010

Finance (No.2) Act 2009, involving Assessment Year 2010-2011 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct-Tax Management (Final) for the purpose of June 2010 term of Examination under Revised Syllabus 2008.

Arnab Chakraborty
Director-Studies

Editorial

Chinese (Ex) Chequers

As the storm abates after the financial hurricane, most countries badly affected by the recession are in a reflective mode. The reasons attributed to the crisis are mani-fold: greed, profligacy, lax supervision and creation of global imbalances. The last factor has however generated the maximum global political and economic heat; with US (and other deficit nations) viewing an artificially undervalued yuan by Chinese authorities as the root cause of their economic misery. On the other hand, China feels it is wrongly being targeted for its superlative economic performance and that it alone should not be unfairly asked to shoulder the responsibility of removal of global imbalances.

China is accused of following a deliberate policy of pegging its yuan (or remnimbi) to the dollar along with subsiding its export sector. This protectionist policy makes its exports highly cost effective which serves to boost its own exports while threatening other countries' domestic and exportable sectors. This explains why today the Chinese goods account for one-third of the world's surplus. This burgeoning foreign exchange balances by China is invested in sovereign US securities on account of the fact that the dollar is viewed as a safe haven. Thus Chinese manufacturing excellence is used to finance the huge current account deficits of the US. The large surpluses on the current account make monetary management for the Chinese authority in a fixed exchange rate regime more difficult as the latter attempt to sterilise the impact of increased money supply to prevent inflation or creation of asset bubbles. At the same time, the huge holdings of dollar securities by the Chinese gives rise to what Paul Krugman famously called the Chinese dollar trap: Further investments in US holdings raises the spectre of default by a weak US economy; on the other hand drawing down of such large scale US holdings will cause the value of its assets to crash.

Differences abound in the extent to which the Chinese yaun is underestimated. While some analysts put the figure at a 40% undervaluation vis-à-vis the dollar by following the Current Account Deficit Method, there are some others who believe that the undervaluation is not more than 12% by following the Purchasing Power Parity Method. Moreover, studies have estimated that Chinese revaluation of the yuan from its current fixed level of 6.32 yaun per dollar will not reduce the US deficit considerably. After all, US has an equally important role in reigning in its huge expenditure (both domestic expenditure and imports). With shifts in geo-political power, China is seeking to assert itself more on the world platform through amassing huge foreign exchange balances by becoming the factory for the world.

At the same time, it is equally true that keeping its exchange rate at a low rate is harming its competitors in Asia namely India and the South East Asian countries. Hence, China must be persuaded to maintain the level of yuan at more realistic (read market related levels). The impact of a sudden revaluation will be difficult to bear for its export sector, a gradual revaluation increases the possibility of speculative attacks on the currency. A calibrated measure is perhaps what is required. It is suggested that while the US consumer should rein in its excess spending, the Chinese should be encouraged to spend more. There have also been suggestions of putting its vast foreign exchange balances to better use, utilise the reserves to build a social security net for its people. This move will not generate global imbalances and the associated recycling of funds between China and US. Creation of regional reserve arrangements should help to end the hegemoney of the dollar which is no longer the strongest currency by virtue of its intrinsic value.

Apart from negotiations with China to adopt less 'beggar thy neighbour' policies, India should gear up to outshine the Chinese at their quest for economic dominance. Access to cheap and timely credit, setting up of Special Economic Zones, creation of quality hubs are some measures that are urgently needed to boost our export sector. Interestingly, a lion's share of our exports is provided by the SME sector. We have already examined the issues and challenges facing our SMEs some issues back. In this edition, we will delve into role of CMAs in the growth of SME sector.

• President's Communique •

Dear Professional Friends,

ICWAI 51st National Cost Convention

51st National Cost Convention of Cost and Management Accountants of India was organized by the Eastern India Regional Council of the Institute from 23rd to 25th April, 2010 at Fortune Park Panchwati, at Kolkata on the theme "CMAs in Nation Building-Today and Tomorrow".

Shri Sri Prakash Jaiswal, Hon'ble Minister of State (I/C) for Coal, inaugurated the 51st National Cost Convention. Shri Promode Mankin, Minister of Cultural Affairs, Bangladesh was Guest of Honour. Technical discussions took place after the inauguration which was very useful for participating cost and management accountants.

Prof. Saugata Ray, Minister of State for Urban Development inaugurated the second day of the Convention on 24th April, 2010. The Minister in his address appreciated the role of Cost and Management Accountants and said that we have to play a greater role in the coming years. To a request made by the President, ICWAI for allocation of a land for the Research and Excellence Center at Delhi, he suggested that since there is no land in Delhi, Institute may approach Noida Authorities. However, he said he will be considerate to the request of the President of ICWAI.

It needs to be underlined here that this Convention was attended by more than 600 delegates from all over. I once again express my heartiest congratulations to the EIRC and the Organizing Committee for making the event a grand success. I also highly appreciate the efforts put in by two Council colleagues, Shri Somnath Mukherjee and Dr. Sanjiban Bandyopadhyaya.

MCA and IICA hosted 7th Forum on Asian Insolvency Reforms at New Delhi

I was happy to attend along with few Central Council colleagues the 7th meeting of the Forum on Asian Insolvency Reform (FAIR) and the Regional Network on Asian Insolvency Reforms organized by Ministry of Corporate Affairs, Government of India and the Indian Institute of Corporate Affairs (IICA) on 8th & 9th April, 2010 at New Delhi. Mr. Salman Khurshid, Hon'ble Minister of State (I/C) for Ministry of Corporate Affairs inaugurated the Forum. Shri R.Bandhyopadhyay, IAS Secretary, MCA also graced the occasion.

SAFA Board Meeting and other Committee Meetings hosted by ICAI-Sri Lanka at Colombo.

I represented ICWAI at SAFA Board and Committee Meetings along with my colleagues Shri B.M.Sharma, Vice-President, ICWAI, Shri Kunal Banerjee, Immediate Past President and Shri A.N.Raman, Vice-President, SAFA. The two days deliberations took place. On the first day, Committee Meetings were held where SAFA finalized the Task Force recommendations for revised constitution of SAFA. There was also meeting of Public Accounting Governmental and Public Sector Enterprises Accounting Committees.

The next day was the Board Meeting of SAFA, represented by all the member bodies. The deliberations were very fruitful and I am happy to say that the Board approved two SAFA programmes for India, one at New Delhi and another at Bangalore, details of which will be published later.

Second Global Summit of CMA Bodies at Sri Lanka

On 28th April, 2010 there was a meeting regarding the Second Global Summit meeting to be held at Sri Lanka during 29th, 30th June to 1st July, 2010 at Colombo hosted by CMA Sri Lanka and ICWA of India and other CMA bodies of the Regions as Co-hosts. Heads of CMA finalized the programme details under the leadership of Shri Lakshman Watawala, President of CMA, Sri Lanka. CMA decided to request our Hon'ble Corporate Affairs Minister Shri Salman Khurshid to inaugurate the convention and Secretary, MCA Shri R.Bandyopadhyay, IAS to be the Guest of Honour at the time of Valediction.

ICWAI Signs MOU with CBEC

I am happy to inform that The Institute of Cost and Works Accountants of India (ICWAI) and Central Board of Excise & Customs have signed a Memorandum of Understanding (MOU) on 13th April, 2010 to set up ACES

• President's Communique •

Certified Filing Centres (CFCs) across the country. These CFCs can be set up and operated by the Members of ICWAI, who have valid certificate of practice issued by the ICWAI. This initiative aims at providing services to taxpayers who may not have requisite IT infrastructure/ resources, to use ACES. These services will also be beneficial to the industry and they will not be required to visit the office of CBEC for Registration, Returns, etc. The services would be available on payment of prescribed services charges for various services such as digitisation of paper documents and on-line filing/ uploading of documents such as Application for Registration, Returns, Claims, Permissions and Intimations etc. in ACES.

Visit to Regions and Chapters

CAT course inauguration at Srinagar, Kashmir

I am happy to inform you that The Institute of Cost and Works Accountants of India (ICWAI) has made headway in Kashmir Valley through Global College of Professional Studies (GCPS) as a Recognized Oral & Coaching Centre (ROCC) in Srinagar to impart CAT oral coaching. Shri Balwinder Singh, Chairman, CAT was also present on this occasion. The CAT course will be no doubt a boon for the students' community from the Valley and with this the Institute has established Oral Coaching Centres for CAT from Kashmir to Kanyakumari. As of date, Institute has 222 Oral Coaching Centres apart from Regional Councils and Chapters for imparting oral coaching to CAT students. CAT course indeed reflects the inclusive agenda of the Institute for benefiting the students' community especially from rural and remote areas.

Go Green Movement of NIRC of ICWAI

I was happy to attend Go Green Movement, organized by NIRC of ICWAI on 7th April, 2010 at New Delhi. Noted actress and social activist Ms. Nafisa Ali was the Chief Guest on this occasion.

All Orissa Members and Students Meet (Annual Function-2009) & Mega Blood Donation Camp

I was happy to attend as Guest of Honour the All Orissa Members and Students Meet (Annual Function-2009) & Mega Blood Donation Camp organized by Cuttack-Bhubaneswar Chapter of ICWAI on 18th April, 2010 at Bhubaneswar. Shri Prafulla Chandra Ghadai, Hon'ble Finance Minister, Government of Orissa was the Chief Guest on this occasion. The Minister applauded the services of Cost and Management Accountants. The Minister agreed to consider the request of Cuttack Bhubaneswar Chapter to allot a piece of land for ICWAI's Center for Excellence. He also responded to President's suggestions of considering to sponsor some poor students from villages to apply for CAT courses to achieve the inclusive growth call of the Institute.

Campus Interview at SIRC

I was happy to address the ICWAI passed students who were participating in the campus recruitment. It was observed that the numbers are increasing day by day and the corporates are also responding in taking maximum number of final passed students, whereby the skills of the Cost and Management Accountants are in great demand.

Inauguration of the Coaching Classes at Bangalore

On 16th April, 2010, the 88th Coaching Class Batch was successfully inaugurated and I was happy to note that more and more number of students are joining to our course.

With regards,

Yours sincerely,

(GN Venkataraman)
President
Date : 5th May, 2010

Dear All,

It's a pleasure for me to stand here and attend the 51st National Cost Convention of the Institute of Cost and Works and Accountants of India. I am not a man of this profession but I understand the role of accounts and cost in the growth of an economy. The Institute has played and remained a significant role in providing policy inputs to the Government in various areas.

I come from the ministry of coal. If I start from the mining segment of coal the utility of cost management comes into play from the detail (and cost) of the planning, which increases as the project goes through different stages of approval and development. Feasibility studies cover the work prior to development.

Cost management profession develops and helps the coal industry in many important suitable, productive and safe methods, increased machine utilization, inventory management, reduction in cost due to accidents through improved health and safety standards, improved work culture, and discipline through efficient management. Training of workforce for underground mechanization to enable increased production would be an essential input.

Cost accountants and cost institute have helped the industry in the application of research and development for scientific exploitation which is also another input in meeting the challenges in increased mechanization for higher productivity with profitability. Policy guidelines have also been drawn by cost accountants for replicating the Chinese model of developing suitable technologies for higher percentage of extraction under our geo-mining conditions.

The proposal of the draft Companies Bill to make cost audit voluntary could lead to evasion of excise duty and income tax besides making easy cartelisation and predatory pricing by companies. This comes at a high time when cost and pricing of coal is becoming very critical for the economic consumption and to access the natural resources utilization measurement. I thank you for the cooperation and support that you have extended to Government from time to time.

One of the most interesting topics right now is how to allocate risks and costs with respect to environmental problems like climate change. Many of us are drawn to the field based on a genuine concern for the environment and the belief that economics provides a powerful tool for helping solve environmental problems. Economists in general study how people make decisions when faced with scarcity. Scarcity implies that resources devoted to one end are not available to meet another; hence there is an opportunity cost of any action. Cost-benefit analysis provides an organizational framework for identifying, quantifying, and comparing the costs and benefits (measured in dollars) of a proposed policy action. The final decision is informed (though not necessarily determined) by a comparison of the total costs and benefits. While this sounds logical enough, cost-benefit analysis has been cause for substantial debate when used in the environmental arena. And I support the debate that cost benefit analysis is a must for coal industry and environmental issues. I tend to favor cost-benefit analysis in the policy arena because of the discipline and transparency it provides in evaluating policy options. It is easy to evaluate absolutes.

Policy making is ultimately about evaluating the relative merits of different actions. Some mechanism is needed to rank the alternatives. Without the discipline of cost-benefit analysis it is not clear how the interests, claims, and opinions of parties affected by a proposed regulation can be examined and compared. Criterion such as 'moral' or 'fair' do not lend themselves well to comparison and are subject to wide ranging interpretation. Who gets to decide what is moral or fair? Cost-benefit analysis is far from perfect, but it demands a level of objectivity and specificity that are necessary components of good decision making.

Cost-benefit analysis is a part of this. By using the tools of their field environmental economists can contribute unbiased information that can lead to better policy decisions, and ultimately better environmental outcomes. Environmental protection is now an integral part of public policies, at local, national and global levels. In all instances, the cost and benefits of policies and projects must be carefully weighed using a common monetary measuring rod.

Indian industries were affected due to global recession. In 2010 we find a different story all together particularly for Indian economy.

We have not only come out of the dark days of recession but also Indian economy is growing at 7% GDP and we are proud to declare that very soon we will reach the level of 10% GDP growth in the coming decade. But how all these turn around happened. Was it magic or some strategic ball game. Its a mix of both the things which helped Indian economy to come out as a leader among the recession fighting devils.

Building corporate social responsibility from the end of a cost accountant will have to look into the decision making process of ethical investment. Only when the decision of ethical investment is developed and created by the Cost Accountant, then only will the full process of corporate social responsibility be created.

We know very recently GST and Direct Tax Code will come in to play where Cost Accountants will have a dynamic role for the Indian economic growth.

I once again compliment the Institute of Cost and Works and Accountants of India and wish you success in your endeavors.

Thank you.

Shri Sripraksh Jaiswal,
Hon'ble Union Minister for Coal

ANNOUNCEMENT

The Management Accountant - June, 2010 will be a special issue on

'ROLE OF COST AND MANAGEMENT ACCOUNTANTS UNDER DIRECT TAX CODE'.

Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to research@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th May, 2010.

ANNOUNCEMENT

The Management Accountant - July, 2010 will be a special issue on

'ROLE OF COST AND MANAGEMENT ACCOUNTANTS IN GST REGIME'.

Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to research@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th June, 2010.

HIGHLIGHTS OF SPEECH BY SHRI P. K. RUIA AT NATIONAL COST CONVENTION, 2010 HOWRAH

The efforts of ICWAI received a boost during the 51st National Cost Convention, held at Howrah when renowned industrialist, Shri Pawan Kumar Ruia and guest of honour lauded ICWAI. Shri Ruia was of the opinion that a resurgent India cannot become number one in the world without the help of Cost and Management Accountants. With cost audit and maintenance of costing records mandatory for all companies with a paid up capital of Rs.50.00 crore and above, there will be greater requirement for qualified cost professionals. Apart from the numbers, cost accountants can play a more meaningful role in the new tax regime.

Shri Ruia opined that cost accountancy is a science and it equips professionals with the necessary tools and methodologies right from policy making level. Today global business is all about numbers. All aspects of business from strategy to pricing to customer satisfaction are expressed in numbers. After all, "If you cannot measure you cannot manage". It is in this scenario that CMAs can provide the cutting edge in the value addition process and aid in decision making since they are the most competent in analysis, interpretation and presentation. Balancing of external and internal constraints is the USP of CMAs.

Shri Ruia further informed that during the downturn of 2008-09, he preferred cost accountants to financial accountants and with their support and competence he was able to devise profitable strategies for his business. Finally, he was of the conclusion that CMAs can become CEOs of global business and help in national building.

CANCELLATION OF REGISTRATION UNDER REGULATION 25(1) OF CWA ACT, 1959
REGISTRATION NUMBERS CANCELLED FOR JUNE-2010 EXAMINATION
UPTO
ERS/000904
NRS/001056 (EXCEPT 96, 119, 127, 140-145, 488-499, 533-600, 901-923, 937-950)
SRS/002191 (EXCEPT 2062–2104)
WRS/001818
RSW/075376
RAF/005824
RE-REGISTRATION

The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 31st December-2002) as above but desire to take the Institute's Examination in June-2010 must apply for **DE-NOVO** Registration and on being Registered DE-NOVO, **Exemption** from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, shall remain valid as per prevalent Rules.

For **DE-NOVO** Registration, a candidate shall have to apply to Director of Studies in prescribed Form (which can be had either from the Institute's H.Q. at Kolkata or from the concerned Regional Offices on payment of Rs. 5/-) along with a remittance of Rs. 2000/- only as Registration Fee through Demand Draft drawn in favour of THE ICWA OF INDIA, payable at KOLKATA.

Kindly ignore the earlier Circular dt. 27th January, 2010 in this regard.

Arnab Chakraborty,
Director of Studies

Date: 24th March, 2010

Sanjay Bhatia, I.A.S.
Commissioner of Sales Tax
Maharashtra State

Vikrikar Bhavan,
8th Floor, Mazgaon,
Mumbai - 400 010
Tel.: (Off.) 91-22-2377 0028
91-22-2376 0000
Fax : 91-22-2373 9790
DC(S.O.)/B/716 Mumbai, Dt. 05/4/2010

Dear Sh. Venkataramanji,

I am writing to you to convey my special thanks to all the Cost Accountants who have worked hard (sometimes burning the midnight oil) to make the scheme of E-Audit (704) successful. By 31st March, 2010, we had received more than 1.63 lakh e-audit returns which is nearly 92% of the required 704 forms.

This has been the second historic step. The first historic step was making 100% e-returns successful in April 2009. Kerala is the only other State to have achieved 100% e-returns.

In between, with your support we went ahead and achieved e-CST form applications (Earlier 2000 persons used to queue up daily in sales tax offices), e-registration (application), e-refund (application), designated e-mail service for each dealer and e-payment.

Now, e-audit form (704) has been achieved successfully with the kind support of all stakeholders. I am personally aware that the Cost Accountants had to work extra hard to achieve this.

But let us take pride in the fact that no other State is anywhere near us in this distinction.

All these achievements of the Sales Tax Department of Maharashtra would not have been possible without the active support of the Cost Accountant community. I am also especially thankful to the Cost Accountants who were part of the working group who deliberated and prepared the e-704 form.

Another major mile stone has been the achievement of our collection target of 2009/10. Against a target of Rs. 31,346 Cr. we have already achieved more than Rs. 36,000 Cr. The year 2010-11 is expected to be another eventful year where all the earlier years' initiatives will start bearing fruit. I am hopeful of your continuing support towards taking our initiatives forward in future.

With regards,

Yours sincerely,

(Sanjay Bhatia)

Shri G.N. Venkataraman,
President,
The Institute of Cost & Works Accountants of India,
12, Sudder Street, Kolkata – 700 016.

Integrated Risk Management Framework for Indian MSMEs

Dr. Ashish Varma*
Ishika Varma**

The Significance of MSME in India

The Micro, Small and Medium Enterprises sector (MSME) contributes to all three; manufacturing sector (45% output) , exports (40% of total exports) and employment generation. The latest report of the Prime Ministers Task Force suggested that the MSME sector contributes around 8% to the country's GDP and provides employment to 60 million person through 26 million enterprises. The best part however is that the growth of this sector is higher than the rest of the industrial sector. For instance in 2006-07 the overall industrial sector grew by 11.5% but the MSME sector grew by 12.6%. The MSME produce more than 6000 products which include food products (22%), Chemicals (12%), Basic Metal (10%), etc. Also a number of big enterprises of today were MSME a few years ago. Herein lies the scope and significance of MSME in shaping India's destiny.

The Micro, Small and Medium Enterprises Development Act 2006, recognized the importance of services and included services in the definition of enterprise. The MSME provides the maximum opportunities for self employment and jobs after agriculture. The MSME units contribution to employment generation is substantial since 34.9% of total employment of manufacturing and services comes from MSME. To build competence and capacity to face competition the National Manufacturing Competitiveness Program was initiated in 2005-06.

The MSME by their very nature are also exposed to a variety of Risks which they must manage. As per the Economist Intelligence Unit Survey 2009, about 36% of the time of the top management was spent on Risk and Captial management. Further the survey pointed out the bulk of this effort went into Strategy Development, Pricing, New Product development and allocation of capital to business lines. The objective of this article is to articulate the broad categories of risks faced by an MSME and the ways to manage them effectively. Risk is inherent for MSMEs and risk management must be identified as a core competency. The goal should be to understand, measure and monitor the various risks that arise. Risk here means the expected potential loss in future. The best method to manage risk is to align the risk management practices with corporate strategy by using both real and financial methods. For the MSME one challenge is to minimize the borrowing costs and thus some exposure is left unhedged.

The MSMEs are exposed to the following risks:

1. Credit Risk
2. Market Risk
3. Operational Risk
4. Product Risk
5. Macro Economic Risk
6. Technology Risk
7. Reputation Risk
8. Legal Risk

Credit Risk Management for Msme

Given the limited resources at the disposal of a MSME, Credit risk management assumes a great significance. The MSME must do a ongoing monitoring of a clients creditworthiness and credit exposure, maintain credit rating and determine credit terms and conditions. Thus the MSME must establish an appropriate credit risk environment, maintain appropriate credit administration, measurement and monitoring process at the same time adequately price to optimize risk return relationship. Nowadays a number of agencies offering ratings specifically tailored for the MSME sector are available. The SME rating agency of India ltd (SMERA) is a joint initiative of SIBDI, Dun and Bradstreet and some banks in India. The National Small Industries Corporation has offered upto 75 per cent subsidy on rating fee for SSI units that have a valid small scale industries registration certificate.The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) was launched by the government to make available collateral free credit to the MSME Sector. Further the Ministry of Micro, Small and Medium Enterprises along with SIDBI established the Credit Guarantee Fund Trust for Micro and Small Enterprises.

Market Risk Management for Msme

There is always scope for improvement as far as Market Analysis is concerned for MSMEs. A good indicator of this is "Var" or Value at Risk. This is defined as the maximum loss that a portfolio can have in 99% best cases in N Days. In simple words it answers a basic question " How bad can things get?". Another option is good asset liability management by managing structural liquidity, managing interest rate risk and a conservative management of currency risk. For the MSMEs a good understanding of hedging strategies, transfer pricing, compliances, policy and structures are advocated. The most commonly used

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**Research Scholar, M.M.H College, Ghaziabad.

instrument is the foreign exchange forward contract.

Operational Risk Management for Msme

Operational risk is risk arising due to operations. This risk is the risk of direct and indirect loss resulting from failed or inadequate processes, systems or people or from external events. Such a risk can be managed by Audit oversight, critical self appraisal, risk indicators and formal quantification.

In the Audit oversight the external audit department reviews business process to identify industry weaknesses. The critical self appraisal process is highly recommended for MSMEs as it involves every each department trying to submit a subjective evaluation of the sources of operational risk, their expected frequency and costs associated with them. Also in well managed MSMEs the centralized unit develops subjective risk forecast through risk indicators which are compared across the organization. In the formal quantification the managers use an event database and objectively assess the possibility of such events.

Product Risk

This originates from superior products replacing those offered by the MSME. This is possible due to economies of Scale and Scope, Superior logistics and Supply chain management etc. The MSMEs need to keep up with the changes in the customer expectation and preferences.

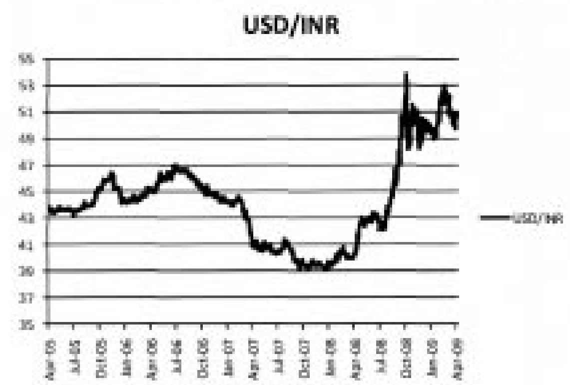
Macro Economic Risk

The MSMEs which are into exports are extremely vulnerable to currency fluctuations, interest rate regimes and inflation risk. This can be managed with natural hedges. For example if the firm needs to pay in Dollars six months later the best hedge is to have a deal in which it will receive a payment of the same quantum in Dollar in more or less six months.

Technology Risk

This risk is very important since most MSME are vendors/ solutions provider to large firms which are exposed to technology risk/ risk of obsolescence. This can be best managed by using flexible production processes and keeping an eye on the changing business paradigms and thus forecasting the expected technological changes.

EXHIBIT 1 USD / INR Exchange-Rate Fluctuations



For the one-year period from March 2008 to March 2009, USD / INR volatility increased dramatically. The exchange rate averaged 46.45 with a standard deviation of 4.08, and by March 2009, sixty-day volatility was 12.63%.

Framework for Risk Analysis Based on Financial Statements

Activity	Cash Flows	Cash Needed	Type Of Analysis
Operating	Profitability Of Sales	Working Capital	Short Term Liquidity
Investing	Sale Of Investment	Capacity Of Plant	Long Term Solvency
Financing	Borrowing Capacity	Debt Servicing	Long Term Solvency

Financial Statement Based Risk Assessment

The Financial Statements can be effectively used to assess the risk exposure to MSME. For instance the Income statement will show the vulnerability of the firm to a certain type of raw material which should be effectively procured to maintain profitability and competiveness. Similarly the quality of the earnings of the MSME can be assessed by comparing its PAT and the Cash generated by operations. The Balance sheet will be very useful in commenting on the efficiency of capital deployment by the MSME.

Conclusion

An important aspect to note here is that whereas in Credit and Market risk the uncertainty lied outside the firm, in case of Operational risk it is created by sources internal to the firm. Also the analyses based on research (Little, 1987) found that MSME firms are not reliably more labor-intensive than their larger counter-parts; nor are they consistently more technically efficient in their use of resources. Further studies have indicated that most MSMEs operate at on an average of 75% of their capacity and can do better. Thus it is upto the MSME to use the size to its advantage and be flexible and fast in its operations. The MSMEs are an integral part of the growth process that defines market economies. MSMEs can use creativity and innovation that leads to technological change and growth. But perhaps most significantly the MSME help all stakeholders of society including women, minorities, and immigrants, to economic growth, financial prosperity and upward mobility. ❑

Strategic Management for growth of SME Sector

Dr. Sukamal Datta*

Introduction

Strategic management is a level of managerial activity under setting goals and over tactics. It is that set of managerial decisions and actions that determines the long-run performance of an enterprise. It provides overall direction to the enterprise and is closely related to the field of organizational studies i.e. systematic study and careful application of knowledge about how people -as individuals and as groups act within the organization. The study of strategic management emphasizes on external opportunities and threats in the light of enterprise's strengths and weakness. Strategic management is the process of drafting, implementing and evaluating cross-functional decisions which in turn enable the enterprise to achieve its long-term objectives. "Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved, assesses its competitors and sets goals and strategies to meet existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment or a new social, financial or political environment" (Lamb,1984). Strategy management is about how the strategy is developed and implemented (Stacey 1993; Karami 2002). On the other hand, strategy formation is about how the firm chooses to define its strategy and how it approaches its implementation through strategic management (Bowman, 1998). Strategic management handles how a strategy is developed and where the organization's environment is analyses before the appropriate strategy is selected and implemented (Hambrick, 1981; Thompson,1995, Wheelen and Hunger,1998). Peter Drucker described how fewer workers would be doing Physical labour and move would be applying their minds under 'Knowledge worker' theory. The development of a strategy can be with formal or rational (Mintzberg, 1994), emergent or progressed (Whittington, 2001) under a logical path.

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Strategic Management Process

In the beginning academic progress was slow and the consulting firms began to develop their own models and theories for their clients. Eventually, the scholars began to build a consensus strategic management process. The strategic management process involves a careful analysis of an enterprise's internal strengths and weakness and external opportunities and threats which is commonly referred as SWOT analysis. The results from the 'situation analysis' are the basis for developing missions, goals and strategies. An enterprise should select strategies to utilize the organizational strengths and environmental opportunities and to overcome organizational weakness and environmental threats. A strategic management model has started process by defining the enterprise's mission in the light of the profile, external environment and operating industry analysis. An individual firm needs to identify the activities they perform best and seeks ways to maximize their effect in order to gain maximum competitive advantage (Pitts and Lei, 1996).

Figure: The Process of Strategic Management

Strategy formulation > Strategy implementation > Strategy evaluation

The strategy formulation is treated as the first step towards formulating the strategic process. In this section emphasis is given on enterprise's mission, business goals and their relationship with external environment in which opportunities and threats are exist.

The second element of the strategic management process is implementation. In this section emphasis is given on leadership, organization structure, organizational culture and their relationship with functional policies and resource allocation decisions.

The strategy evaluation is the last and final section of strategic management process. Here emphasis is given on control over activities, motivation, improvement of policies and operational procedure and evaluate performance with the grand strategy.

Study of Strategic Management in SME Sector

Small and medium enterprises play a significant role in almost all countries in the world even in the age of liberalization, privatization and globalization. Even the number of SMEs has been increasing rapidly in the present days. Though the strategic management as a field of study typically deals with large and established business enterprises yet the importance of strategic management can in no case be neglected in SMEs. It is observed from a research that strategic planning is strongly related to small-business financial performance (Rue and Ibrahim, 1998). A survey on 500 high growth firm shows that 86% followed strategic planning. Out of those 94% reported improved profit (Baker, Lon and Davis, 1993). It is revealed from a research into strategy formulation and implementation particularly in SMEs with the accelerating dynamics of competition SMEs play a key role in generating employment, economic wealth (Bentel and Jackson, 1989; Smith, 1998; Bridge and Peel, 1999). Nevertheless, many small enterprises still do not use the strategic management. The reasons of not using the process by those small enterprises are lack of sufficient skill of the management, lack of trust and openness, management are unfamiliar with strategic planning and the management think that they have not sufficient time to implement strategic management.

Cragg and King (1988), Watt and Ormsby (1990) have opined that formal strategic management procedure are inappropriate for small and medium sized enterprises which have neither the management nor financial resources to indulge in elaborate strategic management techniques. Gable and Topol (1987) have found that small firms do not commonly practice strategic management some other studies have found that there exists a positive relationship between strategic planning and performance in those enterprises. Robinson (1982), Jones (1982), Bracker and Pearson (1986), Watts and Ormsby (1990) found positive relationship between formal strategic planning and financial performance in small enterprises. In the complex financial areas of the enterprises strategic management will develop through various stages from its financial plans and budget, through to forecast based planning, externally oriented planning. In order to ensure the future survival and long term success of the SMEs managers must make necessary progression towards a strategic orientation and more sophisticated strategic management techniques.

Conclusion

There are differences in opinion among the experts regarding introduction of strategic management in SMEs particularly in small enterprises. But it is a fact that small and developing enterprises increase their chances of success if they seriously attempt to work through the strategic issues embedded in the strategic management model. The SMEs should focus in selling the management decisions and take appropriate actions to achieve long-run positive performance of the enterprise. The new entrants in this sector where the process does not fit should develop new missions, objectives, strategies and policies out of a comparison of their external opportunities and threats to their internal potential strengths and weakness.

For the survival and growth of SME sector in the present days complex business environment the SME has to look to the future, know in what markets it is playing and want to be enter. It has to pay attention to the existing external influencing factors such as technological, economic, political and social factors. It also establishes and keeps a match among those external influencing factors and internal factors. The management of the SME should remember that strategic management is a process and not an event, it demands action and follow up. Strategic management is concerned with choosing the appropriate market and/or product. It helps the strategists to understand the current situation and set the goals of the enterprise. Proper adoption of strategic management system in the SMEs provide many benefits for their survival and growth like it gives a clear sense of vision and mission for the time, assesses strengths and weakness of the firm and opportunities and threats from the environment and enable the enterprise to focus on what is strategically important, prepares the firm to get ready to comfort any controlled or uncontrolled issues, creates the relationship among the managerial staff of the enterprise that facilitates commitment to the achievement of specific goals, provides information regarding the nature of the environment change and helps to be 'fit' with the changing environment. Thus, we may recommend that the management of the SMEs must make necessary progression towards a strategic orientation and more sophisticated strategic management techniques as the SME grows to ensure future survival and long-run success of the enterprise.

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Cost and Strategic Management for Growth of SME Sector

Dr. Nachiket M.Vechalekar*

Introduction:

The Small and Medium Enterprise [SME] play a vital role in the industrial development of any country. The importance of SME sector is well- recognized world over from its significant contribution in gratifying various socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship.

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both the sectors, and particularly for small- scale industries from the period from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small- scale units, though this list of products is decreasing due to change in industrial policies and climate. The SME sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. Of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points. This sector has provided employment to around 26 million people and is involved with the production of over 7500 industrial items with the product range varying from very simple items produced with traditional technology to high tech products. At present, the SSI sector accounts for over 90% of industrial units in the country and approximately 35% of India's exports. Due to its nature of less capital intensive and high labour absorption, SME sector has made significant contribution to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths and of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. SMEs always represented the model of socio-economic policies of Government of India, which emphasized judicious use of foreign exchange for import of capital goods and inputs, labour intensive production, employment generation, non concentration of economic power in the hands of few, discouraging monopolistic practices of production and marketing and probably the most important one, that is fulfilling the dream of 'Inclusive Growth'. It was also coupled with the policy of de-concentration of industrial activities in few geographical areas.

It can be observed that by and large, SMEs, in India met the expectations of the Government in this respect. SMEs developed in a manner, which made it possible for them to the following objectives.

- High contribution to domestic production.
- Significant export earnings.
- Low investment requirements.
- Operational flexibility
- Location wise mobility
- Low intensive imports
- Capacities to develop appropriate indigenous technology
- Import substitution
- Contribution towards defense production
- Technology oriented industries
- Competitiveness in domestic and export markets.

SMEs - Definition:

The definition of 'small' and 'medium' sized enterprise differ from country to country. Organization for Economic Co-operation and Development [OECD] defines establishments as an organization with up to 19 employees as 'very small', from 100 to 499 employees as medium and over 500 employees as large enterprises. However many establishments in some developing countries with 100 to 499 employees, are regarded as relatively 'large' firms. Multilateral Investment Guarantee Agency [MIGA] has recently developed a guarantee program called as the Small Investment Program, as firms with not more than 300 employees, value of assets not exceeding US $ 15 million and annual sales not exceeding US $ 15 million. According to the European Union, SMEs are those organizations having employees of not more than 250 with a turnover not exceeding Euro 50 million. In India, the Micro, Small and Medium Enterprise Development Act 2006 defines that,

- Micro Unit is a unit having investment in Plant and Machinery not exceeding Rs.25 lakhs.
- Small Scale Unit is a unit having investment in Plant and Machinery more than Rs.25 lakhs and maximum up to Rs.5 crores.
- Medium Scale Unit is a unit having investment in Plant and Machinery

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more than Rs.5 crores and maximum up to Rs.10 crores.

Government Policies:

Since independence, the Government of India has formulated a total of six Industrial Policy Resolutions/Statements with a view to promote industrial growth in the country. All these policies have also covered the small - scale sector, in general. Various incentives pertaining to financial, fiscal and infrastructure related issues, were designed and extended to SSI units. To ensure healthy growth and to enable these units to have level playing field for competing with the large scale units, policy of protection was followed which envisaged reservation of certain items exclusively for the SSI sector and also a preference to the SSI sector regarding procurement of goods by the Government and Semi-Government departments. However it is but natural that after the policy of liberalization followed after 1991, many of the items are de-reserved. In order to ensure credit flow to this sector, the Government evolved a credit policy under the priority sector lending. Several committees have been constituted to increase the credit flow to this sector. The Internal Group set up by the Reserve Bank of India to review the guidelines of credit flow to the SME sector recommended self set targets for the commercial banks, with an increasing disbursement over the previous year. The Group has also advocated for empowering the Boards of the banks to frame their own policies with regard to SME financing, so that lending policies would be more liberal than the existing policies. Some of the significant steps taken by the Government for promoting the SME sector can be summarized as given below.

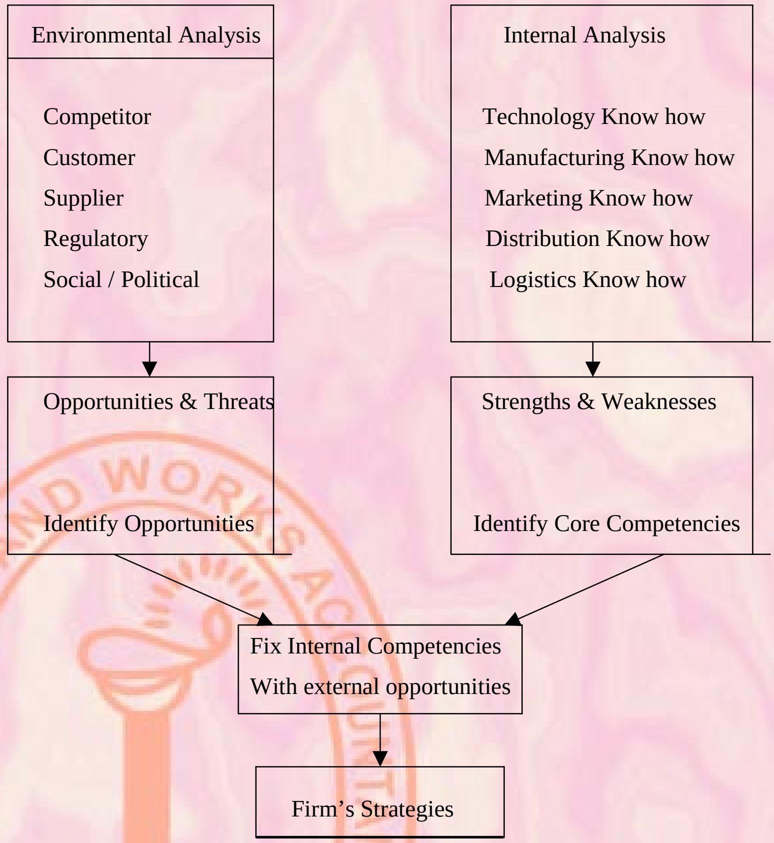
- A single comprehensive legislation for the promotion, development and enhancement of the competitiveness of the SME Sector - Micro, Small and Medium Enterprises Development Act [MSMED] Act, 2006 came into effect from October 2006.
- National Manufacturing Competitiveness Council [NMCC] was set up to energize and sustain the growth of the manufacturing industry. New Promotional Package for MSMEs [Micro, Small and Medium Sector] and focus on accelerating developing of clusters was announced.
- Revised strategy of lending and introduction of newer measures, such as the scheme to establish Small Enterprises Financial Centers [SEFC] for strategic alliance between branches of banks and SIDBI located in 388 clusters identified by ministry of SSI.
- SME Fund of US $ 2.27 billion was operationalized. Proposal for doubling the credit flow to SME sector in next 5 years.
- Promotional and financial support for Credit-cum-performance Rating in MSME Sector in India, to facilitate greater and easier flow of credit from the banking sector to SMEs.
- The National Commission for Enterprise in the unorganized sector has been set up as an advisory body and a watchdog for the informal sector to bring about improvement in the productivity of these enterprises for generation of large scale employment opportunities on a sustainable basis, particularly in rural areas.
- Credit Linked Capital Subsidy Scheme for Technological Upgradation is launched.
- New legislation on Limited Liability Partnership is being worked on.
- The outlay for the MSME Sector has been enhanced by around 600 crores to Rs.2400 crores, in the budget of 2010-11 for implementing the recommendations of the Prime Minister's Task Force.
- An amendment is proposed in the budget of 2010-11 whereby the eligible small scale industry unit can avail of CENVAT Credit against purchase of capital goods in full [100%] in the same financial year of receipt of such capital goods. [Earlier it was 50% in the year of receipt and rest was allowed in subsequent year]
- Another proposed relief to the SSI units is that the eligible units are allowed to pay the duty on the goods cleared by them once in a quarter instead of the monthly basis.

All the above policy measures mentioned above show clearly the Government's intention to ensure a robust growth of the MSME sector and thus ensure the growth of the economy. It is expected that this sector should take full advantage of these policy reforms and make themselves more competitive to take on the global competition. It should be remembered that all over the world, the importance of this sector is growing and consequently the competition is becoming more and more intense. In view of this it is of paramount importance that the Indian SMEs should conduct SWOT analysis of their organizations and try to remove their weaknesses and focus on the strengths to take on the global competition. A glance at the weaknesses of the SME sector shows that there is a need to follow a well defined strategy for making the SME sector more competitive and truly global.

Strategy for Growth:

Strategy is defined as, 'where the organization wants to go to fulfill its purpose and achieve its mission, it provides the framework for guiding choices, which determine the organization's nature and direction and these choices relate to the organization's products or services, markets, key capabilities, growth, return on capital and allocation of resources." The key to a company success lies in creating value for customers while distinguishing itself from the competitors. How to achieve this is what a strategy is all about. Strategy can also be described as, 'The general direction in which an organization plans to move to attain its goals." In other words, strategy is 'An integrated set of actions aimed at securing a sustainable competitive advantage.' Every well-managed organization has one or more strategies, although they may not be stated explicitly. A firm develops its strategy by matching its core competence with industry opportunities. The process of strategy formulation can be shown with the help of the diagram as given below.

Process of Strategy Formulation[1]



According to Kenneth R. Andrews[2] the strategy formulation is a process that senior executives use to evaluate a company's strengths and weaknesses in light of the opportunities and threats present in the environment and then to decide on strategies that fit the company's core competencies with environmental opportunities. There are three distinct levels of business strategy, which are as follows.

I] Strategies at the highest level of an organization, known as Corporate Level Strategies basically deal with the allocation of resources among various businesses or divisions of an enterprise.

II] Strategies, which are at the level of a particular business or division deals with primarily with the thrust of competitive action in that business alone and are known as Business Level Strategies.

III] Strategies, which are limited to the particular function of a business are known as Functional Level Strategies.

Strategic Management: Strategic Management is the process of formulating strategies and strategic plans and managing the organization to achieve them. The fundamental task of the Strategic Management is to ensure that the mission of the organization is well defined and is relevant in the environment in which the organization operates. In fact Strategic Management not only defines the mission and vision of the organization but it also chalks out a road map of achieving them through a systematic strategic plan. Strategic Management is therefore visionary Management, concerned with creating and conceptualizing ideas of where the organization is going.[3]

Concept in Strategic Management: The key concepts used in Strategic Management are as follows.

I] Distinctive Competence: It means working out what the organization is best at and what its special or unique capabilities are. In other words it means 'Core Competence'. A firm has to decide whether it should concentrate only on the core competence or practice diversification.

II] Focus: It means the identifying and concentrating on the key strategic issue. For example, Infosys Ltd decided to concentrate on three strategic issue, one is the Global Delivery Model to ensure timely delivery of quality products, second emphasis on improvement in the infrastructure and processes and the third one is on the employee empowerment.

III] Sustainable Competitive Advantage: According to Michael Porter, this concept states that to achieve advantage, firms should create value for their customers, select markets

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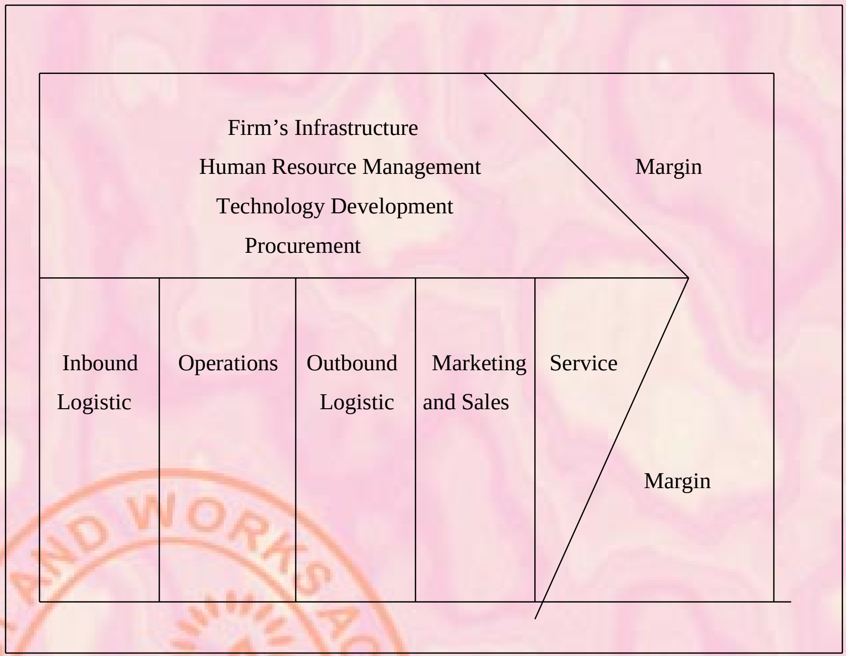
[1]Robert N. Anthony, Vijay Govindrajan: Management Control Systems, Page 55
[2]Kenneth R. Andrews, The Concept of Corporate Strategy
[3]Ravi M. Kishore, Cost Management

where they can excel and present a moving target to their competitors by continually improving their position. The important aspects of these concepts are, innovation, quality and cost reduction. Michael Porter also advocated the concept of value chain, which consists of five generic categories of primary activities.

- Inbound Logistics: This represents the reception, storage and internal transport of inputs to the product.
- Operations: The transformation of those input in the final products.
- Outbound Logistics: The collection, storage and distribution of the produce to buyers.
- Marketing and Sales: This involves, persuading buyers to purchase the product and making it possible for them to do so.
- Service: The provision of service to enhance or maintain the value of the product.

The value chain can be explained with the help of the following diagram.For SMEs, it is essential to study the concept of 'Strategy' and 'Strategic Management' in order to obtain sustainable competitive advantage. The following strategies are suggested for SMEs so as to make them more competitive and enable them to face the global competition.



I] Human Resources : One of the key element for success of SMEs is the human resources. However it has been observed that Indian SMEs are highly promoter centric. They usually hesitate to hire professionals and hence the quality of manpower in the organization is questionable. The Promoters normally do not want to dilute their stake in the fear that they will not be able to control the business and hence they are chronically under capitalized. It is of utmost importance that the entrepreneurs come out of this mind set and start having a close look towards the quality of their manpower. A long term strategy is essential to create a talent pool in the organization and every effort should be made to retain them. According to Prof. Martin Haeming, Adjunct Professor and Senior Advisor on venture capital at Stanford University[4], 'Indian entrepreneurs tend to focus on short term goals, which may work just fine. But you also need a long term strategy which involves assembling a great team and staying focused'.

II] Financial Strategies: It has been observed that Indian SMEs are traditionally focused on creating financial structures for tax efficiency rather than business efficiency. It is the need of the hour that the SMEs planning to seek external funding to finance their next level of growth need to focus on developing financial structures for business efficiency. According to a recent survey by 'Nine Dot Nine Media' it has been revealed that those with transparent, robust and flexible financial structures can accrue long-term benefits. It also showed that innovative and flexible financial structures ensured greater access to funds along with efficient Management of cash flows. As regards the raising of the funds, the survey further said that around 82% of those surveyed indicated a preference for internal resources to finance growth as opposed to external sources of funding. The survey revealed that Indian SMEs were reluctant to experiment with debt equity ratio to create innovative financial structures. Though over 50% of the SMEs surveyed have attempted restructuring in the past, there were significant challenges. While several irregularities were found in their balance sheets, 61% of them failed to recognize them. Some significant irregularities that emerged included the existence of multiple business entities on a single balance sheet and the presence of non operating surplus assets. This leads to inaccurate valuations and low liquidity levels and consequently deter potential investors and partners and hence access to funds.[5] In such situation it is essential to chalk out financial

[4]The Economic Times, 22/02/2010

[5]Survey conducted by 'Nine Dot Nine Media' as reported in Financial Express dated 22/12/2009 in the article by Mahesh Ravi and John Khiangte

strategies for creating value. Restructuring has emerged as a strategic necessity for India's mid size, high growth companies. Similarly judicious use of debt funds has also become the need for the hour, otherwise the growth will be severely restricted.

III] Manufacturing Strategies: The SMEs primarily manufacture sector specific components such as auto ancilliaries and equipment and supply these to tier -1 companies which perform the fabrication and assembling tasks. Thus contribution of the industry to the nation's GDP depends on the collective performance of both SMEs and the big players. Despite these fact, it has been observed that Indian SMEs in the manufacturing sector lag behind their competitors from the technology perspective. The production methods adopted by them are also obsolete and wasteful. They need to implement suitable measures to minimize waste generation and optimize resources to minimize the cost. Lean Manufacturing is a production practice which SMEs in the manufacturing sector can adopt to cut down their waste volumes and costs and make remarkable improvements in resource optimization and product quality. Lean Manufacturing refers to a set of production floor practices which are targeted at the optimization of costs, quality and the lead time through elimination of wasteful activities. Based on the Toyota Production System [TPS], lean manufacturing practices focus on deriving the maximum value for the minimum resource input. This is achieved through systematic reduction of the seven wastes identified by the TPS - the wastes associated with transportation, inventory, motion, waiting, overproduction, extra-processing and defects. For successful implementation of the lean manufacturing methodology, SMEs should first comprehend that the sole purpose of manufacturing engineering is to design a system that optimizes the overall costs and profits. SMEs can deploy an effective lean manufacturing system for obtaining competitive advantage.

IV] Marketing Strategies: It is essential to re-visit the marketing strategies of the SMEs. Especially if they want to face the global competition successfully, they will have to be more aggressive in marketing their products and services. Substantial investments will have to be made in the overseas market research and also for designing suitable distribution channel in the foreign market. Domestic market is also very vast and scattered and here also substantial investments are required to tap the same. More consumer centric approach is required in this field.

V] Strategic Cost Management: In today's competitive environment, the most efficient companies view all of their spending [direct or indirect] as an investment. They make smart spending decisions based on a strategic vision and their internal capabilities to deliver value from that investment. Traditionally companies have been under pressure to cut costs in the short term without really thinking about sustainable change and integration with the overall business strategy. In the current business environment of increased global competition, new markets, increasing regulation and changing demographics, successful companies must develop a multifaceted and renewable cost competence. It has been observed that yesterday's tactical solutions, despite consuming considerable resources, have failed in many organizations to deliver the planned reduction of costs and have not resulted into competitive advantage. In many cases the cost savings achieved in the short term have leaked away and the cost base has returned to previous high levels, but with the result of considerable damage to corporate structure, image, culture and morale. Therefore it should be understood that 'Cost' is a strategic issue. There is a need to continuously strive to optimize the same in the context of the entire business model of the organization. It also becomes necessary sometimes to change the business model itself to ensure that it remains competitive. Similarly the execution of any chosen strategy has to be carefully managed to ensure the appropriate balance between revenue growth and cost. It has also been observed that companies that are taking the investment approach to managing cost are thriving in this new environment, striking a balance between a competitive cost structure, cost effective strategy execution and investment in the future. They are delivering a robust response to the cost challenge. Thus it has become the need of the hour to link the Cost Management to strategies of the organization. Strategic Cost Management is the provision and analysis of Cost and Management Accounting data about a business and its competitors for use in developing and monitoring the business strategy. Strategic Cost Management focuses on the cost reduction and continuous improvement and change than cost containment only. It has been observed that the traditional cost control systems mostly maintain status quo and the ways of performing the existing activities are not reviewed. Hence the strategic cost Management goes a step ahead and uses several approaches adopted do not necessarily use the accounting technique. The basic aim of strategic cost Management is to help the organization to achieve the cost leadership and as per the model of Michael Porter's model, get the sustainable competitive advantage. Important techniques of Strategic Cost Management are as follows.

I] Life Cycle Costing: The concept of life cycle costing ensures better allocation of costs during the pre and post manufacturing periods. Traditional cost accounting procedures mainly focus on the manufacturing stage of life cycle of a product. However it may result in omitting certain vital elements of the pre manufacturing costs like costs incurred for conducting feasibility studies, research and design, product development, training and development of employees and so on. Product life cycle costs has the following elements.

a. Acquisition costs, i.e. costs of research, design, testing, production, construction or purchase of capital equipment.

b. Transportation, maintenance and handling cost of capital equipment,

c. Expenses like energy costs and other utility costs.

d. Cost of training of the staff

e. Other costs like inventory holding costs, spare parts, warehousing costs, technical know how costs

Life cycle costing estimates and accumulates costs over a product's life cycle in order to determine whether the profits earned during the manufacturing phase will cover the costs incurred during the pre and post manufacturing stages. Further, the Management can also plan about the costs to be incurred during various stages of the product life cycle. In fact, if the costs incurred during various stages of the life cycle of a product are traced according to the various stages, it will help to identify the areas for cost reduction. For example, during the introduction stage, the marketing costs are quite high as the product is to be established in the market, but as the product enters in the growth and then maturity stage, the marketing costs may come down as the product is established during this period.

Broadly speaking, if we consider three stages in the product life cycle, i.e. planning and design stage, the manufacturing stage and the service and abandonment stage, an analysis of committed costs and incurred costs can be made. It can be seen that the costs are incurred when a resource is sacrificed and costing system will record only those costs which are incurred. It can also be understood that once the costs are committed, it is very difficult to alter them. Nearly 80% of the costs are committed during the planning and design stage, i.e. pre manufacturing stage and hence the Cost Management can be very effectively exercised during this stage itself. Thus for obtaining a competitive edge, it is of paramount importance that the starting should be made from the planning and design stage itself for an effective cost reduction program. For example, TATA Motors have effectively reduced the cost of their new car Nano, by making certain changes in the design of the product.

II] Target Costing: Target Costing can be used effectively as a Strategic Cost Management tool. For implementation of this technique, a target price, which customers can pay is determined in advance along with the target profit, which the business organization wants to earn. The target profit is deducted from the target sales price to obtain the target costs. The target costs are compared with the actual estimated costs and if the actual estimated costs are more than the target costs, it is analyzed further and efforts are made to ensure that the actual estimated costs are within the target costs. Firms that undertake target costing have to put in place an exhaustive market research to identify what their customers want and how much they are willing to pay for that. However, the customers may not be aware of a new product and its use for deciding how much to pay for that. In such cases, the business organization will have to identify the needs and then find out how much the customers are really willing to pay for the new product. Firms, using target costing should also find out the prices of the competitor's products. If the competitor's products have higher functionality and quality the target selling price will have to be les than that of the competitors. However if the product is designed in such a manner that it is higher in quality and functionality as compared to the competitor's products, the target price may be either at par or slightly higher than that of the competitor's products. While setting the target price, the overall pricing policy of the firm should also be taken into consideration. For example, a firm may decide to follow penetration policy, which means placing the product in the market at a lower price as compared to its competitors. On the other hand, if a skimming the cream pricing policy is followed, it will result in charging higher price than that of the competitors. These policies will have the bearing on the target price that is fixed.

After setting the target price, the next steps are to set the target profit margin and then to calculate the allowable cost by subtracting the target profit from the target price. The question arises here is whether the allowable cost itself is the target cost? The answer for this question should be in the positive, however the allowable cost may be different from the target cost as the market driven costing process has yet to take into consideration, the capabilities of the firm and its suppliers. In this situation, there is no guarantee that the firm can design the product that it can be manufactured at its allowable cost. In view of this, the objective of the product level target costing, is to set the target costs that are achievable.[6]

The product level target costing process starts with the current cost of the proposed product. In other words, this process means to find out the cost of the product if it is manufactured today, without any modification or change in the design or without introducing any improvements in the process. The difference between the allowable cost and the current cost will give an idea to the firm about the magnitude of the cost reduction program that should be undertaken. Further the cost reduction program can be divided into two, achievable and non-achievable. As regards the achievable portion, considerable efforts are required to reduce the cost by changing the design and carrying on improvement in the processes. Techniques like value engineering can also help immensely in this program. It has been observed that if the product level target costs are determined

[6]Cost and Effect, Robert S. Kaplan, Robin Cooper

properly, the target should be achieved in majority of the cases. The non-achievable portion is called as the strategic cost reduction challenge. The competitive position of the firm is to be studied before taking any strategic decision in this matter.

Component level target costing involves establishing target costs for each of the component in the future product. This implies that the component level target costs establish the supplier's selling prices and therefore through the component level target costs, the competitive pressure faced by the firm is passed on to the suppliers. The component level target costs establish the allowable selling prices of the suppliers. However it should be remembered that the objective is not to squeeze the profit margin of the suppliers to a very low level but to allow them sufficient profit margin. However the objective here is to bring about financial discipline in the supplier's businesses also. It should also be remembered that the target costing should be practiced for product or component only but the wider aim should be to be a part of the most efficient supply chain. Therefore there should be Chained Target Costing, which means that the buyer's component level target costs become the supplier's target selling prices. If the supplier's suppliers also develop and use target costing technique, the chaining continues down the supply chain. Thus the chained target costing systems can transmit the competitive pressure from the buyer down to supply chain, making the entire chain highly efficient.

The cardinal rule for target costing is that the target costs can never be violated. The only exception perhaps is that if the improved functionality allows the target price to be increased by an appropriate amount, then only exceeding the target cost is allowed. If the design team cannot achieve the product level target costs, the rule is to scrap the project totally. However, it will require a careful consideration at all the levels. For achieving impressive results by using the Target Costing, the following techniques are normally used.

A] Tear - Down Analysis: This analysis is also known as Reverse Engineering involves examining a competitor's product in order to identify the opportunities for product improvement and/or cost reduction. The competitor's product is dismantled to identify its functionality and design and to provide insights about the processes that are used and the cost to make the product. The aim is to benchmark provisional product design with the design of the competitors and to incorporate any observed comparative advantage of the competitor's approach to the product design. Thus it has been observed that in case of a successful soft drink produced by a leading business group, the tear down analysis was conducted to find out the competitor's strengths and weaknesses and after studying them, necessary improvements were made in the product. Now it has become a global brand.

B] Value Engineering: Value engineering also known as value analysis is a systematic interdisciplinary examination of factors affecting the cost of a product or service in order to devise means of achieving the specified purpose at the required standard of quality and reliability at the target cost. The aim of value engineering is to achieve the assigned target cost by identifying improved design that reduces the product's cost without sacrificing the functionality and also to eliminate the unnecessary function that increase the product's cost for which the customers are not ready to pay. For example, in case of pharmaceutical company, they achieved substantial cost reduction by changing the design of the bottle in which they were selling their product. During the value engineering process, it was observed that, the size of the bottle was too big as compared to the contents of it. The bottle was remaining half empty and it resulted into escalation of costs. The company decided to reduce the size of the bottle and ensured that the bottle is at least 85% used. This reduced the material cost drastically. Value Engineering has also been successfully employed in automobile sector, in case of four wheelers and two wheelers. In such cases, the functions might consist of style, comfort, operability, reliability, quality, attractiveness and also the esteem value. Companies conduct surveys to find out how much customers are ready to pay for these values and the estimated selling price can be determined on this basis.

III] Kaizen Costing: Kaizen is the Japanese term for continuous improvement: "gradual, unending improvement, doing little things better, setting and achieving ever-higher standards".[7] Kaizen costing reduces the cost of producing existing products by finding ways to increase the efficiency of the production processes used in their manufacture. Kaizen Costing has also been defined as a method of costing that involves making continual, incremental improvements to the production process during the manufacturing phase of the product/ service lifecycle, typically involving setting targets for cost reduction. It has been observed that in case of many products, whose life span is so short that it is even less than the manufacturing process itself. In such cases if the manufacturing process is focused to effect cost reduction, it pays rich dividends.

Kaizen costing focuses on where the managers perceive the greatest opportunity for cost reduction. In fact the aim of Kaizen is to reduce the cost of components and products by a pre specified amount. Monden and Hamada [1991] describe the application of Kaizen costing in a Japanese automobile plant. Each plant is assigned a target cost reduction ratio and this is applied to the

[7]Cost and Effect, Robert S. Kaplan, Robin Cooper

Contd. on Page 369

Importance of Balanced Scorecard for Growth of SME Sector

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic Goals. Balanced Scorecard in Large Enterprises, Application of the Balanced Scorecard in SMEs Balanced Scorecard used by SMEs exists today should not be taken as an indication that Balanced Scorecard implementation is only appropriate for large organisations, The Balanced Scorecard was originally proposed as an approach to performance measurement that combined traditional financial measures with non-financial measures to provide managers with richer and more relevant information about organisational performance, Characteristics of Small and Medium Sized Enterprises, Designing a Balanced Scorecard based Strategic Management System in an SME, Describing Strategic Destination, Strategic objectives Once the strategic destination has been established the next step is for the same group to agree on the most important strategic activities and outcomes (strategic objectives) required for the destination to be achieved. Balance score card - sme sector Each company should determine its own aims and measures connected within an area of its activity. Some examples of such preliminary analysis for SME company are presented below. Measures Balanced Scorecard designs in large enterprises normally include an elaborate process for identifying and describing measures selected to inform management about the organisation's progress towards achievement of its goals.

B. Ramesh*

Introduction

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the Tableau de Bord - literally, a "dashboard" of performance measures) in the early part of the 20th century.A concept of Balanced Scorecard (BSC) is one of the newest methods of strategic management. First book edited by Robert S. Kaplan and David P. Norton, authors of this method, was published quite recently in year 1996 [14]. In spite of this within a short time period the method gained a world wide publicity and currently it experiences extremely intensive development. Properly used, for example in ERP/MRP rank systems, it benefits companies with measurable effects. The BSC idea assumes that an abstract vision of company development can be changed into multilevel action strategy and into measurement of its application effectiveness with a various measures. A combination of current and forecasting ratios set on a base of four perspectives (customers, financial, processes and development) will enable to a leading personnel not only information about current company situation but also instantly evaluate whether the company development heads into a designed direction. The customer perspective seeks for a source of actual market position and investigates customers satisfaction level. The finances perspective examines present, complex financial status of a company. The processes perspective determine the activities with the highest effectiveness. And finally the development perspective investigates company readiness for applying an innovative changes. As distinct from traditional methods which base on analysis of current and historical data, BSC first of all concentrates on achieving assumed aims in future and enables measurements of "intangible" events in company in order to effectively plan the company growth. In that case from the BSC point of view it is very important to correctly draw up a set of ratios gathered in so-called scorecard that will be adjusted to individual company situation

Balanced Scorecard in Large Enterprises

The Harvard Business Review, in its 75th Anniversary issue, cites the Balanced Scorecard as being one of the

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15 most important management concepts to have been introduced via articles in the magazine. Since its introduction in 1992, the Balanced Scorecard has featuredin a wealth of academic and practitioner papers, and has been the subject of several bestselling books. But writing on the Balanced Scorecard focuses on its application in large organisations, drawing on case examples like e.g. Mobil and CIGNA (Kaplan & Norton 1996, 2000), ABB, Skandia, SKF and Halifax (Olve et al 1999) - all multi billion dollar companies.One explanation for this predominantly large company focus may be found in the challenges of communication, coordination, and control in large organisations. The task specialization and levels of organisational hierarchy that is required to support the scale of the organization make all forms of change more difficult in large organisations (Miller 1959, Sprott 1973 Simon 1976; Atkins & Lowe 1997).

Application of the Balanced Scorecard in SMEs

Balanced Scorecard used by SMEs exists today should not be taken as an indication that Balanced Scorecard implementation is only appropriate for large organisations. Core to this view is our experience of benefiting from having implemented the Balanced Scorecard in our own organisation and the proposition that many basic strategic management issues are relevant in both small and large organisations. Examples of these include:

- The need for a clear sense of direction: where is the organisation headed?
- Managers must have a profound understanding of the business model: is the
- organisation doing all the things it needs to be doing?
- An ability to focus and prioritise: how to strike the balance between long-term
- development and short-term operational pressures?
- Agility: flexibility driven by learning: how to incorporate new knowledge in the strategic and operational planning processes?

Common to each of these issues is the need for the identification, pursuit and achievement of strategic goals. Recently it has become common for these to collectively drive towards fulfilling stakeholder expectations in general, and for publicly quoted firms in particular to deliver Shareholder Value.

"Pick up most well respected finance texts and you will find the maximisation of returns to shareholders being quoted as being the key business objective"

Using the Balanced Scorecard as part of a "Strategic Management Framework"

The Balanced Scorecard was originally proposed as an approach to performance measurement that combined traditional financial measures with non-financial measures to provide managers with richer and more relevant information about organisational performance, particularly with regard to key strategic goals (Kaplan & Norton 1992). By encouraging managers to focus on a limited number of measures drawn from four 'perspectives', the original Balanced Scorecard aimed to encourage clarity and utility. Over time Balanced Scorecard has developed to form the centre-piece of a strategic communication and performance measurement framework that helps management teams articulate, communicate and monitor the implementation of strategy using a system interlinked with the long-term destination of the organisation. More recent insights suggest that a successful Balanced Scorecard implementation will require adjustments to be made to other management processes used by the enterprise. Only in so doing will the Balanced Scorecard be able to become a central part of a "strategic management It is, in our experience, this evolution of Balanced Scorecard methodology that has increased its relevancy for small companies. The reason being that in SMEs a greater proportion of the value of Balanced Scorecard comes from its use to formalise the description of strategic destination and associated strategic objectives and priorities in a way that builds consensus; and the impetus it gives to the development and application of more effective strategic and general management processes - both areas that are normally only weakly addressed in SMEs

Characteristics of Small and Medium Sized Enterprises

Much work has been done to identify ways in which management practice in small and medium-sized enterprises (SMEs) differ from larger ones. Two linked areas of comparison have been differences in organisational structure, and differences in management processes. SME's (particularly small ones) have been characterised as being typically "simple structures" or "simple systems" in which the leader (oThen the entrepreneur or owner-manager) directs the work of a small number of operators with the help of few or no other managers. At around 100 staff, this type of approach begins to become inefficient, and by the time the enterprise has about 500 employees some sort of hierarchical structure has been introduced - most commonly introducing a layer of managers each tasked with management of a functional area of activity. As the organisation grows, further structure changes occur driven by the increasing problems of communication and co-ordination. It has been observed that the points of transition between organisational forms present or represent particularly risky periods for the enterprise, during which enterprise failure is not uncommon (Mintzberg 1981). Coordination in small organisations mainly happens through direct instruction and supervision, minimising the need for formal management (i.e. planning and control) processes. Many see this as a key strength of the smaller enterprise, since by avoiding extensive standardisation and coordination, and the associated need for support staff and linemanagement; small firms maintain their flexibility, responsiveness and low cost structure (Miller 1959, Mintzberg 1981).

Designing a Balanced Scorecard based Strategic Management System in an SME

Balanced Scorecard design in an SME will include similar process steps to those required in large organisations. The key difference is the duration of the process - it is quicker in small organisations as there are fewer people and generally less complex organisational structures1. We certainly experienced this when designing our own Scorecard applying an approach similar to what we have used to facilitate design projects in many large organisations. We see Balanced Scorecard design as the initial effort to produce the physical documentation: Destination statement, strategic objectives, measures and strategic initiatives2 normally forming the basis for subsequent implementation and use of the Balanced Scorecard methodology. The design process can therefore be said to form a structured or formalized approach to strategic planning - the importance of which to SMEs was considered earlier. Best practice in large organisations suggests that Balanced Scorecard design activity should be a collective effort drawing upon the combined operational and strategic insights of key employees involved with running the business. Failure to use a collective approach may weaken the value of the strategy itself (Simon 1957, Mintzberg 1990) and its implementation due to lack of support from those accountable for executing it (The omson's "dominant coalition": The omson 1967). Small organisations in particular were characterised earlier as being likely to have limited planning and control systems (Mintzberg 1981; Atkins & Lowe 1997). Even so, there is always potential to add value by including more staff in the decision making process, as Mintzberg and Simons note. As an enterprise grows into a medium sized enterprise, the complexity of the internal operational environment increases (Miller 1959; Atkins & Lowe 1997). As a consequence, achieving "insight into value creation" (Campbell & Alexander 1997) becomes more complicated - one person can no longer fully capture the activities of the enterprise and determine better strategies for success. In both small and medium firms, the wider sense of ownership of a strategy by the organisation is understood to be as important as effective strategy formation. Whether an organisation is large or small, success ultimately depends on persuading employees to align their behaviours with the enterprise's strategic goals.

Describing Strategic Destination

In order to make rational decisions about organisational activity and not least set targets for those activities, an enterprise should develop a clear idea about what the organisation is trying to achieve (Senge 1990, Kotter 1996). Accordingly, the most effective Balanced Scorecard design processes use the creation of a strategic destination statement describing, ideally in some detail, what the organisation is likely to look like at an agreed future date (Olve et al. 1999; Shulver et al. 2000). In many cases this exercise builds on existing plans and documents - but it is rare in practice to find a pre-existing document that fully serves this purpose within an enterprise.

Strategic objectives

Once the strategic destination has been established the next step is for the same group to agree on the most important strategic activities and outcomes (strategic objectives) required for the destination to be achieved. Best practice calls for this process step to focus on the actions directly within the scope of the team building the Balanced Scorecard - increasing the likelihood that the objectives agreed will (or can) be pursued once the design process is complete.

Balanced scorecard - sme sector

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

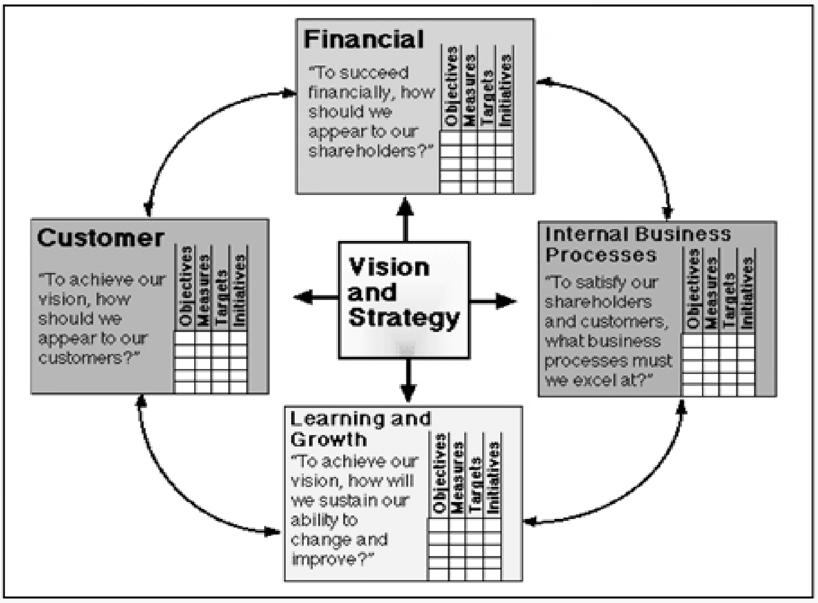
Each company should determine its own aims and measures connected within an area of its activity. Some examples of such preliminary analysis for SME company are presented below.

A. Customer Perspective. The customer perspective should help to keep the clients that are already serviced by the company. Additionally, it should support a process of acquiring new customers. These both activities have to take place within a acceptable and monitored cost levels. Therefore the main aims of customer perspective are:

- acquiring new customers;
- improvement of current customer service;
- reducing customer service costs. In order to check whether activities undertaken in this directions are effective some ratios that will allow for quick and reliable evaluation should be determined. Here are some examples of such indicators:
- amount of customers that was win over in a time periods;
- total and detailed orders value of individual customers in defined report periods;
- number and value of lost orders analysed in a time periods and customer groups;
- factor of customer satisfaction from provision of services;
- factor of customer value (necessary to apply a customer segmentation which prepares client service process to their specification and needs).

B. Financial Perspective. This perspective concentrates on researches and analysis of economical company aspects. Of course it should take place within a several levels which will penetrate one another. They should concern on accountant issues, production processes, cash flows or operational activities that give direct profits. Here are some examples of such aims:

- order-effectiveness study;
- designation of goods and customers that bring the highest profits and losses;
- extension of company capital;
- extension of company profitability. According to mentioned aims investigation of example indicators can be performed
- cost of medium order service;
- value of losses on a ground of lost orders;



- clients and goods profitability factor;
- quality ratio and comparison of incomes and costs;
- ratios of planned/real investment income in a time periods;
- cash flow and company accounting profit

C. Internal Business Processes Perspective. Within the processes perspective attention should be concentrated on data flow ergonomics improvements, information, documentation and extension of work efficiency with decreased cost level. It may concern a direct costs of operating activities service as well as labour costs and costs of organizing human resources work. In this context aims may be introduced as follows:

- improvement of customer orders data flow;
- optimization of internal processes connected with client;
- optimization of warehouse resources. Following ratios might be use to measure the achievement level of appointed aims:
- time of order realization counted from the moment of ordering to the moment of commodity collection by customer;
- awaiting time for realization of particular production stages;
- number of employees participating in production stages;
- mean time of awaiting for delivery;
- indicators allowing for draw up of logistic limits;
- indicators of goods circulation in warehouse in correlation with needs for goods generated by customers.

D. Learning and Growth Perspective. Company development perspective is usually the most individualized area in all enterprises. Also here several levels can be distinguished. The most basic one is connected with understanding the company as an economical unit functioning on a market and heading for achieving the best financial results. The others, check possibilities of putting the company on a place of a leader in his branch which will enable to dictate directions of development and to determine standards (in a sense of valid quality norms). There should be also considered a level which will include employees development, their qualification rise and growth of satisfaction from work. Example of aims to achieve:

- extension of service territory range;

- increase of labour efficiency through investment into new technologies and devices;
- rise of company market superiority;
- gaining new and keeping present high-qualified workers. Assessment of presented aims can be performed on a base of examination of such ratios:
- factors of costs/profits from performed marketing campaigns;
- volume of new foreign customers in a defined time periods;
- differences of department's work consumption, processes, operations of new technologies and devices implementation;
- costs of goods import; standardized company position with reference to competition.

Measures

Balanced Scorecard designs in large enterprises normally include an elaborate process for identifying and describing measures selected to inform management about the organisation's progress towards achievement of its goals (Olve et al. 1999). In SMEs (particularly small enterprises) the utility of formal measure definition is lower. The limited size and complexity of the organisation means that managers are often well aware (at least collectively) of all performance related issues due to the limited size and complexity of the organisation (Miller 1959; Mintzberg 1981). But identification of measures, at least to the extent where targets can be set and followed up, does help to test the validity of the assumptions about cause and effect on which the design team has based its strategy. Without a deliberate approach to testing assumptions aimed at informing the choice of corrective action, the idea of planning risk loosing part of its value - an aspect further highlighted below. Because of this, some SMEs, though not all, will find measure definition activities of value.

Conclusion

In SMEs these Balanced Scorecard benefits can be achieved without the need for developing a complicated and administratively demanding measurement regime by simply using the Balanced Scorecard and its measures as a mental or verbal frame of reference for addressing general strategic and operational change issues resulting from the pursuit of long-term goals. These are real benefits experienced in our own company.

But successful Balanced Scorecard implementation in any organization requires sustained management commitment to using it making sure it drives the necessary behavioural changes within the organisation, starting with the managers themselves.

Observing these success criteria, Balanced Scorecard can prove an effective tool for SMEs in meeting the challenge posed by the need to introduce more efficient strategic planning processes while retaining the competitive advantage of having relatively simple structures. Finally, it should be noted that although this paper has highlighted the existence of important potential and real benefits to SMEs from applying the Balanced Scorecard as a strategic management tool, there is an obvious need for further substantiating these conclusions through empirical research.❑

Contd. from Page 364

previous year's actual costs to determine the target cost reduction.[8] Another example can be given of a manufacturing company, whose cost structure consisted of nearly 65% of the total cost as the material cost, was able to reduce the material cost considerable by focusing on the wastage of material and reducing the same by almost 70% in a period of six months time. However for effective implementation of kaizen costing, it is necessary that the concerned work teams are provided with detailed cost information on a continuous basis. Then only it is possible to effect cost reduction in a substantial manner. Thus to conclude, it can be said that the major feature of Kaizen costing is that the workers are given the responsibility to improve processes and reduce costs. Kaizen costing relies heavily on the employee empowerment. They are assumed to have superior knowledge about how to improve processes because they are closest to the manufacturing processes and customers and are likely to have greater insights into how costs can be reduced.

5] Conclusion: From the above discussion, it is clear that the SME sector has played an important role in the Indian economy and has given a very valuable contribution in the growth of the economy. As envisaged in the budget for the year 2010-11, if the dream of double digit is to be fulfilled, this sector will have to perform even better than it has done in the past. Similarly there is an onerous task of facing global competition from players like China, USA, European Union and other countries in the world. For doing all these things, it is of utmost importance that the old mind set should be changed and more professional approach is to be adopted in the Management of these enterprises. Use of information technology has become the need for the hour. Even if it requires investments of funds, it is worth due to the benefits reaped from its use. Similarly use of techniques like Balanced Scorecard and Dash Board Monitoring will be immensely useful for the SMEs. Any amount spent on the implementation of these and other techniques described in this article should be considered as an investment with tremendous potential to give handsome returns in the future. From this angle chalking out proper strategies and with better cost Management, this sector will have a robust growth and the dream of 'Inclusive Growth' will be fulfilled.❑

[8] Management and Cost Accounting, Colin Drury

Changing Face of Small and Medium Enterprises in India: Strategic Importance of SME Rating

Mausumi Bhattacharyya*

Introduction

Small and medium enterprises (SME) sector has been recognised by our policy makers as a growth driver of Indian economy. Considering its importance, various policy measures have been taken at different points in time to revitalise this sector. The SME sector in India accounts for around 95% of the industrial units, almost 40% of the gross industrial value-added in the Indian economy, 34% of exports and provides direct employment to 20 million persons in around 3.6 million registered SME units. The SME sector in India contributes to about 7% of India's gross domestic product (GDP). At the same time, many a large corporate depend on this sector for the supply of their inputs. SME sector epitomizes India's socio-economic development model and meets India's long-term expectations in terms of employment, export and GDP growth. SMEs occupy a position of strategic importance in the Indian economic structure due to their significant contribution in terms of output, exports and employment. According to the Deputy Governor, RBI, Dr. K.C. Chakrabarty, India cannot return to the 8-9 percent Gross Domestic Product (GDP) growth trajectory unless the SMEs are encouraged. He further added that "If we do not have strong SME sector, we cannot have Indian entities emerging as global players. SMEs are the feeder route and must be encouraged. SMEs are important to pump up the growth process of the economy" (SME Times, 2009).

There had been considerable debate over the definition of small and medium enterprises in India. This debate has been sorted out by the enactment of The Micro, Small and Medium Enterprises (MSME) Act, 2006. As per the Act, Micro enterprises are those having investment in plant and machinery for not more than Rs.25 lac. Similarly, Small and Medium enterprises have a ceiling of investment in physical assets of Rs.5 crore and Rs.10 crore respectively. SMEs in India are broadly identified by low capitalisation, limited recognisable assets, geographical diversity, short business lifespan, poor access to capital markets, huge cash intensity in transactions, absence of dependable credit information and other internalised issues of promoters and slow acceptance of changes through technology-based solutions. Poor financial disclosure on tax and other business issues, high credit risk perceptions coupled with high borrowing cost, low concentration on financial and non-financial activities also cripple the development of the SME sector. Recognizing the importance of this sector the Government of India has initiated a host of measures for facilitating its growth and competitiveness.

SMEs and lack of finance

The small and medium enterprises traditionally lack institutional finance for start-ups and face higher cost of credit relative to larger enterprises. The working capital support extended by commercial banks is evidently far from adequate. Lack of proper credit assessment technique and expertise, higher transaction cost, and more importantly, the higher incidence of non-performing loans do not encourage the commercial banks to extend credit to this sector (Ramchandran, Das, Singh, 2006). Timely and adequate access to finance is a major hurdle that SMEs face. There are several reasons for low SME credit penetration, key among them being insufficient credit information on SMEs and low market credibility despite their intrinsic strengths. These lead to sub-optimal delivery of credit and other services to the sector.

SMEs in the era of globalisation

Besides the organic problems inherent in the very nature of their size, shape and mode of operations, the process of globalization threw some major challenges to this sector in terms of use of technology, competition, and manufacturing strategy. Owing to the liberalization and opening up of Indian economy, the SMEs are facing stiff competition from imports. They need technological upgradation to produce better quality products at lower cost. This is partly due to removal of restriction on foreign direct investment. The formation of the World Trade Organization, forcing its member-countries to drastically scale down quantitative and non-quantitative restrictions on imports, posed a significant challenge before our SME sector. Globalization, however, can also act as a tool for reenergising SME sector. SMEs, engaged in the manufacturing of engineering and automobile products, have shown excellent growth in the past few years due to their expertise in supplying original equipment manufacturer assemblies and sub-assemblies and components.

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The declining importance of public sector in India in the era of privatization, also added further to the woes of SME sector. Indian public sector used to source their supplies mostly from SMEs. With the weakening of demands from public sector, SMEs started facing the problems in marketing their products. Hence, they were forced to scale down their operations. Problem of marketing, on the one hand and, on the other, difficulties in raising capital threatened the very existence of SMEs. Lack of funds constrained technological upgradation need of units, which was highly warranted on the face of steep competition.

Further, removal of protective measures for small industries, so as to promote more competitiveness had a major impact on this sector (Kulkarni, 2008). Instead of providing protection for small industries, the policy framework attempted to address the basic concerns of this sector namely, technology, finance and marketing. Consequent to this significant policy change, the number of items reserved for small industry manufacturing has been gradually brought down from 842 in 1991 to 239 in 2007 (Raju, 2008).

Global financial crisis and SME sector in India

The global economic turmoil has impacted almost all countries around globe with varying degree. India's SME sector could not escape it either. Inventories are piling up in the durable and auto sector. Exports from India have also registered a downward trend. The global credit squeeze has impacted domestic financial institutions to the extent that credit flow to SMEs has virtually dried up and large cross section of SMEs is now being denied overdraft facilities by banks. In the light of the critical importance of the SME sector in promoting growth and employment, the RBI has commenced deliberations with banks to inject credit into the sector. In the wake of the global economic slowdown, the Government had taken a number of measures, including special refinance to SIDBI for Rs 7,000 crore, to provide funds to micro, small and medium enterprises sector at cheaper rate. In order to address the problem of credit squeeze, the RBI has slashed the repo rate by 350 basis points and the credit reserve ratio by 400 basis points, since October, 2008. For catering to the sector's demands and to meet overall growth targets, RBI requires banks to lend more to and charge less from SMEs. At this crucial point of time, a favourable credit rating may help concerned SMEs to avail the bank finance easily.

SME rating as a policy measure

As per the policy package announced by the Ministry of Finance, RBI implemented in all public sector banks certain measures, which are meant for improving credit flow to the SME sector (Circular No. RBI/2005-06/131.RPCD.PLNFS.BC.NO.31/06.02.31/2005-06). The directive required banks to initiate steps to rationalise the cost of loans to SME sector by adopting a transparent rating system with cost of credit being linked to the credit rating of the enterprise. In this context, SIDBI developed a Credit Appraisal & Rating Tool (CART) as well as a Risk Assessment Model (RAM) for SMEs. The National Small Industries Corporation also introduced a credit rating scheme for encouraging SSI units to get themselves rated by reputed credit rating agencies (CRAs). Banks may consider these ratings for structuring their rates of interests on the basis of ratings assigned to the borrowing SME units. They are also advised to consider the ratings given by the external rating agencies and to structure their rates suitably. Rated SME units get 25-100 basis points reduction in interest rates on loans. They also merit faster turnaround time in processing, as banks get detailed opinions about the units through rating (Nair, 2006).

In the question of financing of SMEs, RBI prefers cluster-based approach. RBI required that risk profile of each cluster will be studied by professional rating agencies and such risk profile reports will be communicated to the commercial banks. Each lead commercial bank of a district may consider adoption of at least one cluster.

CRA initiatives

All the general-purpose rating agencies in India, such as, CRISIL, ICRA, CARE, Fitch India and Brickwork offer SME rating service. ONICRA, the only individual rating agency in India also rates SMEs. It is interesting to note that a new rating agency, SMERA, emerged exclusively for offering rating services to SME sector. SMERA is a joint initiative by Small Industries Development Bank of India (SIDBI), Dun & Bradstreet Information Services India Private Limited (D&B), Credit Information Bureau (India) Limited (CIBIL) and several leading banks in India. SMERA is the country's first rating agency that focuses primarily on the Indian SME segment. SMERA ratings offer SMEs DUNS number, an internationally acceptable number along with its rating reports (Dubey, 2006). DUNS stands for Data Universal Numbering System. It is a unique nine-digit numbering system, which is used to identify a business in a global supply chain. Under the WTO regime, new opportunities are being created for linkages among SMEs across the globe. Sectors such as biotechnology, IT and ITES etc. also have shown promising potential (Rao, 2006). Therefore, the SMEs with DUNS number find it easy to access the global market. This system has been developed by Dun and Bradstreet. Dun and Bradstreet's expertise on rating SME units is an important factor that distinguishes SMERA ratings from other ratings.

SME rating criteria

Rating agencies primarily consider business risks, management risks and financial risks of an SME unit while awarding a rating grade. Within these broad parameters, various critical issues demand considerations, namely, financial strength, nature of the product, operational risk and competitive strength, management capabilities and macroeconomic perspective. To judge the financial condition, various ratios, such as, liquidity ratios, leverage ratios, profitability ratios and turnover ratios are considered. Marketability of the products assumes significant position in SME rating. Use of technology and scope of research and development in the SME operation play an important role in evaluating operational efficiency. Since, SMEs are small organisations with mostly individualised management structure, the administrator's personal credit management experience, integrity and perfection in managing the organisation play a vital role in earning SMEs a good rating. Moreover, certain exogenous factors may also shape the rating of the SMEs. Such factors include macroeconomic policies governing the industry to which the concerned SME belongs, economic downturns, projected future of the industry and so on. Rating agencies in India follow a uniform 8-point scale for rating SME units.

Benefits of SME rating

SME rating is an independent and comprehensive assessment of the overall conditions of the SMEs. Policy makers are trying to revitalize SMEs by establishing a credibility benchmark through rating. Ratings can make SMEs access to financial services more efficiently by providing benchmarks and improving transparency. Independent agency ratings for SMEs can provide greater confidence to lenders and consequently broaden the range of financial resources available to SMEs.

It enables best SMEs to better differentiate themselves from their peers. Further, SMEs can use ratings to enhance their credibility with other counter parties too, such as, technology providers, suppliers and customers. It can also provide an impetus in raising standards through better financial discipline, disclosure and governance practices (Ravi Mohan, 2006). The benefits of SME rating that accrue to the SME units may be highlighted as:

a. an independent third party evaluation adding to SME's credibility
b. easy access to funding and at favourable terms
c. credibility and confidence building with business partners
d. scope of self-correction and self-improvement
e. enhanced visibility through publication of rating agency websites
f. wider recognition and acceptance
g. introduction of good governance practices

SME ratings not only serve SME units, it also helps banks in many ways. It facilitates pricing of loan products at attractive terms. It is also useful in compliance with regulatory and capital adequacy norms. By giving early warning signals through review, ratings help banks avert impending losses. The rapid growth of the SME sector creates exciting lending opportunities for banks and financial institutions. A credit rating takes a significant chunk of the perceived uncertainty out of their lending decisions and reduces processing time and transaction costs. Ratings facilitate faster processing of credit applications, as rating reports provide sufficient information banks need for approving loans. On the other hand, SMEs can leverage their ratings for negotiating better borrowing rates and strengthening their relationships with bankers.

Critical appraisal

There is no denying that SME rating is gradually getting momentum in the Indian. In the month of March, 2010, CRISIL, the pioneer in Indian rating industry awarded its 10000th SME rating. CRISIL touched this milestone in five years. But, it must be kept in mind that there are plethora of SME units which still can not afford to get rated. SME rating service has up till catered to a small subset of Indian SME segment.

SMEs in India are predominantly family-based units with an informal organizational structure. Organizational structure of SMEs often features historically close relationships between the management and the employees. How far the rating agencies can grasp the essence of this unique informal organizational pattern is doubtful. The rating agencies which are fairly conversant with the corporate pattern of management structure, may not appreciate this unique feature of SME sector. In that case, SMEs are destined to get poor grades of rating. There is no denying the fact that performance of SMEs rests significantly on the contribution of the individuals running the SME concerned. The biggest challenge with most of the SMEs is to create a strong second line of management backup system, particularly, in case of single-promoter-driven enterprises. Rating agencies caution the sector of this point of danger.

According to the Federation of Indian Small and Medium Enterprises (FISME), none of the rating agencies have contextualised their rating systems for SMEs. Their rating methodology is largely the same as they employ for large corporations (Pandey, 2008). Moreover, clubbing the SMEs in one sector, ignoring heterogeneity among the SMEs may lead to inefficiency in the rating process.

The cost of rating may pose a big problem to the small SMEs. Initially, the rating fees will be subsidized to a large extent. However, with the gradual phasing out of the subsidies, small units may face problems in providing the fees (Ravi Mohan, 2006). Following the RBI

Contd. on Page 374

Cost Accountants for Growth of SME Sector

Ashok K Agarwal*

SMEs are required to accept the fact that adoption of Cost & Management tools in their operations can make them more competitive. Right now, the application of these tools in SMEs is much below its potential. In many cases it is seen that buyers are required to work hard and SMEs that are unable to provide desired information have a significant disadvantage. SMEs usually shy away from integrating new tools in their operations feeling that are beyond their budgets, thus overlooking a vital fact that the advantages of integration far outweigh the expense. Moreover, services of Cost and Management accountants are highly affordable.

The call of the day is to equip oneself with modern technologies and business processes like Activity Based Costing, Production Planning, and a strong Cost and Management Information system that can provide unlimited reliable information and enable SMEs to compete effectively. Those who have strong and reliable Cost and Management Information system for day to day operations are already reaping the benefits and indeed changed the way they do business now. Undoubtedly, Cost & Management tools can significantly improve the productivity of the SME sector and thus go a long way to improve business activities. Cost and strategic management requires reliable and systemetic information gathering and their application in problem solving. A Cost Accountant can provide SMEs in many ways to make it more competitive. A few cases are illustrated below:

M.Sc.; FICWA; Ph.D, Practicing Cost Accountant (Delhi)

Activity Based Costing

Activity based costing assigns manufacturing overhead costs to products in a more logical manner than the traditional approach of simply allocating costs on the basis of machine hours. Activity based costing first assigns costs to the activities that are the real cause of the overhead. It then assigns the cost of those activities only to the products that are actually demanding the activities. Activity based costing has grown in importance in recent decades because (1) manufacturing overhead costs have increased significantly, (2) the manufacturing overhead costs no longer correlate with the productive machine hours or direct labor hours, (3) the diversity of products and the diversity in customers' demands have grown, and (4) some products are produced in large batches, while others are produced in small batches.

Barcode

Barcodes provide encoding text information by electronic readers with accuracy. A barcode consists of a series of parallel, adjacent predefined bar and space patterns to encode/decode by scanning a light source across the barcode and measuring the intensity of light reflected back by the white spaces which produces an electronic signal that exactly matches the printed barcode pattern. Its an inseparable paperless tool, to be applied in all ways from production planning to inventory management to online inventory management to error free wharehouse management to shipment to excise department to depots to assets control and management and the application is unending.

Benchmarking

Benchmarking is the process of comparing the cost, time or quality of what one organization does against what another organization does. This then allows organizations to develop plans on how to make improvements or adopt best practice, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to challenge their practices. Most business processes are common throughout industries. One of the biggest mistakes organizations make when first benchmarking is to limit benchmarking activity to own industry. Benchmarking within industry is essential. However, good ideas how our industry performs outside and above our own industry into other industries that perform a similar process but may have to perform this process extremely well in order to succeed. Who performs the business process very well and has process practices that are adaptable to our own organization. For example; Human Resources requirements for hiring and developing employees or Customer Satisfaction. These processes, albeit from different industries, are all common and can be benchmarked very effectively.

Cost Accounting Records

The Cost Accounting Records and Cost Accounting Standards have served excellent purpose in being adopted for Valuation Rules under Central Excise and are being widely used amongst industries. In addition, the Cost Accounting records are extremely useful as illustrated in the following paragraph.

The author, while reviewing cost accounting records in an automobile ancillary unit located in NCR, observed the following facts which were brought in the notice of the management: The Company was manufacturing and supplying parts to a top Car manufacturing company in Gurgaon.

The inputs (Steel Sheets and the electricity) involved and the process (Sheet cutting by press machines and the welding) being very limited, the management was confident of their existing cost accounting system and the allocation of cost over products. The company used to manufacture and supply over a dozen components by having only two way process, First by cutting Steel Sheets in desired shapes and sizes by using press machines and then welding two or more pieces to obtain the final products. On face, there was no catch involved. The system was simple. The company used to assign overhead expenses including power cost on final products in proportion to material consumed. The company was manufacturing one of the components without using any material and therefore no overheads allocation and the final cost was assumed to be zero. However, it was not the case. Scrap was used in place of material and power consumption was very high due to spot welding involved in the process. Company easily realized that the sale price was a fraction of cost of power consumed to manufacture this small component.

Kanban-an Integrated JIT System

Most Japanese manufacturing companies view the making of a product as continuous-from design, manufacture, and distribution to sales and customer service. For many Japanese companies the heart of this process is the Kanban, a Japanese term for "visual record", which directly or indirectly drives much of the manufacturing organization. It was originally developed at Toyota in the 1950s as a way of managing material flow on the assembly line. Over the past three decades the Kanban process, identifies as "a highly efficient and effective factory production system", and has developed into an optimum manufacturing environment leading to global competitiveness. The Kanban process of production is sometimes incorrectly understood as a simple just-in-time management technique, a concept which attempts to maintain minimum inventory. The Kanban process involves more than fine tuning production and supplier scheduling systems, where inventories are minimized by supplying these when needed in production and work in progress is closely monitored.

In addition to few cases as illustrated above, a Cost Accountant can help SMEs in many more ways like adopting newer policies and strategies to promote exports, enhance the productivity and development of flexible budget to meet the changing needs in the volume of activity, sharpen the competitive edge by flushing out indifference in the entire supply chain and facing challenges in terms of increasing uncertainties during recession and intense competition, ensure achieving the target cost by reduction in the overall cost of product during the planning and design stage via a desired profit and sales price and last but not the least by suggesting effective planning of all resources, in particular Material Requirements Planning and Manufacturing Resource Planning.❑

Contd. from Page 372

guidelines on capital adequacy norms, SMEs may find it difficult to raise funds, as SMEs with a turnover of Rs 5 crore will have to mandatorily undergo third party rating. According to FISME, "a poor rating for an SME would mean 2-4 per cent higher interest rate than the prime lending rate" (Pandey, 2008).

The perception about transparency in SMEs seems to be associated with the structured presentation of financials amongst corporate SME units. Ratings help SMEs to systematize their presentations. What the sector needs to take serious care about are lack of transparency in the business model followed by the promoters and lack of correlation between their financial reporting and actual performance. These elements adversely affect the rating of an SME unit.

Pursuant to the amendment (dated May 9, 2007) of GOI (Allocation and Business) Rules 1961, Ministry of Agro and Rural Industries and Ministry of Small Scale Industries were merged together into a single Ministry, namely, Ministry of Micro, Small and Medium Enterprises. This move may help bring greater coordination among the interdependent units of diverse nature operating within the same umbrella. This enhancement of strength is in conformity with the Union Finance Minister's directive to the public sector banks to double the credit flow to SMEs from Rs. 67600 crore in 2004-05 to Rs.135000 crore by 2009-10. This will foster SMEs' competitiveness in which credit ratings will be instrumental.

Several state agencies like railway, defense service and other public sector units source a large chunk of their requirements from SMEs. Here, ratings may well be used by them in evaluation of SMEs from which to procure. SMEs can use ratings as a marketing tool.

Rating agencies act to supplement the initiatives taken by the Government in infusing vigor to the SME sector. Rating agencies need to work closely with the banks in changing their traditional outlook towards the SMEs. CRAs may persuade banks to substantially increase lending. Bank officials, in this context, not only need more training to understand the concerns of small businesses but also to develop a freer decision making culture, so that the fear of penalties that leads to rejection of even healthy risk proposals can be arrested (Dubey, 2005). Therefore, the potential good that can come from credit rating of SMEs, needs to be harvested by easing out the rigidities inherent in our banking system.❑

Strategic Cost Management for MSME

R.Veeraraghavan*

MSME: The Micro, Small and Medium Enterprises Development Act, 2006

As Per MSME Act 2006 "enterprise" means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services; "medium enterprise" means an enterprise classified as such under sub-clause (iii) of clause (a) or sub-clause (iii) of clause (b) of sub-section(1) of section 7; "micro enterprise" means an enterprise classified as such under sub-clause (i) of clause (a) or sub-clause (i) of clause (b) of sub-section (1) of section 7; "small enterprise" means an enterprise classified as such under sub-clause (ii) of clause (a) or sub-clause (ii) of clause (b) of sub-section (1) of section 7;

1. Notwithstanding anything contained in section 11B of the Industries (Development and Regulation) Act, 1951, the Central Government may, for the purposes of this Act, by notification and having regard to the provisions of sub-sections (4) and (5), classify any class or classes of enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership firm, company or undertaking, by whatever name called,

(a) in the case of the enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951, as –

(i) a micro enterprise, where the investment in plant and machinery does not exceed twenty five lakh rupees;

(ii) a small enterprise, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; or

(iii) a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

(b) in the case of the enterprises engaged in providing or rendering of services, as –

(i) a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;

(ii) a small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or

(iii) a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees Classification of enterprises.

Explanation 1 For the removal of doubt, it is hereby clarified that in calculating the investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such other items as may be specified, by notification, shall be excluded.

Explanation 2 It is clarified that the provisions of section 29B of the Industries (Development and Regulation) Act, 1951, shall be applicable to the enterprises specified in sub-clauses (i) and (ii) of clause (a) of sub-section (l) of this section.

2) The Central Government shall, by notification, constitute an Advisory Committee consisting of the following members, namely:-

(a) the Secretary to the Government of India in the Ministry or Department of the Central Government having administrative control of the small and medium enterprises who shall be the Chairperson, ex officio ;

(b) not more than five officers of the Central Government possessing necessary expertise in matters relating to micro, small and medium enterprises, members, ex officio ;

(c) not more than three representatives of the State Governments, members, ex officio ; and

(d) one representative each of the associations of micro, small and medium enterprises, members, ex officio ;

3) The Member- Secretary of the Board shall also be the ex officio Member-Secretary of the Advisory Committee.

4) The Central Government shall, prior to classifying any class or classes of enterprises under sub-section (1), obtain the recommendations of the Advisory Committee.

5) The Advisory Committee shall examine the matters referred to it by the Board in connection with any subject referred to in section 5 and furnish its recommendations of the Board.

6) The Central Government may seek the advice of the Advisory Committee on any of the matters specified in section 9, 10, 11, 12 or 14 of Chapter IV.

7) The State Government may seek advice of the Advisory Committee on any of the matters specified in the rules made under section 30.

8) The Advisory Committee shall, after considering the following matters, communicate its recommendations or advice to the Central Government or, as the case may be, State Government or the Board, namely:-

(a) the level of employment in a class or classes of enterprises;

(b) the level of investments in plant and

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machinery or equipment, in a class or classes of enterprises;

(c) the need of higher investment in plant and machinery or equipment for technological upgradation, employment generation and enhanced competitiveness of the class or classes of enterprises;

(d) the possibility of promoting and diffusing entrepreneurship in micro, small or medium enterprises;

(e) the international standards for classification of small and medium enterprises. Notwithstanding anything contained in section 11B of the Industries (Development and Regulation) Act, 1951 and clause (h) of section 2 of the Khadi and Village Industries Commission Act, 1956, the Central Government may, while classifying any class or classes of enterprises under sub-section (1), vary, from time to time, the criterion of investment and also consider criteria or standards in respect of employment or turnover of the enterprises and include in such classification the micro or tiny enterprises or the village enterprises, as part of small enterprises.

Cost Management:

"the establishment of programs that regularly analyze value of the processes in producing goods/rendering of service in order to identify lowest total cost and maximize total value to the enterprise/governance or charity. The development of a savings forecast by commodity is necessary to define budget parameters for building cost-of-goods structures and peaking the same to maximising the sustainable value for an enterprise,governance,or charity."

Strategic Cost Management:

Strategic cost management can be defined as" scrutinizing every process within your organization, knocking down departmental barriers, understanding your suppliers' business, and helping improve their processes"

Strategy:

A strategy in general terms refers to a plan of action that will shape the direction of organization's success. Companies of late have realized the importance of clear articulation of strategy and its effective implementation.

Cost Records and Cost Accounting priciples:

The Vital system for a responsive cost management in an enterprise is recording and reporting of cost influencing factors in a principle based approach also known as GACAP(Generally Accepted Cost Accounting Principles).In India The Institute of Cost and works accountants of India is Mandated for Issuing Cost Accounting Standards and the Institute has already established a Cost Accounting Standards Board some years back, it has framed 12 CAS so far and identified 39 areas for CAS, that will provide business strategist, with the necessary tools and reporting mechanism, in Performance measurement Sphere.

Strategic Cost Management Or Cost Management Strategy:

It is fine differentiation as to whether one would concentrate on Managing Strategic Cost (The Cost Evolving out of different strategies) or Cost Management as a strategy in itself for an enterprise.

Whichever way we look a business strategist cannot function without the help of the right kind of management tools that identifies and positions the cost in right proportion to the generation value that is sustainable in the long-run.

Whether cost management, particularly strategic cost management is to be positioned at Operational level or at the Managerial level is a decision that clearly indicates a bottoms-up approach.

Evaluating and Improving Costing in Organisations-International Good Practice Guidance Document released by the International Federation of Accountants:

1.1 The creation, operation, alteration, and cessation of every action and function in anorganization – whether within the private, public, or voluntary sector – all consume economic resources. Measuring, accumulating, and assigning those resources to the organization's various processes and outputs allows the structure and operation of the organization to be explained, understood, and improved. Costing, the accounting term that embraces these processes and expresses them using money as a common language,lies at the heart of managerial accountancy and, exercised intelligently, is among the most powerful disciplines available to professional accountants in business (PAIB).

1.2 Costing contributes to an understanding of how profits and value are created, and how efficiently and effectively operational processes transform input into output. It can be applied to resource, process, product/ service, customer, and channel-related information covering the organization and its value chain. Costing information can be used to provide feedback on past performance, and to motivate and change future performance. Costing is thus an essential tool in creating shareholder and stakeholder value. Given its importance and breadth of scope, it is unsurprising that many different costing methods exist, both in the literature and in practice. This can create confusion and uncertainty for managers, and PAIBs need a sufficient understanding of sound costing principles to be able to select and apply useful approaches.

1.3 The basic building blocks of costing are operational measurements of consumed resources (resources include people, space, equipment, and consumables, these being the drivers of cost and levers of change). Such measurements enable managers to draw conclusions and make judgments about why (a) the organization's results turned out as they did (performance evaluation), (b) what this means for the future (planning), and (c) the probable results of available courses of action (analysis of alternatives) all of which comprise essential information for effective decision making. The principles in this International Good Practice Guidance (IGPG) support the application of judgment in providing good decision support. In turn, this calls for the professional accountant in business to clearly understand why cost information is to be used. For example, improving existing operational performance needs different treatment from that required to develop future strategy, although an ability to effectively relate managerial actions to their effects will be common to both objectives. The inclusion of measurement of resources as an explicit stage in the costing process can also help PAIBs to facilitate communication and interpretation of costing and profitability results, particularly for non-accountants.

1.4 Costing for decision support is valuable for performance improvement, value creation, "what if" analysis, and the effective and efficient application of an enterprise's resources and processes. However, the use of costs for external financial reporting for these decision support purposes can lead to misunderstandings. Examples of cost uses for financial reporting include the valuation of inventories, determination of transfer pricing amounts (for tax optimization purposes), and segmental reporting. Such specific uses of cost assignment are usually mandated by jurisdictions and regulatory authorities, especially where cost assignment affects taxation or the determination of regulated pricing structures. The discipline applied to produce this type of output is usually called "cost accounting." Financial and tax accounting rules focus cost accounting on primarily historical results (i.e., what has already happened), an exception being when financial reporting standards include fair value-based calculations. The need for decision support usually requires deeper diagnostic insight into the causes of events (why they happened), a clear and direct connection to operations (to evaluate change options), and support to planning for desired future outcomes.

Relevance of cost management in MSMEs

MSME's like any other enterprise require men,machine,material and money and apart from these they require the right Management to sustain their business through competitive business strategies.Most of these enterprise working under any form of business whether corporate or non-corporate are under pressure for shortenting Working capital cycle specially cash to cash cycle and also in constant need for capital to grow,with attempt to expand businesses,broaden their scope, penetrate into unknown market zones etc.

The Management and business strategist who drive these enterprises are under tremondous pressure to take the right decision that leads to sustainable values,for a single wrong strategy can make or break these enterprises.

A true cost management practices put in place in such enterprises should rightly align the bottom-line operations with the top-line strategic plans,infact current cost management practices should go beyond simple cost structure and internal process efficiency and try to assimilate the right kind of date from the existing tools and techniques that will measure external environment viz business cycle forcast,product life-cycle returns, revenue stream assessment,right market in the supply chain that will generate maximum revenue etc.The drivers of cost should be identified and a system driven flow should make a real-time reflection of the process efficiency,sustainability and value-cycle.

MSME's Normally work over thin line of survival with mushrooming of enterprises,oligopolistic practices, threat from larger corporations,and varied areas of product and processes and the services that they venture with lower life-cycle,Innovation is the key not only to the product processes and market,but also in business strategies for sustenance,more important is the cost management practices to these enterprises than to the Large Monopoly corporations in public and private forms of businesses.

Let us look at what **Michael Porter** an expert in this area and most sought after professor from harvard has to say:

Essentially, there are two types of competitive advantage:

1. low cost
2. product differentiation Porter derives three strategies:

1. Cost Leadership, in which a company aims to produce products at the lowest possible cost,
2. Differentiation, in which a company produces unique products or services,
3. and Focus, in which a company aims to serve a narrow market segment.

Porter's generic strategies are used to derive the most effective one of four strategic positions:

1. Cost Focus aims to keep costs low and focus on a narrow market segment (very difficult to actualize).
2. Cost Leadershipalso aims to keep costs low but for a broad market.
3. Differentiation Focushas a narrow focus with high product (or service) differentiation.
4. Differentiationhas a broad market with high product (or service) differentiation.

Michael Porter Talks about three cost management techniques in the above context for canadian economy:

1.**Target Costing**.

"Target costing is a fundamentally different way to look at the relationship of prices and costs. The basic target equation of "Price-Profit Margin = Cost" means that prices are driven and set either by competitive market forces or by the firm as it aggressively lowers its prices to increase market penetration; that profit margins are established such that the firm can make money; and that allowable costs are derived from price and margin."

Best practice companies:

1. tie target costing to strategy and profit planning and have a high level of accountability and monitoring of target cost achievement.

2. have close supplier relations.

3. use independent and empowered cross-functional teams to acquire resources from functions, but don't tie to supportive performance measures, rewards, training and information systems.

4. use of sophisticated cost estimation models to make costs visible and understandable to product designers and engineers through internal training and education.

5. use the capital budgeting process to invest when technology is a limiting factor.

2. **Off-Shoring**.

"The relocation of business activity to a location in another country with lower costs"

Off-Shoring is not just about manufacturing.

3. **Hedging risks**.

"Method of transferring Risk to permit the Risk Bearer to assume two offsetting positions at the same time so that, regardless of the outcome of an event, the risk bearer is left in a no win/ no lose position."

Though the above positions are specific recommendations probably given under a contextual reference innovative cost management strategies can help business sustain at a macro as well as micro level.

The Institute of Management Accountants of the USA devoted its time in learning cost management practices prevalent in the Chinese businesses and has published documents in this regard.

Conclusion:

In essence it can be appreciated that MSME's are businesses which are players in the entire gamut of opportunities,though they are smaller in size of operations and volume of business they thrive on the opportunities and earnestly strive to expand in the given business conditions.

The right approach to them would be to put-in place the right kind of Cost Management techniques and tools and properly align them with business strategies as a forecast measure, performance indicator and strategy enabler.

For this the maintainance of cost records and accounts are utmost essential that follows the GACAP and CAS issued from time to time.

A Management Accountant has a vital role to play in this sector either as a full-time employee or as a consultant and endeavour to add value to the enterprise which is the back-bone of any future economy.

Suggested Reading:

1. MSME Act 2006,I(D&R)Act.

2. Cost Management Practices in China by the Institute of Management Accountants USA.

3. Strategic cost management some reflections from experience R. Narayanaswamy ICAI Journal December 2003.

4. Cost management techniques and strategic tools Dave McGarva,Partner Acton Consulting Ltd.CMA CAM 1 2007 second annual summit.

5. Evaluating and improving costing in organisation.IGPG released in june 2009, from IFAC.

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SME Sectors in India are in Need of Cost Accountants Contributions for its Survival

The growth of SSI segment of SME sector in India has come down considerably in the era of globalisation. The decline of growth has been conspicuous in terms of units, employment and production but not exports. SSI sector has grown more towards the international market than towards the domestic market in the globalisation era. This is substantiated further by the fact that SSI exports as a percentage of SSI production as well as of total exports has improved considerably in the recent period compared to the earlier period. This could be because globalisation has led to the emergence of new opportunities for SMEs in the international market. Those SMEs, which are competitive, would have gained significantly by exploiting these opportunities. SMEs have been depending for a quite long time on government support, such as reservation of products, incentives, concessions, subsidies, government policy for collection of dues, labour policies, etc. and now a time has come where they have to erupt and metamorphase into a professionally managed sector to overcome various challenges. Against this background, this paper highlights the significance of Cost Accountants for the development of SMEs in India.

Dr. A. Selvaraj*

Introduction

With the advent of planned economy from 1951 and the subsequent industrial policy followed by Government of India, both planners and Government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and climate. An SME is able to cope with the global challenge if it realizes reliable, balanced and high-standard operation in its business.

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SMEs have not only survived the impact of big enterprises and the law of economies of scale but have carved out niches for themselves, which enabled them to coexist with big enterprises, notwithstanding supporting them as well. The intellectual and entrepreneurial capability of people, high quality manpower and cheaper cost of production have made our country a prospective global hub in manufacturing activity. SMEs, despite being a major contributor to the economic growth of the country, face many constraints, viz. technological constraints (old / obsolete technology, inability to adopt and obtain new technology, low R & D), marketing constraints (dependence on one or two buyers only, lack of effective marketing efforts, inability to identify suitable product and its acceptability and sustainability in the market in preference to branded products, delayed realisation of receivables, etc.), human resources constraints (inability to create a second line of management, total concentration only with promoter, etc.) and financial constraints (low capital base, delayed payment by buyers, low margins, improper or even in some cases non-maintenance of records, delayed submission of audited financials to banks etc).

In Indian context, the small and medium enterprises (SME) sector is broadly a term used for small scale industrial (SSI) units and medium-scale industrial units. Any industrial unit with a total investment in its fixed assets or leased assets or hire-purchase asset of upto Rs 10 million, can be considered as an SSI unit and any investment of upto Rs 100 million can be termed as a medium unit. An SSI unit should neither be a subsidiary of any other industrial unit nor be owned or controlled by any other industrial unit. There is a growing recognition worldwide that small and medium enterprises (SMEs) have an important role to play in the economy given their greater resource-use efficiency, capacity for employment generation, technological innovation, promoting inter sectoral linkages, raising exports and developing entrepreneurial skills.

Present Position of SMEs

Increased trade opportunities, a conducive environment for this sector to flourish and growth of entrepreneurial spirit among the Indian youth have contributed to the increase in SMEs. During the last couple of years, they have contributed to 17% of GDP in India. Their contribution to GDP is likely to rise to 22% in the coming years along with a rise in the number of people employed in this sector. India has nearly three million SMEs, which account for almost 50% of industrial output and 42% of India's total exports. It produces a diverse range of products (about 8000 odd items), including consumer items, capital and intermediate goods.

However, SMEs in India are plagued with a number of problems like poor infrastructural support, supply bottlenecks, labour problems, low margins, inadequate scale of production that do not yield benefits of economies of scale, inadequate marketing, high cost of borrowing etc. Urgent measures are required to ensure greater and cheaper access to funds, legal enactments in the event of bankruptcy, facilities for technological upgradation and marketing facility, encouraging innovative ventures by SMEs, setting up dedicated R&D units for SME clusters, providing infrastructural facility etc; in short with providing a better business environment. It is but natural that the SME sector has been the hardest hit due to the current recession on account of the fact that unlike big corporates, they do not have the cushion of high margins, economies of scale and a large capital base.

The small and medium enterprises (SME) sector in India has a very pivotal role to play in the development of the country. The SME sector in India has a minimum of 95% of industrial units, which accounts for almost 40 % of the gross industrial value-added in the Indian economy, 34% of exports and provision of direct employment to 20 million persons in around 3.6 million registered SME units. Liberalisation and globalisation has provided a whole lot of opportunities and challenges for the industry as a whole and more so for the SMEs. Interestingly, the growth rate of SMEs has been consistently on the higher side, as compared to the overall industrial growth. In the last two years, the SMEs have registered a remarkable growth rate of 35%.

Future Propsects of Ssi

Over the past decade, Indian economy has undergone transition phase witnessing the challenges of more free and market oriented environment of the liberalised era. Being one of the major growth drivers of the economy, the biggest challenge before the SSIs in the emerging market scenario is not only to survive but to grow on a sustainable basis with competence. Secondly it may be recalled that the Working Group of the Tenth Plan on SSI sector also felt for the need to create hassle environment of policy framework for making the sector more competitive. For which adequate infrastructure facilities, appropriate linkages between large and small industries and expansion of marketing network including thrust on exports, must be concentrated on. In this respect, we feel that while cheaper financial resource support services provide the base or foundation strength, infrastructure and marketing network are the two pillars on which the SSI sector stands. Circumspectly, a separate policy Implementation cell need to be established to keep vigil on the extent to which implemented strength is extended by financial resource base and pillars of infrastructure and marketing network.

Thirdly, as SSI sector stands today, to compete both at national and international level, it is of immense necessity that buoyancy in economic of scale along with constant upgradation of technology must be acquired. Undoubtedly, these two issues are the key factors of strength and competence of SSIs in the forthcoming years. In this respect, the network of infrastructural supports and of marketing facilities will effectively constitute adherent factors for their continuity and sustenance with certainty. Alongside, as an ex-factor, knowledge and information being key to any success today, the future dynamics of SSI sector is bestowed upon to Information Dissemination system.

Fourthly, Information Dissemination System is the vital clue of success in this modern generation. This system must be effectively developed in favor of the SSI sector also. A complete network of information at both domestic and international level should be developed to enable the sector to have up dated information on all the related demand and supply side factors. Establishment of an Information Abode at the central level in condominium with state level will enable SSI units to avail opportunities with convenience and suitability. Conjugation of past and present experiences in this regard may provide basic guide lines in formation of Information Abode.

Fifthly, product-market is another critical issue of SSIs that enclaves many other server dimensions. Marketing is a multidimensional problem of the sector. It importantly circumscribe technology upgradation for price affectivity and cost efficiency, product standardisation, accounting for buoyancy in consumer choric, product inter-linkages and market's supply-demand information. Thus, a comprehensive approach must be adopted towards the sector's marketing predicament. In this respect, a central marketing plan may be formulated. Consolidating it on the basis of broad product-group-based strategies to be applicable to each states. Under it, the SSIs will be required to have recognitions under the levels of classified product-group, common product standardisation, common branded product groups, common market information and wide levels of technologies to ensure cast-efficiency and price effectiveness. Such a Central Marketing Plan with its unified broad product-based strategy can form a club of SSIs under its umbrella and be successful in ensuring multi-dimensional issues related to marketing.

Sixthly, it is the high time that the SSI sector should be re-oriented at a modest level to establish some higher degree of simulative inter-linkages between large, medium, small and tiny ones, so as to assertion ancillarisation in the vertical setup of industrial sector.

As far as financial resources are concerned, they have to resort to other sources of finance because raising finance from the financial institutions has the following draw backs:

- Insufficient collateral
- The rate of interest charged is higher
- Restrictive and conditional working capital limits
- Time consuming and cumbersome procedures
- Indifferent attitude of the branch manager/staff
- Non-availability of assistance at banks for completion of forms and formalities
- The terms of credit are hard
- Improper assessment of requirements
- Arbitrary curtailments of credit limits
- Repeated and time consuming visits to banks
- Release of limits sanctioned in installments
- Marketing

Carry out Smes in Cost Accountant Aspects

Recent years have seen rising interest in network economy. The first reason is globalization. The world has been shrunk by information technology and open economies. The second reason is that companies have to take care of costs to meet the descending price rate of the market. Competition in the mature lines of business especially requires continuous productivity improvements. This leads to narrow competencies and extensive outsourcing. Cost accounting has been a widely discussed issue during the last years. Traditional cost accounting is changing to cost management. Target costing, value engineering and design-to-cost are becoming more and more common. The aim of the paper is to find out what kind of challenges networking relationships present for cost management.

Completing any incremental cost-cutting strategies speedily is vital. It is expedient for the re-building or improvement of morale to stabilise the operations and for companies to be seen to be taking a more optimistic approach. Activity based cost data is significant for performance evaluation of SMEs through the comparison of its cost component with that of other SMEs. Last few years have seen a shift from traditional cost accounting to cost management. However, the Small and Medium Enterprises (SMEs) which are supposed to be under tremendous pressure seem to be little cost conscious as they do not bother about generating the precise costing information which can be of great help in the competitive scenario.

Carrying out an internal audit of the company's current position reveals a wealth of real-time operational information and is the logical place to start. The focus of this audit is not financial risk management and assurance, nor an IT audit - but an assessment of operational business fundamentals in relative detail. Even those businesses that believe they have a good handle on operational information can often surprise themselves. As the basis for recognizing and driving down costs, it is no coincidence that emphasis on real-time business intelligence and operations/ process management has seen a large rise in popularity in the last couple of years. The audit must focus on comparative, operational metrics at a relatively intricate level, without becoming overly bogged down in departmental or process problem reasons or anomalies. That comes later. Of key importance is information on revenues, costs, 'basic' margin, cost of goods inward, cost of value added, cost of production, cost of sale, cost of channel contribution, cost of support and aftermarket. Unit costs are needed by both line of business and by product. In addition, knowledge of the cost of running individual departments and productivity per employee can be imperative in order to allow fully evidence-based conclusions. Time and again, the process of de-briefing after any implementation of change or reorganization highlights the link between efficacy and sufficient information at planning stages. This stands to reason. Companies and especially SMEs, however, repeatedly embark on projects to address problems without sufficient knowledge, which therefore results in attempts to treat symptoms rather than causes.

What Cost Accountants can do for the Prosper of Smes?

When properly implemented, the cost accounting function can have a pervasive influence in the modern corporation. Unfortunately, it is not always properly implemented because management often is not completely aware of all the uses to which the cost accounting function can be put. The key task for the cost accountant is contributing information to a company's external financial reports. In many cases where the main accounting function is perceived to be financial reporting (such as in a publicly held company), the other tasks of the cost accountant may very well be subordinated to providing various types of information for these external reports.

A key piece of information provided by the cost accountant is inventory valuation, which in turn impacts the cost of goods sold. Several tasks are involved here, such as deciding on the type of cost layering technique ensuring that inventory quantities and costs are accurate, and compiling the resulting data into the formats required for external reporting. Other related work may also be needed, such as compiling profitability levels for various product lines, or profit levels by division. The cost accountant may also become involved in the compilation or updating of a few footnotes to the financial statements, though most of these are handled by the financial accounting staff.

The advantage of having cost accountants create reports strictly for internal consumption is that they are not restricted to Generally Accepted Accounting Principles (GAAP) when preparing these reports. GAAP requires the use of full-absorption costing in the creation of external reports, which may not be necessary or may even be counterproductive for internal reporting purposes. Accordingly, the cost accountant is free to use any costing paradigm that will result in the most informative reports for the management team-job costing, process costing, direct cost costing, activity-based costing, direct costing, throughput costing. The Cost and Management Accountants can effectively undertake the Management Consultancy Services, as they are professionally trained and competent to accept this challenge. The Consultancy services generally include financial planning and financial policy determination, capital structure planning and advice on raising finance by issue of shares or by way of borrowing, preparing project reports and feasibility studies, preparing cost budgets, cost flow statements, profitability statements, capital budget and revenue budgets, organizing, planning and cost control, inventory management, material handling and storage, price fixation, personnel selection, cost audit, management audit, job description and job evaluation, setting up executive incentive plans and wage incentive plans, control method and management reporting, advice regarding amalgamations and mergers, accounting services (installing cost and financial accounting system), planning for curtailing expenses and increasing profit, development of software for integrated system of an organization, development of software for finance, accounting and cost accounting departments, advice in tax management, advice in Cost Management. Management Accountants can also act as Administrators, Arbitrators, Receivers and Advisors. They can also act as representative in costing, financial, company law and taxation matters. They are also eligible to take up any appointment made by Federal or Provincial Governments, Courts of Law or any other authority established under the law.

Conclusion and Suggestions:

In the competitive and globalised trend, cost control becomes an important element of strategy as unit margins shrink and new products and applications are harder to find. Cost Accountants can help the SME sector in managing costs effectively and thereby establish a competitive edge to become world-class players. Success in SME development will be connected with coordination of all participants in promotion SME ,banks, the government, and the enterprises themselves. Networking places a number of demands on cost management. Firstly, a company should know the costs of its own operations. Secondly, a company should share part of the cost information with cooperating firms. Thirdly, part of the information flow should be open to all the companies in the network. Companies rarely know the full costs of each product. This is also the case with the companies analyzed. A lot of development work with suppliers' cost accounting systems is needed. A win-win relationship creates a need for open book accounting. Only two out of seven suppliers are ready for this. There is also a need to create mutually accepted accounting practices. Furthermore, in networking economy the following features of cost management are needed:

- Accurate customer profitability information
- Accurate information on the influence of volume on profit
- Ability to cost new activities.
- Technological upgradation

These findings do not present totally new challenges for cost management. However, networking relationships seem to emphasize these features more than traditional relationships. Lack of reliable and stable economic infrastructure, reduced credit inflow and technological obsolescence would have led inferior quality and low productivity. Technology development through either technology transfer or innovations or inter-firm linkages should be emphasied in the light of global competition. Financial infrastructure need to be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand. In the context of economic reforms and globalisation the small scale industries must be competitive for their survival and growth. Otherwise they will perish resulting in colossal waste of scarce resources, unemployment and retard the process of industrialisation. The only common denominator among the various cost accounting tasks is that they focus on providing information for management decision making. Typically, the task is to conduct a short analysis of a specialized topic, draw conclusions, and make recommendations that will be acted on by management to make improvements. The responsibility here is great, for the cost accountant's recommendations ultimately have a direct impact on company operations and overall profitability.❑

Strategic Cost Management for SMEs : A Road to Success

Dr. Arindam Ghosh*
Asit Gope**

Introduction:

Traditional cost management originates from a time when the focus of attention was not the whole value chain, production was relatively aimed at one product or a homogeneous range of products but was not flexibly automated, and when the indirect functions played a subordinate role unlike today. Traditional cost management was developed in a moderate business environment, in which production was the crucial competition factor and cost structures were unequally more flexible and thus easy to influence. The main task of cost systems was recording and reporting the past events regarding costs and profits (in the form of periodical reports). The cost systems focused on determining the cost of goods produced and the cost of inventory. Many studies argued that traditional cost management systems are inadequate for the contemporary business environment requirements. According to Johnson and Kaplan, the traditional cost management systems mainly focus on short-term costs. Due to decrease share of this costs, cost management systems should more and more focus on long-term product costs; long-term product costs comprise costs of design, development, and engineering as well as costs which originate from areas out of the company (marketing, distribution, service costs) plus fixed costs, which can be linked with production output. Yet knowing these costs is critical for companies engaging in such tasks as continuous improvement, total quality management, environmental management, productivity enhancement, and strategic management. Cost management systems should have a strategic influence on the costs. Historically, most traditional cost systems have focused on the production stage of the product life cycle. Unfortunately, most production capabilities and costs are set during production planning and design and are, for the most part, relatively fixed once production begins. Estimates vary, but approximately 70-80 percent of a product's life-cycle costs are designed into a product and committed once the first unit of product is manufactured. Thus, efforts of cost management to reduce a product's costs after production begins may be of limited effectiveness. The concept of strategic cost management resulted from the conviction that cost management has to go with the business environment and has to in accordance with strategies of the company. One purpose of cost management is to translate the strategy to parameters and to communicate the strategy, to measure achieving of strategic objectives and support this with appropriate foundations for decisions.

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Concept of Strategic Cost Management:

Strategic cost management has become an essential area now days. While formulating the strategy for the accomplishment of organizational overall objectives, different cost driver should be clearly identified. Identification of key cost drivers helps companies to focus on key activities that will constitute almost 90% of the total costs. In view of this, the importance of strategic cost management should not be underestimated. This implies that organization should be installing appropriate framework of strategic cost management to reduce its costs in key areas on which the success of organization is heavily dependent. Strategic cost management is understood in different ways in literature. Strategic cost management can be defined as" scrutinizing every process within your organization, knocking down departmental barriers, understanding your suppliers' business, and helping improve their processes" Cooper and Slagmulder (1998a:14) argued that strategic cost management is "the application of cost management techniques so that they simultaneously improve the strategic position of a firm and reduce costs". The Framework of Strategic Cost Management provides a clear plan of attack for addressing costs and decisions that affect them. Following are the three core components of this framework.

Core Functions:

Core functions elaborate on the nature of the business. It answers the very obvious question what type of business are we in? At this stage the company has to clearly identify its courses of actions with respect to strategy planning, research and development, and product development.

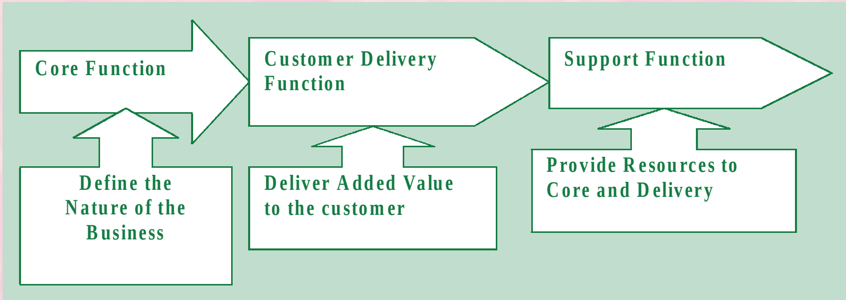
Customer Delivery Function:

This step emphasizes more on value addition with various activities such as marketing, sales, manufacturing, quality assurance and control, sourcing, procurement and logistics, engineering and maintenance, customer service and technical support etc. Excellence in those activities can create a sort of competitive advantage for the company if it could harness its resources intelligently than its competitors.

Support Functions:

As the name suggests, to support the core activities of business some secondary activities are to be carried out which includes IT, Finance and

Accounting, HR management General administration. These activities will facilitate the performance of the core activities in a way that goals of the business can be accomplished successfully without wasting limited resources. They will also help in synchronizing the different tasks which are to be carried out simultaneously.



SME Sector in India:

Small- and medium-scale enterprises (SMEs) occupy an important and strategic place in economic growth and equitable development in all countries. Constituting as high as 90% of enterprises in most countries worldwide, SMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Their contribution to poverty reduction and wider distribution of wealth in developing economies cannot be underrated. The SME sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. By its less capital intensive and high labour absorption nature, SME sector has made significant contributions to employment generation and also to rural industrialisation.

This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

Thus far, Indian SMEs have played a very significant role in India achieving its current robust overall economic growth. The SME sector currently contributes to over 40 percent of exports, and creates over 1.3 million jobs per year. About 10 million are employed (Registered SMEs) in this sector. In addition, SMEs enhance inclusive growth by the manner in which they evolve, leverage local resources, and innovate to create products and services. A well-thought out SME-driven entrepreneurial ecosystem can take the industry and India, to the next level.

Some of the recent policy reforms for the SME sector in India are as follows:

- A single comprehensive legislation for the promotion, development and enhancement of the competitiveness of the MSME sector - Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 came into effect from October 2006.
- National Manufacturing Competitiveness Council (NMCC) was set up to energize and sustain the growth of the manufacturing industry. New Promotional Package for MSMEs, and focus on accelerating development of clusters.
- Revised strategy of lending and introduction of newer measures, such as the scheme to establish Small Enterprises Financial Centres (SEFC) for strategic alliance between branches of banks and SIDBI located in 388 clusters identified by ministry of SSI.
- SME Fund of US$ 2.27 billion operationalised. Proposal for doubling the credit flow to MSME sector in next 5 Yrs.
- Promotion and financial support for Credit-cu m-Performance Rating in MSME sector in India, to facilitate greater and easier flow of credit from the banking sector to SMEs.
- The National Commission for Enterprises in the Unorganized Sector (NCEUS) has been set up as an advisory body and a watchdog for the informal sector to bring about improvement in the productivity of these enterprises for generation of large scale employment opportunities on a sustainable basis, particularly in the rural areas.
- Facilitation of technology transfer through the Technology Bureau for Small Enterprises (TBSE)
- Accelerating initiatives to address various developmental needs for MSMEs in the 11th Five Year Plan.

Table: Indian SME sector at a Glance:

	Registered	% Share
No. Working Enterprises		
Manufacturing	1035102	66.67%
Services	517388	33.33%
Total	**1552490**	**100%**
Employment (in person)		
Manufacturing	8731253	86.75%
Services	1333907	13.25%
Total	**10065160**	**100%**
Market Value of Fixed Investment (in Rs. Crore)		
Manufacturing	440493.68	87.97%
Services	60264.68	12.03%
Total	**500758.36**	**100%**

Source: Report of "Prime Minister's Task Force on Micro, Small and Medium Enterprises" Government of India, January, 2010.

- "Scheme of Fund for Regeneration of Traditional Industries" ["SFURTI"]
- Guarantee coverage under Credit Guarantee Fund for Small Enterprises expanded substantially
- New legislation on Limited Liability Partnerships being worked on.
- Emphasis on bi-lateral/ multi-lateral partnerships at multiple levels.

Possible Application of Strategic Cost Management (SCM) in Indian Enterprises:

SCM has great scope for application in Indian companies. What has been attempted by enterprises so far is minimal. The following are the potential applications of Strategic Costing with promise of significant benefits to the organisation.

Product Costing:

Given the state of the cost systems, product cost information available in many enterprises is deficient. It is important to capture the activities that are attributable to each product or to major product groups and determine if the pricing and other policies of the company are appropriate. In all the cases studied by the author, product costs have turned out to be incorrect.

Make-or-buy Decisions

Make-or-buy decisions should be made on strategic considerations. Even so, cost considerations are important. For example, the decision to outsource a component would result in a number of activities causing additional overhead. A sophisticated under-standing of costs would enable managers to outsource only parts that are not strategically significant or are easy for outsiders to manufacture.

Marketing Channel Decisions

Marketing channel decisions could benefit from the SCM approach. The decision to sell to specific customers through specific channels is one possibility.

Product Design

According to several studies, most costs are frozen at the design stage. Surprisingly, designers do not have cost information and therefore are likely to come up with designs that may not be cost-efficient. A few companies have started forming teams consisting of designers, manufacturing engineers, cost accountants and marketing managers as part of their new product development efforts. However, most companies do not pay attention to product design with the result that product costs are high and frequent design changes are necessary.

Activity Analysis

Increasingly, it is becoming important to identify activities that add cost but not value to the customer. Such activities are called non-valued activities and must be eliminated if the business is to remain competitive. Non-value added activities include inspection, internal movements and waiting for the next operation. Non-value added activities result in unnecessary expense and increase manufacturing or service lead time. As a result, a business that has a large number of non-value added activities would be unable to introduce new products rapidly and in time and within acceptable cost limits. A rough estimate by the author suggests that value-added time for Indian companies is unlikely to exceed 10 percent. The case of a large Indian company is used to illustrate value-added and non-value added activities.

Application Strategic Cost Management:

There are three basic business areas where strategic cost management can be applied.

Strategy:

A strategy in general terms refers to a plan of action that will shape the direction of organization's success. Companies of late have realized the importance of clear articulation of strategy and its effective implemen-tation. Before formulating any strategy, the management should think about the business model whether it is still relevant or need to be changed? Or whether the objectives of the business are going to be accomplished through laid out strategy.

Operations:

By setting the priorities according to its significance we can operate the tasks effectively and efficiently.

Organization:

Company should time and again check whether it is allocating its limited resources in the businesses which generate more value for the entire organization. Resources as such are the liming factors for any organization and that's why the company should be focus on the structure of the business and it should decide well in advance whether it should own all resources or not?

Strategic Cost Management Programme Steps:

SCM Programme includes following five steps. These steps can be detailed out as follows:

1. Focus:

Focus state starts with reviewing the different strategies of the company. Reviewing the strategies will lead to clear identification of performance gaps and this will help to bridge the gap by improving targets already set beforehand. Modifying the targets will lead to developed plan of attack which will foster better internal communication within the organization.

2. Planning and Training:

Planning plays a crucial role in implementing strategic cost management programme. To implement the planning, a manager should gather very efficient team members and train them accordingly. Setting up of project management structure will facilitate the implementation of strategic cost management by clearly identifying the day to day activities, steering guidance and offering ad hoc assistance.

3. Fact Finding:

This stage includes the tasks such as data gathering, conducting interview, developing benchmarks, conducting and customer surveys.

4. Analysis and Recommendations for changes:

Analysis of activities plays a crucial

Case Study:

Formed in 1979 Galglass Ltd has grown by designing, manufacturing and installing sectional steel, coated bolted cylindrical storage tanks, used for the storage of many types of liquids and bulk commodities.

Cost Issues

The company is continually looking at its cost structure, including discussions with suppliers about the costs of materials and services supplied. Cost issues within the firm arise mainly from price competition in the marketplace, and there has been an increase in overheads during this period of growth.

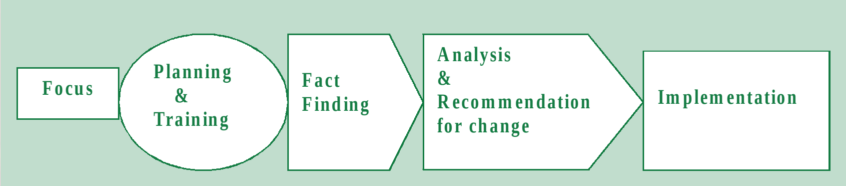
Cost Modelling

As early participants in the regional development programme, the Galglass management team has been able to comment on and add to the development of the ABC model. The process concentrated on the costs involved within the different product types.

Outcome

The cost information developed during the pilot indicated product categories which appear to be profitable and those which are not. Whilst a small percentage of products (by sales value) appeared to be unprofitable, this could be justified based on the aim of providing a full range of products to existing customers. The outcome reflected the fact that the management of costs within Galglass is at a higher level than many SMEs. As a result of an already strong cost management system, the cost of implementing Activity Based Costing within Galglass (in terms of time and effort) may not be justifiable at this stage. It is important to appreciate that ABC may not be appropriate for all businesses.

role in ascertaining the cost of the company. It can be done by various strategic cost management analytical tools viz. cost driver analysis, activity-based costing, selective business process reengineering etc. An action plan for proposed change should address the following questions what, who, when how aspects of the activities.



5. Implementation:

In implementation stage the first task to be done is to define responsibilities and accountability of each individual and controlling i.e. monitoring and corrective action should be the taken at each stage of programme. And this is how the continuous improvement can be achieved. The third, fourth and fifth sate in the above process indicates continuous improvement.

Problems Associated with MSMEs:

Small and medium enterprises (SMEs) constitute an important segment of the economy in India and in other emerging countries. For those countries, they often serve as the 'engines of growth'. Using data from the Micro, Small, and Medium Enterprises (MSME) Ministry of the Government of India, Shamika Ravi, Assistant Professor of Economics and Public Policy, ISB has estimated that the MSME sector accounts for 8 percent of India's GDP, 50 percent of total manufactured exports, 45 percent of India's total industrial employment, and 95 percent of all industrial units.

However, Indian MSMEs are a diverse and heterogeneous group, but they face some common problems, which are briefly indicated below:

- Lack of availability of adequate and timely credit;
- High cost of credit;
- Collateral requirements;
- Limited access to equity capital;
- Problems in supply to government departments and agencies;
- Procurement of raw materials at a competitive cost;
- Problems of storage, designing, packaging and product display;
- Lack of access to global markets;
- Inadequate infrastructure facilities, including power, water, roads, etc.;
- Low technology levels and lack of access to modern technology;
- Lack of skilled manpower for manufacturing, services, marketing, etc.;
- Multiplicity of labour laws and complicated procedures associated with compliance of such laws;
- Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily; and
- Issues relating to taxation, both direct and indirect, and procedures thereof.

Conclusion:

Global competition is the name of the game today. Across countries, across regions there is a drive to enhance competitiveness. Competitiveness of nations, industry sectors and individual units. A holistic and integrated focus on building a nationwide entrepreneurial ecosystem can reshape India's socio-economic landscape in the next decade, and enhance its global standing enormously in all socio-economic dimensions of growth. Nation-wide entrepreneurship development with appropriate scale, scope and innovation will make all the difference. Strategic approach towards the cost factor would be helpful for the Indian SMEs to overcome the finance related challenges and the cost effectiveness will make them more competitive in the market. However, strategic cost management is in its infancy. Researches and studies are still in an early exploratory stage and have not yet developed a consistent theory for strategic cost management. The application of strategic approach in the management of SMEs thus requires further studies that will develop a consistent theory for strategic cost management for all concerned.❑

Cost Management for Growth of SME in Textile Sector

R. Gopal*

Government of India Planned and followed Industrial Policy. It initiates special role for small scale industries and medium scale industries in the Indian economy. Small Medium Enterprises (SME) which is emphasized on labour intensive mode of production; employment generation; non concentration of diffusion of economic power and discouraging monopolistic practices. Here we consider Textile Sector.

Textile Sector:- Dress is necessary for every human being. Fabrics are not only used for dress but also used for packing material, Banners, Flags and Screens. Fabrics are differs based on quality of yarn and style of weaving, I am concentrating on cost management for growth of SME in textile sector. Regarding textile sector yarn is Raw material and process like warping, sizing rewinding weaving dyeing of fabric, yarn dyeing, stitching, cutting mending etc.,

Cost Management on sizing department:- Normal sizing department cost are as follows:

(All expenses are considered except yarn cost)

Count	Cost / KG Rs.	Fixed cost app.	Total cost Rs.
16'c	5.05	9.00	14.05
36'c	12.72	9.00	21.72
30'c	13.63	9.00	22.63
17'c	16.37	9.00	25.37
40'c	18.00	9.00	27
60'c	18.59	9.00	27.59

Sizing count	Cost / KG Rs.	Fixed cost app.	Total cost Rs.
2/30	.65	4.00	4.65
2/36	.65	4.00	4.65
2/40	.65	4.00	4.65
2./36pc	.65	4.00	4.65
2/30pc	.65	4.00	4.65

I hope the above table reveals clearly. Sizing department's single count cost high. But controversially double count's sizing department cost is very low. This is because of only warping activity is engaged in double count. But single count cost engages all activity of warping and sizing. So single count sizing department charges is high and double count sizing department cost is very low.

Cost Management in weaving department: In a fabric we can find ends per inch and picks per inch. Ends per inch are the calculation of sizing department. But picks per inch is the duty of weaving department. If pick per inch increases at higher level means weaving cost increases to certain extent. So we can find out weaving cost per pick is necessary.

Dobby have simple design and jacquard have huge design which works out 5 times of dobby but due to huge volume of orders it bears only thrible times of dobby cost instead of 5 times. The above table clearly reveals that, low orders giving higher cost. An higher order areas provide lower cost. Sheet having 115" width above bears lower orders. But width below 75" have higher and repeating orders. So due to repetition test cost, Research and development cost will be Zero only variable cost will be incurred. So execute the repeated order only.

Cost Management in dyeing department:-- Regarding dyeing, there are yarn dyeing and fabric dyeing. But let me concentrate for fabric dyeing only. There are two types of fabric dyeing 1. VAT dyeing 2. Reactive dyeing.

Conclusion:

Usage of double count is sizing cost, and lower width with two three panels and usage VAT dyeing will match the cost of textile department. MSME act provides for facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises and for matters connected therewith or incidental thereto.

(Weaving cost per pic in paise) (All expenses are considered except yarn cost)

count	Sheet set width above 115" having single panel			Sheet set width above 50" 58" 63" Two, Three panels		
	Plain/stripe	dobby	jacquard	Plain/stripe	dobby	jacquard
24" 30"s 40"s	.26	.28	.80	.16	.18	.45
50"s 60"s	.32	.36	.90	.17	.19	.45
70"s 60"s 100"s	.34	.38	1.00	.18	.20	.45

(All expenses are considered except fabric cost)

SHADE	VAT dyeing 6 hours			Reactive dyeing 10 to 12 hours		
	Variable Cost Rs.	Fixed cost app.	Total cost Rs.	Variable Cost Rs.	Fixed cost app. Rs.	Total cost Rs.
WHITE	13.57	20.00	33.57	20.24	25.00	45.24
RED	31.33	20.00	51.33	63.69	25.00	88.69
YELLOW	10.58	20.00	30.58	13.58	25.00	38.58
NAVY BLUE	26.79	20.00	46.79	32.59	25.00	57.59

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Performance Monitoring in SME Sector

The Small and Medium industrial houses in the Country, unlike the Large Scale Industrial ones Functions against several odds, both financially or other wise. They financially ill afford to establish Costing Division, as apart of their administration. As a consequence they are deprived of the Expert & Professional advice of Cost Accountants and there by loose to earn adequately. The Article under the above said Caption intends to bring out the benefits if they resort to Monitoring their Production Jobs availing the advice of Professional

I. Mohamed Ibrahim*

Profit Maximization is the Prime Objective of every Entity, either in Trade, business, Manufacturing or Service Industry. The Entrepreneur pumps in his scarce resources into his enterprise with the sole aim to accomplish the said objective for his benefits as well as to that of the shareholders, others are only secondary to him.

The Management particularly in Manufacturing / Service Industry put in their best efforts to attain the above said objective; facing fierce competition in the market, technological advancements, risk of obsolescence in Machinery, Equipments, Process and the continued need to cope up with all such factors.

In such a testing environment the Endeavour to attain the objective of Profit Maximization is not a simple or easy task, even in a Small or Medium Enterprise. The traditional methods of adopting certain thump rules or by just observing the incurrence of cost might lead to adverse situations. In Government owned Undertakings too, where the hard earned money of the Public Exchequer is employed, the accomplishment of the said objectives is of much of importance as in the case of Private Sector enterprises.

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In every manufacturing organization, a separate department is assigned with the task of dealing with Cost Estimation. This Department specialized in technique of Cost Estimating, works in close co-ordination with Departments like Marketing, Planning, Design and Production. When an Enquiry is received, it is processed through the above said Departments as to various aspects Such as the availability of Technical Know-how, Machinery & Equipments to manufacture as well as sufficient Capacity to entertain the quantum of work.

After a decision is taken to entertain the enquiry, estimates are prepared based on the design drawings, detailed drawings etc., of the product to be produced. Extreme care is taken in their preparation, as too high a estimate will lead to loss of order, and on the other hand underestimation would result in low profit or sometimes even to loss of cost incurred.

Such estimates prepared in great detail, studying every element of Cost / aspects that will be involved in the manufacture, shall be the basis for Production Department to go ahead with the production activities as and when orders are received. The Execution phase of the Order or Project is a vital segment which calls for close monitoring with reference to the respective Estimated Cost of Production and Rate Quoted. Timely execution of the order is equally important, as any delay will badly tell upon the performance of the job as to cost overrun .besides liquidated damages for the delay involved.

Hence the Execution Phase of the order requires close Monitoring the incurrence of cost and other aspects, right from initiation of purchase of required Materials / Services at or below the estimated rates, adherence to time schedule at every stage till supplying the products or handing over the project completed in all respects.

The system of Performance Monitoring on a continued basis would be an eye opener to the Management , as it would exhibit the performance in the execution of the job / project as against the Goals or Estimates set for it, duly bringing out element wise favorable/adverse variance etc,. The Management can, on the basis of such appraisals, correct the situations by taking appropriate corrective action then and there.

Since the Production Department cannot fully and effectively attend to monitoring the performance in each and every job, it is essential to assign the said important task to a separate Cell attached to the Estimation Department, which has Expertise and in depth Knowledge in every aspect of the estimates prepared for the Jobs / Projects in execution, as well as it is well placed in close co-ordination with the Marketing, Planning, Design and Production Departments.

Such Monitoring Cells shall adopt advanced Techniques like CPM and PERT methods, assists and guide the Production Department, by closely following the execution of the job or project, enabling to avoid cost or time overruns so that the Margin / Contribution contemplated in the estimate is ensured or surpassed. The Monitoring Cell shall also furnish reports on their Performance Appraisals of Jobs / Projects, periodically to the Management, who may have to initiate remedial measures required, if any.

In such an endeavor the Cell may have to develop suitable formats for their Reports depending upon the job or project. The Format outlined in Table - 1 below with suggested cost data is a brief one on the manufacture of 7000 pcs.of STEEL ALMIRAHS in Job card No. 1006 /2009-10.

The above analysis on J.C. No. 1006/2009 -10 reveals Adverse Variance in material cost to the extent of 2.5% , 0.5% in labour cost and Favorable Variance to the extent of 1% in direct expenses. The Contribution lost thereon in absolute term is Rs.230.55, Rs.45.00 and earned in direct expenses is Rs.92.45, and the net contribution lost amounts to Rs. 183.10 in every piece of the product manufactured as is exhibited in the lower block of the analysis.

The Cost Analysis exhibited in Table -1 above is shown in a much detailed format in Table - 2 below which is more informative revealing material item wise, labour operation wise as well as direct expenses wise data.

Thus the format can be drawn up differently so that it could be more informative and easily understandable.

A comparative cost analysis between two Job Cards wherein one and the same product manufactured is shown below in Table - 3.

In J. C. No 761 / 2009-10 the contribution earned is more by Rs. 248.50 per no. than in J,C, no. 961 / 2009-10. Such Comparative Studies can be made by the Monitoring Cell between two production units under the same management that are engaged in similar

Table – 1

COST ANALYSIS ON THE MANUFACTURE OF STEEL ALMIRAH in Job Card No.1006 / 2009-10

Quantity mafred. - 7000 pieces

	ESTIMATE		ACTUALS	
	Rs. Per piece	% to Sale Value	Rs. per piece	% to Sale Value
PRODUCTION / SALE VALUE	9000.00	100.0%	9000.00	100.0%
DIRECT COST				
Direct Material	5850.00	65.0%	6085.00	67.6%
Less: Scrap Matl.	58.50	0.7%	62.95	0.7%
Net Material Cost	5791.50	64.4%	6022.05	66.9%
Direct Labour	450.00	5.0%	495.00	5.5%
Direct Expenses	360.00	4.0%	267.55	3.0%
TOTAL	6601.50	73.4%	6784.60	75.4%
MARGIN estimated / earned	2398.50	26.7%	2215.40	24.6%

ELEMENTWISE VARIANCE in MARGIN estimated

Favourable(+) / Adverse(-) VARIANCE	
in Material Cost	-230.55
in Labour Cost	-45.00
in Direct Expenses	92.45
TOTAL	-183.10

Table – 2

COST ANALYSIS ON THE MANUFACTURE OF STEEL ALMIRAH in Job Card No.1006/2009-10

Quantity Mfred .– 7000 Pieces

	ESTIMATE		ACTUALS	
	Rs. per Piece	% to Sale Value	Rs. per Piece	% to Sale Value
SALE VALUE	9000.00	100.0%	9000.00	100.0%
DIRECT COST				
Direct Material (Net of Scrap Matl.)				
1. B.P.Sheet 18G	2200.00	24.4%	2350.00	26.1%
2. B.P.Sheet 20G	3300.00	36.7%	3425.00	38.1%
3. B.P.Sheet 16G	291.50	3.2%	247.05	2.7%
	5791.50	64.4%	6022.05	66.9%
Direct Labour				
1.Cutting Dept.	100.00	1.1%	118.00	1.3%
2.Fabrication Dept.	250.00	2.8%	280.00	3.1%
3.Inspection Dept.	100.00	1.1%	97.00	1.1%
	450.00	5.0%	495.00	5.5%
Direct Expenses				
1.Welding cost allocated	75.00	0.8%	63.25	0.7%
2.Painting cost allocated	225.00	2.5%	164.25	1.8%
3.Packing & forwarding Cost allocated	60.00	0.7%	40.05	0.4%
	360.00	4.0%	267.55	3.0%

manufacturing activities, which would bring out efficiencies / inefficiencies among them enabling the management to enhance the overall earnings by taking corrective action.

Another cost analysis on the manufacture 10,050 tons of Steel Windmill is shown in Table - 4 below :-

The above Cost Analysis is on Variable Cost basis, which is different from the ones in Tables 1 to 3, which brings out favorable variance to the extent of 0.7% in variable cost which ultimately enhanced the Contribution to that extent amounting to Rs. 657 per ton of the out put. Thus the Additional contribution earned in the Job card No. 2017/2009-10 amounts to Rs. 6.60 lakhs (10050 tons x Rs. 657).

Individually there is favorable variance in material cost by 2.5% amounting to Rs. 2349 per ton against adverse variances to the extent of 1.8% and 0.2% in labour &direct expenses respectively; as well as 0.1% in variable overheads. Had the adverse variance been arrested by proper Monitoring, the additional Contribution could have substantial.

The Cost Analysis in Tables 2 to 4 above also exhibits material item wise, labour operation wise as well as direct expenses wise variances enabling exhaustive study and corrective action.

These Cost Studies not only enable corrective action, but the data accumulated thereon from time to time are of importance as Historical ones which could be of much useful and guiding factor for tendering in future.

Hence the Industrial Houses in Small and Medium Sector have to go in for Performance Monitoring. If they are unaffordable to employ Cost Accountant, they can at least engage them on retainer basis, train tt^ir staff under them for quite sometime and reap the benefits.

TOTAL DIRECT COST	6601.50	73.4%		6784.60	75.4%
MARGIN estimated / earned	2398.50	26.7%		2215.40	24.6%
ELEMENTWISE VARIANCE in MARGIN estimated					
Favourable(+) / Adverse(-) VARIANCE					
in Material Cost			-230.55		
in Labour Cost			-45.00		
in Direct Expenses			92.45		
TOTAL.......			-183.10		

COMPARATIVE COST ANALYSIS ON THE MANUFACTURE OF Almirahs in two Job Cards

Table – 3

	J. C. 761/2009-10		J. C. 961/2009-10	
Quantity Mafred.	5002 Nos.		6001 Ns.	
	Rs. per No.	% to Sale Value	Rs. per No.	% to Sale Value
SALE VALUE	9000.00	100.0%	9000.00	100.0%
DIRECT COST				
Direct Material (Net of Scrap Matl.)				
1. B.P.Sheet 18G	2200.00	24.4%	2350.00	26.1%
2. B.P.Sheet 20G	3300.00	36.7%	3425.00	38.1%
3. B.P.Sheet 16G	0.00	0.0%		0.0%
	5500.00	61.1%	5775.00	64.2%
Direct Labour				
1.Cutting Dept.	100.00	1.1%	95.00	1.1%
2.Fabrication Dept.	250.00	2.8%	265.00	2.9%
3.Insprction Dept.	100.00	1.1%	97.00	1.1%
	450.00	5.0%	457.00	5.1%
Direct Expenses				
1.Welding cost allocated	125.00	1.4%	112.50	1.3%
2.Painting cost allocated	338.00	3.8%	322.00	3.6%
3.Packing & forwarding Cost allocated	180.00	2.0%	175.00	1.9%
	643.00	7.1%	609.50	6.8%
TOTAL DIRECT COST	6593.00	73.3%	6841.50	76.0%
MARGIN estimated / earned	2407.00	26.7%	2158.50	24.0%
ELEMENTWISE VARIANCE in MARGIN estimated				
Favourable(+) / Adverse(-) VARIANCE				
in Material Cost			-275.00	
in Labour Cost			-7.00	
in Direct Expenses			33.50	
TOTAL........			-248.50	

Table – 4

COST ANALYSIS ON THE MANUFACTURE OF STEEL WINDMILL in Job Card No. 2017 /2009-10

Quantity manufactured – 10,050 tons

	ESTIMATE			ACTUALS	
	Rs. per ton	% to Sale Value		Rs. per ton	% to Sale Value
SALE VALUE	95000.00	100.0%		95000.00	100.0%
DIRECT COST					
Direct Material					
(Net of Scrap Matl.)					
1. M.S.Heavy Angles	20500.00	21.6%		21426.00	22.6%
2. M.S.Medium Angles	15500.00	16.3%		14566.00	15.3%
3. M.S.Plates	14350.00	15.1%		12009.00	12.6%
	50350.00	53.0%		48001.00	50.5%
Direct Labour					
1.Cutting Dept.	6500.00	6.8%		6850.00	7.2%
2.Fabrication Dept.	2325.00	2.4%		2660.00	2.8%
3.Insprction Dept.	4390.00	4.6%		5365.00	5.6%
	13215.00	13.9%		14875.00	15.7%
Direct Expenses					
1.Design&drawing charges	1000	1.1%		975.00	1.0%
2.Instalation charges	950	1.0%		1050.00	1.1%
3.Allocations From Depts.	750	0.8%		857.00	0.9%
	2700.00	2.8%		2882.00	3.0%
PRIME COST	66265.00	69.8%		65758.00	69.2%
VARIABLE OVER HEADS	4500.00	4.7%		4350.00	4.6%
VARIABLE COST	70765.00	74.5%		70108.00	73.8%
CONTRIBUTION	24235.00	25.5%		24892.00	26.2%
ELEMENTWISE VARIANCE in CONTRIBUTION					
Favourable(+) / Adverse(-) VARIANCE					
in Material Cost			2349.00		
in Labour Cost			-1660.00		
in Direct Expenses			-182.00		
in PRIME COST			507.00		
in Variable Overheads			150.00		
TOTAL........			657.00		

We are reproducing the essays of first prize winners of the essay competition "Cost Management: Key to Survival in Current Global Meltdown" in both members' and students' category for the benefit of our readers.

Cost Management: Key to Survival in Current Global Meltdown

S.Jeyaraj, M.Com., MBA, M.Phil., AICWA

1.0 INTRODUCTION

In the present globalised market environment and increased dynamic competitiveness, organizations all over the world are adopting new strategies to gain improved performance and to increase customer value: Companies today are in the midst of a revolutionary transformation as "Industrial age" competition has shifted to "Information age" competition. One of the most basic and fundamental premise of a business entity is the obligation to maximize shareholders value in the long run by creating wealth legally and ethically. The interest of the stakeholders and society are best-served when the scarce resources are put to their most productive uses. Value creation is vital for different stakeholders of businesses-customers, employees, investors, vendors and the society at large. For this purpose, a company is to ensure predictability, sustainability and profitability year after year through Revenue growth strategy and Productivity strategy.

Revenue growth strategy consists of identifying value from new products and customers and increasing customer value through customer profitability. Productivity strategy involves improving cost structure by reducing cost per unit and improving asset utilization. With the environment becoming more competitive, inefficiency of one is becoming an opportunity for the other. Most of this inefficiency is in terms of non-value-adding activities present in the system.

The global economic crisis started with the collapse of American financial system, spread to Europe, led to a decline in manufacture because of shrinking credit, losses in investments, dwindling consumer purchasing power, plummeting sales and profit margins and large-scale unemployment. The crisis also infected the developing countries including India and China.

Thus, today's business environment is rife with turbulence caused by the current global economic meltdown that have a major impact on performance of companies and coupled with global competition, deregulation, foreign exchange and interest rate volatility, posing considerable threats for the survival and growth of business organisations the world over.

2.0 Cost Accounting - the Genesis and The Journey

The sophistication and quality of cost accounting practised during a particular age is one of the benchmarks of economic progress. Most fundamentally, Cost Accounting provides data necessary to measure the true cost of products to aid in the determination of selling prices. Costing is also integral, both in the past and at the present time, in evaluating the efficiency of the productive process and of decision making. Analysis of asset procurement, vertical integration, subcontracting, make-or-buy decisions, technological innovation, and product mix are representative of the many planning activities that require cost data. Venerated surveys of accounting history date the advent of meaningful cost accounting to the eighteenth century.

2.1 Josiah Wedgwood and Cost Accounting

With the advent of the Industrial Revolution in the late eighteenth and early nineteenth centuries, accounting developed into a profession. The practice of cost accounting became prevalent as business owners and managers sought to understand how best to make their businesses as cost efficient as possible.

Josiah Wedgwood (1730-1795), the owner of the famous English pottery factory and grandfather of Charles Darwin, was among the first to use cost accounting in businesses. He established his first pottery works in 1759. Wedgwood initially made little use of accounting. High prices were charged resulting in substantial profits even though costs were poorly tracked. The circumstances changed with the depression of 1772. Demand dropped, inventories rose, and prices were cut.

In order to survive, Wedgwood turned to cost accounting. He examined the business books in detail, discovered inefficient operations and the importance of overhead. He was able to determine detailed costs for materials and labour for each product. Overhead costs were analyzed and allocated as breakage and interest as well as transportation costs. The concepts of economies of scale and sunk costs were discovered. The large percent of fixed costs of his factory suggested the importance of greater volume.

Based on his cost analysis, the high price policy for pottery was changed. Lower prices were charged differentially, increasing demand and overall profit. The market could be divided between high-price high-quality products for richer customers, while a mass market could be attracted with lower-cost lower-price products. Prices were based on relative costs and demand. Because of his timely adoption of cost accounting system, Wedgwood survived the depression, unlike hundreds of his contemporaries, who could not. As estimated by Fleischman and Parker (1991) that only 10% of Industrial Revolution firms survived through the 1840s.

Thus, Modern cost accounting originated during the industrial revolution, when the complexities of running large scale businesses called for systematic recording and tracking of costs to help business owners and managers make better decisions. Evidently, cost accounting rescued entrepreneurs like Josiah Wedgwood during the challenging periods in the economic history.

2.2 Managing costs - The Way Forward

In the early industrial age, most of the costs incurred by businesses were "variable costs" because they varied directly with the amount of production. But, some costs tend to remain the same even during busy periods, which included depreciation, maintenance, tooling, production control, purchasing, quality control, storage and handling, plant supervision and the like. Over the period of time, the volume of these "fixed costs" increased substantially due to increased automation and technological advancements and allocating them arbitrarily to products led to bad decision making. Managers were required to understand the importance of fixed costs in order to manage costs efficiently and make better decisions about products and pricing.

3.0 GLOBAL MELTDOWN

3.1 Behind the catastrophe

The current global financial crisis began about two years ago in the United States high risk, sub prime home-loan market and developed into a global credit squeeze, dragging down world economic growth. While the United States remains the focal point, financial institutions in other countries have also been affected, reflecting the unreliable global financial conditions, weaknesses in risk management systems and prudential supervision. The financial crisis coincided with the decline of the dollar, rising inflation and booming commodity prices. The crisis reflects a combination of factors such as weakening balance sheets of financial institutions, continuous fall in asset prices and the weakening global growth.

In recent years, the financial flows have gone far beyond the requirements of the real economy. Many novel financial products were developed, whose risk levels could not be gauged. The excessive dependence of the United States on cheap imports from China, its huge current account and budget deficits, the low interest rates to keep the economy stimulated and the decline of American domestic savings led to over extension of credit for housing, consumer goods and other items. This led ultimately to a loss of confidence and collapse. The impact of the crisis has created turbulence across the global financial systems. Apart from United States, the crisis has affected markets in Europe and several developing countries including India and China. After witnessing higher GDP growth rates in the previous years, the developing countries have shown signs of slowdown in 2008-09.

3.2 Features of current crisis:

There are some important features of the current economic crisis:

1) The crisis was triggered by excesses of financial system. It did not originate in the real sector of the economy. Real Sector refers to the sector in which there are productions of goods and services through combined utilization of raw materials and other factors of production.
2) There are persistent current account deficits in the United States and low/ declining savings rate in advanced countries.
3) Globalization proceeded rapidly in the recent period. Though it led to better allocation of resources, also resulted in accentuation of inequalities among and within countries. It raises a question with concern whether globalization spreads prosperity or distress or both.

4) The current crisis appears to be basically due to regulatory failure in relation to financial markets. Some parts of Financial Markets are loosely regulated or not regulated at all. Funds were moved from more regulated to less regulated segments.

5) There are pockets of vulnerabilities that are causing panic in the global financial system. The general re-pricing of credit risk would increase the cost of external financing and reduced availability of funds in the emerging markets.

3.3 Impact in India and the response

The year 2008-09 was a period of upheaval on many fronts. It placed considerable strain on the Indian economy. The economy slowed down considerably in the second half of 2008-09 in the wake of global meltdown. GDP grew by 5.3 percent during the third quarter of 2008-09 compared to 8.9 per cent in the corresponding period of the previous year.

The collateral damage and impact of the global financial crisis on India has shown that Indian financial and banking systems are more integrated with global systems than believed. The three channels -financial, real and confidence - have affected India. Almost all sectors have showed signs of slowdown, with sectors like automobiles, textiles and exports have been badly affected. Stock prices have fallen by 60%. There was mounting pressure on domestic financial system for additional credit.

Since October, 2008, the Government and the Reserve Bank of India (RBI) have announced a slew of fiscal and monetary measures at regular intervals, including reduction of Cash Reserve Ratio, Repo and Reverse Repo rates to inject liquidity in the financial system in order to tackle the effects of crisis.

3.4 Impact on Indian Corporate Sector

The global financial crisis affected the performance of Indian corporate sector severely during 2008-09. Industrial growth for the period April - February 2008-09 decelerated to 2.8 per cent in comparison to 8.8 per cent during the same period previous year. The Index of Industrial Production (IIP) recorded negative growth in December, 2008 and February 2009.

The meltdown has affected India's external sector performance too. Exports have posted negative growth for five months in a row since October, 2008. Import growth, during this period has also weakened considerably and entered negative territory in January and February, 2009. During April-December 2008-09 the trade deficit increased significantly to $105.3 billion from $ 69.3 billion in the previous year.

An analysis of the financial performance of sample companies for the quarter ending March, 2009 reveals a sharp decline in net sales growth and contraction of net profit. Net sales grew by 8.7 per cent during the fourth quarter of 2008-09 in comparison to a growth rate of 23.7 per cent in the previous quarter and 25.6 per cent during fourth quarter of the previous year. Net profit contracted by 2.4 per cent in the third quarter and 1.0 per cent during fourth quarter of 2008-09.

However, the fiscal stimulus measures taken by the government and the Reserve Bank of India, appears to have positive effects on the economy in the following months. The core sector index - encompassing electricity, coal, steel, petroleum crude and refinery products and cement - slightly improved in April 2009, with a growth rate of 4.3% compared to an average growth of 2.7% in 2008-2009.

3.5 Challenges and Priorities

The crisis led to lack of sales which, in turn, is due to lack of purchasing power among the masses. A large part of world's population is poor. There is large scale unemployment since many workers are laid off. Worker is also a consumer. When he loses his job, his purchasing power is drastically hit and market correspondingly contracts. While production increases, sales decrease, and recession sets in. Businesses require loans for their normal operations, but banks restrict grant of loans which led to companies curtailing products, laying-off workers, reduced output and drop in sales, ultimately resulting in slowdown of economy.

The immediate priority is to ensure the financial system is liquid and able to meet the legitimate credit needs of different segments of economy. RBI's decision to reduce CRR and Repo/Reverse Repo rates are in the right direction and taken on time. Next, public spending is to be increased and the Government has taken adequate steps in this direction. The government's increased expenditure has led to a high fiscal deficit of over 6% of GDP. Fiscal deficit is indicative of government's borrowing needs to meet its expenditure. Large government borrowing can cause interest rates to go up sharply and thus can increase the cost of capital for the private sector.

3.6 Need for a global answer

The policy makers have proposed a variety of solutions to tide over the present crisis. The first priority is to make the financial system liquid. The crisis has affected the global financial system. It requires a global answer. The entire global financial system requires thorough review and overhaul of financial oversight and regulatory mechanism. It needs an integrated and global approach instead of a segmented, partial and national one. Banks and financial institutions require greater disclosure, more oversight and improved risk management to cure the contagion. The emerging economies should support policies to strengthen their domestic demand, create employment opportunities and facilitate greater exchange rate flexibility to play a more dynamic role in global growth. Asian economies have a huge backlog to make up in basic infrastructure, which can be a powerful instrument of stimulating demand in the Asian region.

4.0 LEADING IN A DOWNTURN

4.1 Low-cost quality products

In order to turn around the economy, mass production is required to be accompanied by mass consumption. As the European, American and the creamy layer of other developing markets are already saturated, companies are eyeing the middle-class consumers of developing countries, such as India and China.

India has the world's largest middle-class. Many companies like Tata, HCL and Reliance are targeting the Indian middle class with low-cost and high quality products and services. The Indian manufactures have to manage to reduce the cost and at the same time maintain the quality of the product or service offered. The best example of low-cost high quality product of an Indian MNC is Tata's Nano. It is a wonder to make such a car with a price tag of Rupees one lakh, while sticking to Euro IV norms. Tata Nano shows how local technology can be used to cut costs without compromising on the quality.

Various Indian retail chains have become successful by focussing on the cost part. Similarly, Air Deccan has opened the way for low-cost airlines in India, followed by other private airliners to attract the Indian middle-class by offering fares that are as low as the First Class AC ticket fares of Railways. The mobile service providers have continuously reduced the cost and made call rates affordable to middle-class customers.

4.2 The Low-cost challenge

Adopting low-cost strategy involves some challenges. The primary challenge is to maintain both quality of the product and profits. Indian companies have'to reengineer the processes to reduce the costs. As the profit margin is very low, the profit comes from the volume only. Another issue is of hidden costs. Many times companies give the main product for a cheap price, but hike the after sales service costs. The mobile set is cheap but the call rate is higher when bought together. Vehicle is less expensive but fuel-efficiency is low, resulting in additional expenses for consumers in the long run. Companies should try to innovate and come up with low-cost high quality products.

Another challenge is to overcome the 'cheap product' image. Many people think that low price means compromise on quality. The product structure of low-cost products and services contain only the core product or the service and are called "no-frills" products. When Air Deccan launched the airlines, it cut in-flight meals and baggage space on the airport, which led to economy class with more seats and higher productivity. Adopting "No-frills" products should not result in lowering quality.

5.0 COST MANAGEMENT - KEY TO SURVIVAL

5.1 Price, Profit and Cost - The changing equation

In the era of globalisation, organisations are striving to offer customers the maximum value at minimum possible price. The concept of pricing has undergone paradigm shift over the years as given below:

In the controlled economy	Cost Price + Profit = Price
In the competitive market	Price - Cost = Profit / Loss
In the globalised market	Price - Profit = Cost

Thus, in the present scenario, price is market-determined, profit is industry-determined, and cost is the only parameter, which a firm can control and manage efficiently and effectively for survival and growth.

Today, with global competition and economic meltdown on the one hand, and highly demanding customers and dwindling lifecycles of products on the other, organisations are finding themselves in the midst of predicament.

Providing maximum value at minimum possible price is an arduous task, since it is indispensable to earn minimum profits and maintain cash flow to survive the slowdown. Trying to control the uncontrollable factors like price and sales are unwise in the market oriented global economy.

Strategies like the low cost initiatives call for an effective framework to control and manage costs and to maintain both quality and profits. Since cost determines the profitability and companies are able to exercise control over cost, the only key option available to them is to turn towards managing costs effectively to address the seemingly paradoxical situation of offering more value at lesser price and still maintain profitability during turbulent times of the economy.

5.2 Cost Management

Cost Management is a company-wide, systematic and structured approach, which provides a holistic framework to control, reduce and eliminate costs, throughout the value chain. This process of managing the financial outcome of activities encompasses all operations, internal and external. Cost Management is a comprehensive management philosophy for proactively managing the resources of the business by integrating it with the strategic and operational aspects, horizontally as well as vertically. It has got a broader focus on various aspects of costing methodology, unlike traditional costing systems. It is not only concerned with how much something costs but also with the factors that drive costs, such as cycle time, quality and process productivity.

Cost management encompasses both cost accounting and management accounting and requires a deep understanding of firm's cost structure. A sophisticated understanding of a firm's cost structure can go a long way in search of a sustainable competitive advantage. Cost management provides crucial information concerning quality related activities, cost of quality and important new insights into crucial areas of concern of management today. The cost management philosophy is considered as a process and not a function.

5.3 Total Cost Management

Total Cost Management (TCM) can be described as a management planning and control system to be adopted by a firm to enable it to greatly enhance its competitiveness, involving the following:

- Identifying and measuring the cost of resources consumed in performing the significant activities/processes of the firm.
- Determining the efficiency and effectiveness of the activities / processes performed.
- Identifying, evaluating and implementing the most appropriate methodologies to enhance the competitiveness of the firm with a view to achieve long term cost leadership.

TCM involves selection and implementation of various tools of cost management as appropriate to the strategies and operations of the business. The tools of TCM are linked with reference to the strategies of the organisation as well as the operational needs to drive the cost strategies. The major areas of focus are Finance management, Material cost reduction, Energy cost management, Process improvement and Inventory manage-ment. Customer is also brought in a structured way by focusing on cost of serving the customer, customer groups or market segments. The operational improvement and the cost management reinforce each other. A linkage is established between the strategic issues, decision-making process and the cost management system.

As a result of high level of integration between the enterprise risk management and cost management, the competency to manage future cost structure is very high. TCM provides initiative to extend the cost managemont practices to the inbound and outbound supply chain players of companies and also have integrated the environmental concerns with the cost management system.

Considering the importance of the cost management process as the nucleus of competitive strategies, the apex Industrial body like Confederation of Indian Industry (Cll) has positioned Total Cost Management framework quite persistently for the past several years.

5.4 Tools and Techniques of TCM

Activity Based Costing / Management

Activity Based Costing (ABC) is a method of measuring the performance of the activities, according to their consumption of the resources, in terms of cost and apportions these costs to the products. This brings about changes in costing systems to allocate overheads to products, more accurately. This change in the system is so dynamic, that product profitability and profitability of a customer segment becomes feasible. The underlying assumption is that activities drive the costs, which are driven by the product or customer. Using ABC to improve a business is called Activity-Based Management that brings the full benefits of ABC to the organisation. With Activity Based Costing, the cross subsidisation of products can be assessed more accurately, enabling the right decisions to meet the low-cost challenges.

Target Costing

Target costing is a structured approach to determine the cost at which the proposed product with specified functionality and quality must be produced to generate the desired level of profitability when sold at its anticipated selling price. It starts with understanding what price the customer will pay and sets target costs based on this price. This is based on the premise that 90% of the cost of the product is embedded at the design stage itself. Initially, the firm uses market research information to determine the prices customers are willing to pay for the product, given its functionality, quality and the substitute products offered by competing firms. From this price, the firm subtracts the profit margin required to satisfy its stakeholders and to fund the research and development of future products. The resulting quantity, is the allowable cost of the product. Thus, Target Cost is equal to Sales Price minus Profit Margin.

Life Cycle Costing

Life Cycle Costing (LCC) is the economic assessment of alternative designs, construction or other investments considering all significant initial and ownership costs over the economic life of each alternative, expressed in equivalent economic units. For newly developed assets, LCC includes research and development cost, production cost, system operating cost, replacement costs of failed components and disposal costs at end of life. LCC's objectives are to minimize the total cost of ownership of the system and to quantify design parameters such as reliability and maintainability over a longer period of time.

Balanced Scorecard

Balanced Scorecard (BSC) is a proven and effective performance measurement tool in the quest to capture, describe, and translate intangible assets into real value for all of an organisation's stakeholders and in the process, allowing organisations to successfully implement their differentiating strategies. BSC is a concept helping to translate strategy into action. It is derived from the vision and strategy of the company and reflecting the most important aspects of business, consisting of four different perspectives - Financial, Customer, Process and Learning & Innovation - from which a company's activities can be evaluated.

Supply Chain Management

In today's cost sensitive environment, Supply Chain Management (SCM) comes into sharper focus, highlighting the need for highly efficient optimum-cost, time-oriented, and wastage-minimized outbound supply chains. The supply chain is a network of relationship among trading partners. The content of these relationships sets the operating characteristics of the supply chain, including the ability of the chain to support channel-wide costing. Hence, understanding these relationships is critical to choosing the right costing approach for the chain.

Strategic Cost Management

Strategic Cost Management involves cost analysis in a broader context, where the strategic elements become more conscious, explicit and formal. Here, cost data is used to develop superior strategies to gain sustainable competitive advantage. It consists of four stages - formulating strategies, communicating strategies through the organisation, developing and carrying out tactics to implement the strategies and developing and implementing controls. Accounting, Costing and Financial information plays key roles at each of the four stages. Strategic Cost Management is the managerial use of cost information explicitly directed at one or more of the four stages

6.0 CREATIVITY, INNOVATION AND ACCOUNTING - THE COST MANAGEMENT ROADMAP

Indian families commuting on scooters inspired Mr. Ratan Tata to create the Peoples' car, Tata-Nano. Jhe revolution in Telecommunication sector is an example of how innovation has created a vibrant industry and millions of jobs in India.

Creativity is a mental process involving the generation of new ideas and concepts. Innovation is the process of applying such creative ideas in a specific context. In business, the term innovation refers to the entire process by which an organization generates creative new ideas and converts them into novel, useful and viable commercial products, services and business practices. The new generator of wealth will result from the understanding of the relationship between creativity, innovation and accounting.

6.1 Creating and Maximizing Value in turbulent times

Creativity can benefit every function of an organization including accounting. Activity Based Costing is an accounting invention and it has impacted businesses with a profound and positive effect on profits. General Electric, Coca Cola, Google, Virgin, Microsoft and Apple are a few good examples of harnessing the multiplier effect of creativity - driving innovation, driving accounting and when executed well, producing maximum value. The renewed emphasis on creativity must be realized in order to sustain challenging times and to propel economic growth.

In more detailed terms, business people including accountants need to take a holistic view of an organization to understand the drivers of value (quality and profitability) and successfully integrate strategy (creativity), management (innovative ways of applying creativity) and accounting (balancing creativity and innovation with efficiency and effectiveness).

Thus, V = E (CIA). Value (V) is equal to the successful execution (E) of ....

The current economic environment has led to unprecedented challenges and uncertainties for companies. Besides adopting a defensive posture and focusing on controlling costs, managing cash flow and developing contingency plans in the present scenario, managers are required to think about how the current economic environment provides them opportunities to create and maximize shareholder value.

7.0 SOLUTIONS TO SUSTAIN THE SLOWDOWN

Despite the economic slowdown, it is imperative to keep moving the organization forward through meetings with new partners, being smart with inventory, conducting market analysis and relentlessly supporting .customers. Cost Management is focused on remaining optimistic during economic challenges.

7.1 Process and Systems Improvements

With the slower economy, companies can explore process and systems improvements that will create efficiencies and improve customer satisfaction. This may include improvements in information systems, purchasing, logistics, management practices and other areas. They do not necessarily require significant incremental capital spending at a time when companies are trying to conserve cash. Rather, it indicates the opportunity to use employees and other resources that are underutilized. Particular consideration may be given to process and systems improvements that will help the company in securing a differentia! advantage over its competitors (e.g. improving order accuracy or on-time delivery). A sustainable competitive advantage leads to greater customer loyalty and serves to enhance shareholder value.

7.2 Best Manufacturing Practices

The best practices of successful manufacturing companies are to be disseminated by providing a platform for sharing success stories within the industry. This may include low cost automation, layout changes in process industry and assembly operation, lead time reduction, equipment related design changes, new technology introduction, process modification, Kaizen based cost reductions, savings on energy cost, material and tool cost reduction, elimination of minor stoppages and defect rate reduction.

7.3 Effective Inventory Management

Inventory is one of the major areas for managing costs effectively. Inventory devours capital, becomes obsolescent and consumes space and manpower while just stored. Inventory also hides other wastes. Managing inventory is a reflection of overall manufacturing effectiveness. It requires effective monitoring to weed out wastes and obsolescence to keep the cost to the minimum. Kaizen, Kanban and Just-In-Time (JIT) are the effective techniques for inventory management.

7.4 Material Handling and Warehouse Management

This is another area for achieving cost efficiency. It requires a deeper understanding of the characteristics of warehouse management systems, activity profiling and zoning that can help in design of warehouses, cost control parameters in warehouse operations and global logistics. Enterprises should identify non-value adding activities, eliminate wastes and reduce production costs.

7.5 Incurring overhead strategically

Wai-mart and Cisco systems have incurred heavy overhead costs on Information Technology and web based systems to improve the outsourced manufacturing models, by keeping their inventories lower. The goal is to figure out where to add overhead and why. Even if there is no direct cost savings, the opportunity loss are to be considered.

7.6 Redistributed manufacturing

It means taking manufacturing to the point of purchase to ensure low cost of production and to create livelihoods for people in rural areas, improving supply chains to bridge the urban-rural divide and creating products to meet the needs of the bottom of the pyramid.

7.7 Restructuring jobs and treating employees

Employees are an organization's most important assets. Instead of laying people off, companies can restructure jobs to focus on new activities. While considering lay off, the cost of rehiring and retraining, once the economy picks up is to be considered. Even while working with a leaner staff and tighter budgets, if heavy workloads and intense deadlines converge, temporary resources may be brought in to support the core team. This will bolster employee morale while helping to keep the overtime costs in check.

7.8 Accounts receivable / payable automation

With the onset of cloud computing and new technology, companies can take advantage of Internet-based outsourcing to reduce the accounts receivable / payable processing costs.

7.9 Effective opportunity risk manage-ment

By focusing only on the downside of risk, companies can overlook opportunities that provide significant possibilities for organizational innovation and new competitive advantage. Developing sensitivity to what competitors avoid because of perceived insurmountable risk can also yield new opportunities.

7.10 Looking for hidden casualty

There is considerable scope for cost management in the financial decisions. Reducing the inventory holding time, shortening accounts receivable collection period, lengthening accounts payable period, speeding up operating cycle, managing financing cycle, restructuring debt, trading debt for equity by selling some stocks to pay off debt, reducing debt by selling of some assets, leasing instead of buying and reducing dividends are some of the major areas of cost efficiency during downturn.

8.0 FROM CHALLENGES TO OPPORTUNITIES - THE ROAD AHEAD

Companies may be facing unprecedented challenges due to the recession. But, there is room for optimism. Recessions are known to push people into entrepreneurship. The challenges could indeed be converted into opportunities supported by timely reforms. Strategic organizations use times of uncertainty to redefine priorities, reinvent themselves and redesign their operations. This approach helps them prepare their workforce to respond swiftly to new priorities as the economy improves. As history shows, many companies that take a chance on reinventing themselves during a downturn have emerged stronger.

Staff members can be a pivotal source of information about shifting customer needs. They are likely to know the means of cutting costs and improving process productivity. They are to be encouraged to regularly share their ideas and experiences by working every day on the front lines. One hallmark of "Recession proof companies is their ability to make decisions with an eye towards the future. There are opportunities to take talent available in the country and deploy it towards innovation. The world is desperate for new business models - how to do things more efficiently and effectively. Green manufacturing is something the country can focus on and specialise in. The irony is that each one of these issues can turn into an opportunity or a bottleneck. Therefore, one has to proceed with caution. Striking the right balance between boldness and caution is where wisdom lies.

8.1 Leading the Sustainability Efforts

Cost and Management Accountants (CMAs) are to enable the corporates to wither away the recession and to achieve sustainable development. Sustainability involves three key issues of economic viability, environmental stewardship and social responsibility. A company shall be economically viable while protecting the environment and operating in a socially responsible manner. Creative problem solving and well-rounded business knowledge are keys to add value to shareholders. CMAs can assist the management in its Sustainability efforts to achieve the organization's chosen value proposition.

CMAs possess the ability to evaluate the organisation's financial reporting system and to develop, implement and assess an appropriate risk management strategy, duly considering the risk profile of their organizations. Reduced risk leads to increased shareholder value. The skill set and competency of CMAs to manage change and innovate will go a long way in rebuilding confidence, overhauling the financial system and developing improved risk management techniques, which were affected badly by the current meltdown, and also play a lead role in achieving sustainable development.

9.0 CONCLUSION

Cost leadership is definitely a competitive advantage. Cost advantage is becoming an integral part of any corporate strategy and is an essential tool to improve the competitive edge. The tools and techniques of Total Cost Management work towards this objective. This will provide the organisation with the conceptual framework for effective management of its costs. By successful deployment of cost management, the TCM enabled companies would be the benchmark of the ideal cost structure of the respective sector they are operating in and would become iconic in stature. Cost Management is the right choice for today's and tomorrow's business survival and success.

As experienced by Josiah Wedgwood, cost accounting played crucial roles in times of economic crisis. Cost Accounting was only at nascent stage in the late eighteenth century. So, among the entrepreneurs, only some could survive the crisis during that period, because of cost accounting data/techniques and many did not.

However, remarkable progress has been achieved in the field of cost accounting over a period of time. Many new and advanced tools / techniques are available on cost management at present. Hence, tremendous opportunities are available for the business organisations to survive in the current global meltdown and make a turnaround.

With cost management at the centre-stage, as a clinical pathology available to cure the financial contagion, the survival and success rates of organisations in the present global meltdown can be phenomenally higher than; the one prevailed during the times of Josiah Wedgwood.❑

Cost Management: Key to Survival in Current Global Meltdown

Guruprasad D., Student of ICWAI

Recession: The buzz word much heard in the recent past. Recession is slowdown or fall in economic activities and fall in real GDP (gross domestic product) per capita, over a sustained period of time. More specifically, in terms of period, a recession is defined as a period when GDP falls (negative real economic growth) for at least two consecutive quarters. It means that there must be a fall in real output for 6 months. Recessionary trend is further confirmed if there is 1.5% rise in unemployment within 12 months. Recession is normally preceded by several quarters of consistent slowdown.

In times of uncertainty and harsh economic conditions, the instinctive reaction of most companies is to cut costs. If necessity is the mother of invention, then recession is surely the mother of cost reduction. In fact, some of the most significant developments in cost, reduction methodologies for organizations have often been driven by major global or industry downturns.

Panic-induced cost-cutting in turbulent financial times can be counter productive and damaging to a business. This type of cost-cutting would also result in a compromise on long-term goals and a bleak future. For a viable future, companies must think strategic management, not just the bottom line.

The Dawn of Recession

In general, the economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle. The reason why recession takes place is when consumers lose confidence in the growth of the economy and are not able to spend or choose to spend less. The consumer is not ready to spend as there is a strong apprehension regarding security. This bearish mindset thus has a spiral effect on the overall economy.

This negative sentiment results in lower volumes of sales and lower profitability, growth of businesses slows down or stops. Particularly the businesses dealing with non-essential types of goods and services are adversely affected because this is what the consumers stop buying first. The consumers go conservative; this leads to decrease in market consumption which further causes a slump in production.

Reduced production increases the qualms of liquidity. Working capital of producing organizations tends to dwindle and they cannot run their organizations effectively. Many a times the organizations cannot support their monthly payrolls and layoff their employees which increases unemployment lowering further the purchasing power of the consumers. The consumers grow more conservative further reducing the demand in market thus creating an inward winding vicious negative spiral.

The companies' bleak future: further takes a hit because of negative sentiment growing in the market attributing to the fall of stock prices. Institutional investors stop investing in stocks, slumping share prices closer to their face value.

These days businesses being interdependent locally as well as globally, all of these intertwined events result in local and global slowdown resulting in a recession.

Recession – a – Snapshot	
Unemployment	Rises up
Personal savings	Likely to rise
Consumer confidence	Lowers down
Consumption	Falls
Demand	Falls
Profitability of business	Falls
Share prices and stock market	Falls
Investment	Falls
Inflation	Lowers down
Government tax revenue	Lowers down
Government borrowing	Rises
Government spending	Rises

A different set of challenges!

Recession in a broader sense poses a very different set of challenges. These challenges are very different from those being faced in day-to-day business activities. A special consideration towards these challenges is a must to build suitable strategies. Various industries have devised segment specific approach to counter this downturn. They also have evolved metrics to map their performance both internally and externally. In specific, the manufacturing sector has responded to a series of recessions by adopting new strategies for improved quality while 'doing more with less.

These strategies included quality circles in the 1980s, followed by total quality management (TQM) and total preventative manufacturing (TPM) in the early 1990s. More inclusive approaches such as Lean Manufac-turing and Six Sigma were more widely implemented in the late 1990s and early 2000s. Each new approach to cost reduction is based on lessons learned in the past. Renewed outlook is necessary to magnify our under-standing. A forward-looking fresh approach which helps in developing new perspectives, that reflect current market conditions, in specific, highlight on recent changes in cost structures. Therefore, companies should ask how the current economic downturn will shape today's cost reduction approaches and how they can move beyond the tried and tested methods of previous eras.

Cost elements in an organization are clear indicators of its functionality. Before digging deep into ones' own cost modules, effort is to be made to understand how this recession is different from previous downturns. The company also needs to consider what elements of cost structure have changed the most since the last recession. Today's crisis has already passed a number of dismal milestones, including being classified by many industry commentators as the worst economic decline since the Great Depression of the 1930s and a sharp decrease in stock market performance. Along with the sheer magnitude of these market declines, the crisis is unprecedented because companies are now focused not only on cost reduction — the norm during any recession — but also on cash release. A recent leading survey of business leaders found that 85 percent of respondents saw cash management as a key priority, and 24 percent identified it as their top priority for 2009.

This recession is also unprece-dented because cost reduction is being driven to a much greater degree by external factors. Previous cost reduction responses have been focused internally, improving performance from a historical base and showing sustained benefit. So-far as companies could show these improvements, they were given the benefit of the doubt. Today, however, a widespread concern around financial viability has prompted many financial institutions to retreat into the most conservative assessment methods.

Accordingly, companies must now prove their cost control credentials in relation to market modules. Any parameter stating or stating references: 'Better than last year' is no longer the appropriate reference point. Companies must show that they fare better as compared to market conditions and companies operating under special circumstances may claim some concession. Companies are expected to unambiguously disclose information on cost management. Having enough focus on Cost management from the beginning pays-off at this instant.

Cost Structures & Cost Drivers

Cost drivers can be categorized into two, (1) Structural cost drivers are derived from the business strategy based on underlying economic structures such as scale and scope of operations, complexity of products, use of technology, etc and (2) Executional cost drivers are derived from the execution of the business activities such as capacity utilization, plant layout, work-force involvement, etc,. With this understanding we can now identify two significant changes that have emerged since the last recession.

- The first and the most obvious change is that many of the cost reduction opportunities amenable to TQM, lean, and Six Sigma strategies have already been captured. Nowhere is this more significant than in the manufacturing sector, where previously defined levels of manufacturing excellence have now become the norm. As a result, the hunt is on for new fields of opportunity, which increasingly appear at the boundaries between processes and departments. As an example, many manufacturing companies lack sufficient integration between their supply chain and finance functions. Most manufacturers recognize that determining true customer profitability by taking into account cost drivers such as credit and logistics is simply good practice. However, there are always unclear notions about poor visibility of cash flows — often caused by inadequate linkages between operations planning and the financial functions.
- The second change in cost structures involves the extent to which cost drivers now lie outside the formal boundaries of the company. Volatile commodity prices and exchange rates, increased financial pressures on suppliers and market downturns have all introduced uncertainties that require a different set of topis for cost control / reduction. Understanding the true costs of low-cost sourcing, and weighing supply chain risk into your equations is a difficult but necessary discipline that should be mastered.

In short, the current recession demands much more than a traditional, inward-facing perspective. In fact, we can say that cost management & cost performance is relevant only in relation to an external viewpoint, and companies should become masters of their external cost drivers as much as they have mastered their internal ones.

Cost Control & Cost Management

Cost control generally follows this empirical formula that when the economy deteriorates, companies should reduce costs to become profitable again. This cut-and-slash approach of Cost Control can lead to a loss of customers and market share. Also may lead to unsustainable turnover of experienced staff, and inefficiencies in the long term. This unsystematic approach often involves short term thinking and hasty decisions.

In comparison, Cosf Management holds that cost should not be reduced at the expense of business strategy and that costs must be managed for economic value. Costs should not be managed in isolation to each other, but always with regards to the value generated from the costs spent. Hence Cost management connotes broader perspective. Cost control to an un-initiated may mean cutting down the incurrence of cost or expenditure every time or in every situation.

Cosf Control often compels organizations at difficult times to downsize by way of retrenching. A brief introspection would reveal that the costs involved in hiring a manger in terms of

- Recruitment cost
- Training cost
- Cost of lost production &
- Opportunity cost, etc.,

would far exceed the retention cost of the employee. It would be a sensible approach to use retrenchment as a last resort, unless the organization is 100% sure that the staff is definitely no longer required for the long foreseeable future.

It would be prudent to utilize other cosf management methods such shorter work-hours or going on mandatory vacation. Retrenchment can lead to low morale (which can be already low in such situation) and diminish the company's reputation as a good employer.

Cost Management: A Better Strategy

Making profits or running with surpluses is an essential objective of any organization whether a business organization or otherwise. Irrespective of business model the core principle of any business entity remains the same.

The basic formulae to understand this is:

Profit = Revenue - Overall Costs (Price x Units Sold) (All Expenses)

One can earn more profits by:

- Increasing the price

- Selling more units
- Reducing costs

In globally competitive environment, increasing the price is not always feasible; Pricing strategies are not flexible enough to alter frequently and hope for quick results. Lost market share due to price increase may be a bitter fruit to sallow. Erratic price fluctuations may also mislead market and shareholders on business prospectus of the company. Thus price increase is not a very suitable option to increase profits.

By advent of this argument of not. increasing the price, one has to resort to increasing the sales volumes or decreasing the costs. On doing quick calculation, we find that:

- Increasing the sales volumes by say, 5% will increase the profit by only by approx. 5%. This is. because variable component in the costs also tend to increase with increase in sales volume.
- On the other hand reducing the overall cost by 5% may increase the profit in the range from 20% to 45%. This reduction of cost may be variable or fixed.

By this we infer - the strategy of cost reduction is more viable to sustain the profits and not mere increase in sales. Increase is sales cannot be easily achieved in times of economic downturn.

Having decided to focus on Cost component, there are two ways of looking at as to how products or services start their costing cycle.

1. *Conventional Way*

- Cost = Direct Labor Cost + Direct Material Cost + Overhead Cost

2. *Activity Based Costing (ABC)*

- Various activities are performed in producing the marketable goods or services.
- Activities attract resources like man, machine, material, money, time and information.
- These resources would invariably be transformed to money or cost.
- Number of activities multiplied by costs attached to the resources consumed by the activities = Overall Cost

Of the above two methodologies the conventional way of costing leads more into Cost Control approach (as discussed earlier). This approach is not a sensible way of dealing with Cost component.

The ABC approach is more prudent in its methodology. To carry out a value chain analysis, ABC is a necessary tool. To carry out ABC, it is necessary that cost drivers are established for different cost pools. This has in its roots ideal Cost Management approach.

Cost Management: Toolkit

- Controlling Seven Notorious Wastes: Below listed activities are often considered as waste or non value-addition processes. These activities should be targeted with prime force

1. Waste of overproduction'.

   May lead to unwanted finish goods (FG) inventory pile-up, locking of working capital and also result in high space consumption.

2. Waste of waiting: Time spent waiting for raw materials, spare parts - if attending a breakdown. Also, projects on hold due to lack of key information is considered waste and cost to company.
3. Waste of transportation: Improper planning and lack of coordination is all cost to company.
4. Waste of processing itself:

   Many a times lack of proper process gineering may lead to unwanted processes adding minimal or no value to the process.

5. Waste of stocks: Non optimal planning in any supply chain would lead to increase in inventory and pile up of stock.
6. Waste of motion: Layout planning in a shop floor, for example, is as important as any other measure to eliminate waste & reduce cost.
7. Waste of making defective products/services. Controlling Cost of Poor Quality includes

- Preventive costs
- Appraisal costs

- Internal failure costs
- External failure costs

Cost Reduction Methods

The right approach for the right time

Keynote 1: Determine Value and Cost Drivers

First, determine the drivers of the existing cost base. Managers must understand value and cost drivers, and how they interact.

- A value driver is "anything within or outside the business, in the present or future that directly or indirectly leads to cash inflow generation".
- A cost driver has an almost identical definition, except in this case it is anything that generates cash outflow, instead of inflow.

By viewing costs and their associated contribution to value this way, companies can assess which costs leads to the highest value-add, and which ones are superfluous to the business. Value drivers derive from value to the customer, for example, improved product quality, or delivered value such as an increase in sales or an improvement in corporate image and brand value. Cost drivers must consider the entire life cycle model of costs, both short and long-term.

For example, a supermarket looking to reduce costs might be considering buying a fleet of new trolleys. Under conventional cost cutting approach, this may mean reducing the number of trolleys ordered from 5,000 to 2,000 and ordering from a cheaper supplier for a lower price. Cost Management takes into account the fact that customers may become disgruntled with the lack of trolleys available and the poor quality of a trolley's deviating wheel. These customers may then decide to shop elsewhere, making the savings counterproductive.

Keynote 2: Strategic Cost Analysis

To cut costs strategically, consider the two following questions:

1. What is the 80/20 split? Determine which 20 per cent of costs offer 80 per cent of the opportunities for major reduction in costs.
2. Which costs can be re-engineered? Some costs are easier to reduce than others. Behavioral cost drivers, for example, the amount of stationery used by employees, is more easily modified than structural cost drivers such as size of the factory used in production.

Keynote 3: Strategic costs reduction

These two steps allow businesses to reduce costs without damaging long-term strategic prospects:

- Protect key value drivers and optimize long-term value. Many businesses fall back on cost cutting in advertising, training and recruitment in the economic downturn, simply because these expenses are not structural cost drivers and are easy to turn on and off. However, taking a longer term view of costs and strategy, a business should also consider how lessened market visibility, unskilled staff and insufficient employees will impact the company in the future.
- Review and reduce costs. Based on the cost analysis performed in Keynote 2, change, remove or reduce activities that do not contribute to an increase in sales, cash flow or opportunities for the business. Some examples are finding a cheaper supplier without compromising on quality or stopping direct mail marketing if there have been no sales generated form this method. Businesses must think outside the box.to find ways of decreasing costs while also improving long term sustainability in line with strategic goals.

Keynote 4: Controlling Non-Value Adding Activities

Every product or service goes through series of processes. These Processes are essential for normal functioning of organization. These processes are step by step activities. These activities may be value adding or non-value adding. Therefore, reduce and finally, eliminate non-value adding activities. One such thought process is to invest more in value adding activities, provided the expected returns are more than cost of investment. This approach is a better strategy for Cost manage-ment.

Keynote 5: Internal Benchmarking

Pegging for Cost reduction must be against external comparators. Whether looking at financial balance, IT costs, HR, back office, operations or engineering. One of the key challenges is not to change one's internal ability, but the expertise to beat internal targets. A company can determine its real position in the market by using both internal and external databases of cost comparators.

Keynote 6: Sustainable approach

Clear notion has to be injected in the very beginning of any Cost management strategy. Planning has to be made for both immediate cost reduction and for ongoing cost management. Successful companies start their cost campaigns well before the onset of the economic downturn. Their aim is not only to survive the downturn but also to be well positioned when the economy recovers. Sustainability should be the watchword of one's activities only then the full force of Cost management can be felt effectively.

Keynote 7: Be aggressive but focused

Companies have to adopt an aggressive but focused stance towards their cost management. In many instances, organizations use an approach, based on private equity valuations of their business. This approach reveals any unrealized value of business and focuses on areas where costs can be reduced. By doing so, only present cost factors & value driven process gets highlighted. This brings with it an inherent deficiency. This approach fails to identify valuable resources devoted to poor opportunities.

By following the investments in a disciplined and realistic way, companies can monitor their valuable resources that are being devoted to poor opportunities. Case in point, a highly paid production engineer who might save a few seconds off machining time would be more in focus and discussion while significant costs from unreliable supply delivery go largely unchallenged.

Keynote 8: Exploring new opportunities

Cost be it in any form, should be looked upon from a variety of angles No stone should be left unturned. The standard accounts are designed to show costs in ways that make reporting easy rather than making cost drivers more transparent. Different methods of accounting may be considered for better understanding of cost drivers. Considering costs from a process viewpoint, a full lifecycle viewpoint (total cost of acquisition), and total cost of ownership and P&L / balance sheet viewpoints can often reveal areas for new improvement. Care should be exercised to examine all possible opportunities. For example, tax is often seen as a given, and yet this is possibly an area for cost reduction through strategies such as tax efficient supply chain management.

Keynote 9: Act quick

Organizations capability in terms of time management and its skill sets should be considered in implementing any strategic measure. When projects are seeded, care needs to be taken to realize the projected savings as expected. Procrastination would not only delay the project but would also deprive anticipated savings. Cost reduction by using combined approaches of accounting and subject matter expertise should be evaluated. If such skill set is available internally, external consultants/ agencies may be approached for such implementations.

Keynote 10: Risk Management

Basic principle of Cost management starts by identifying and avoiding unnecessary costs. With the increased levels of business failure, supply chains have never been more fragile. Balancing your pursuit of cost reduction with an appropriate appetite for risk is critical. Holistic view of ones value stream has to be in consideration for any cost management measure. Some of your suppliers may be under serious financial stress in these times of downturn. This is fine; if they handle a window cleaning contract but not so good if they are the sole source of a critical component.

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Salient features of MOU signed by ICWAI with CBEC on 13.4.2010

1. MOU signed between ICWAI and Central Board of Excise and Customs (CBEC) will come into effect w.e.f 13.4.2010
2. Only members in practice are eligible to act as Certified Facilitation Centre (CFC) for ACES, where the assessees of Central Excise and Service Tax can avail the facility to file their returns and other documents electronically along with associated facilitation on payment of specified fees.
3. Cost Accountant (s) in practice and each partner (in case of firm of Cost Accountants) should possess experience of at least one year in practice;
4. **Technical Eligibility Criteria (Infrastructure Requirements)**

In order to be eligible for approval as a Certified Facilitation Centre, the applicant must have the following minimum physical and technical infrastructure/ facilities:

(i) Office Space measuring a minimum of 100 sq. ft. and equipped with at least two counter seats for service and 4-5 waiting seats;

(ii) Two Pentium Class - IV PCs with Colour Monitors and Min. I GB RAM, USB Ports, Floppy Disk Drive, and CD Writer.

(iii) A desk-jet or laser printer;

(iv) A flat bed scanner (above 600 DPI);

(v) Broadband Internet connectivity or higher;

(vi) Dependable Power Supply arrangements including UPS.

(vii) Fax and Phone facility;

(viii) At least one trained staff person who can operate the systems;

(ix) The Computer system should be equipped with the following software:

a. Windows 2000 / Windows XP

b. Web browser IE 6.0 or above, Netscape 6.2 & above

c. Adobe Reader V.7.0.5

d. Java Runtime Environment (JRE)

e. PDF Converter and Anti-virus Software

f. HDD 80 GB or more

g. MS Excel 2003 or above

5. **Schedule and scope of Services and Maximum charges for various Services.**

The CFC shall provide the following technical and non-technical services with maximum permissible rates mentioned against each one of these services. The rates for services indicated herein are maximum indicative rates and these rates are exclusive of the statutory fees/ taxes payable to the Government in respect of all services:

1. Digitisation and/or E-filing of Central Excise and Service Tax Documents. Currently, ACES has made available the following returns which can be filed both online or by using offline downloadable utilities:

- Excel Utilities for Central Excise Returns - ER1, ER2, ER3, ER4, ER5, ER6 and Dealer's Return
- XML Schema for Central Excise Returns - ER1, ER2 and Dealer's Return
- Excel Utility for Service Tax Return (ST3)
- Further, the assesees can carry out many on-line transactions such as online registration , amendment to the registration form , filing various claims, intimations, and permissions, refund claim, request for provisional asssessement and export related documents. They can also file replies to show cause notices and appeals to Conmmissioner(Appeals)

6. **Fees:** The CFCs can charge their customers fees for the services rendered at the maximum rates indicated below:

Sr. No.	Service	Rates / Charges
1.	Data Entry of Returns (Filling-up of e-Returns)	Rs. 50/- per page subject to a maximum rate of Rs. 600/- per Return
2.	Data Entry of Forms other than Returns	Rs. 100/- per page

3.	Scanning of Documents and conversion to PDF format	Rs. 5/- per page
4.	Laser Printing (B&W)	Rs. 5/- per page
5.	Uploading Returns with ACES	Rs. 200/-per return
6.	Attaching Documents with e-Form	Rs. 1/- per page
7.	Viewing Documents	Rs. 50/- per 30 minutes
8.	Apply for and procurement of DSC for users	Rs. 100/- per DSC
9.	Use of DSC by CFC operator to facilitate e-filling for the client along with Disclaimer	Rs. 20/- for each signature use.
10.	Services other than those listed above as may be offered by the CFC	At market-driven rates

7. Obligations of the CFC

i) The CFC shall appropriately display the Certificate issued by ICWAI;

ii) It will provide services on payment basis and the service charges shall not exceed the amount indicated in the schedule of charges indicated in the scheme and it must prominently display the details of service charges chargeable by the CFC in respect of various services as mentioned in para 6.2 above ;

iii) It will ensure that all the facilities are in good working condition at all times and reliable connectivity is maintained.

iv) It will undertake work on behalf of its client, after obtaining legally valid authorization on behalf of the management of the client, the original copy of which should be kept by the CFC on records for at least a period of five years, or such other period as may be prescribed by CBEC, from time to time, for verification by the authorized persons of CBEC/ ICWAI. It will be the responsibility of the CFC to take all due and reasonable care to ensure that the person on whose instructions, he/she carries out work in ACES, is duly authorized by the client to do so.

v) Before uploading documents on behalf of its clients to the ACES website, the CFC will take signature of the authorized person on each page of the hard copies of the documents to be uploaded and keep copies on their records for at least a period of five years, or such other period as may be prescribed by CBEC, from time to time, for verification by the authorized persons of CBEC/ICWAI.

vi) It will not use the user ID and Password of its clients for transactions in ACES and shall always use its own user ID and Password or its own valid DSC, as and when permitted to be used by CBEC, for carrying out transactions on behalf of its clients in ACES. In case of any dispute, the decision of CBEC shall be final.

vii) It will be responsible for proper and legally valid operation of the Digital Signature Certificate (DSC), during the validity period of the DSC, issued by a Certification Agency, if such service has been facilitated by the CFC to the end-user.

viii) It will keep accounts of all statutory fees / payments in respect of the services provided by it.

ix) It may be subject to inspection by persons authorized by CBEC or ICWAI, as and when required, and during the inspection or enquiry, CFC shall provide full co-operation including providing statements, relevant records /documents for inspection and if required, allow them to take the original records/documents, against acknowledgement, after retaining attested copies for their own use. ICWAI and CBEC can also take any other legal action, as it may deem fit and proper, against the CFC, under any other law, rule, regulation or scheme in force.

x) In case of a partnership firm, any change in constitution shall be intimated to the ICWAI forthwith and in case of admission of a partner, the firm shall submit a duly signed undertaking of the responsibilities and accountabilities (as mentioned in the application form) by the new partners.

xi) In case the CFC chooses to close down the CFC, it will do so with one month's notice to CBEC and ICWAI and;

i) shall surrender the Registration Certificate to ICWAI;

ii) submit the documents collected from the clients to the concerned Range Officer of Central Excise/ Service Tax and obtain acknowledgement thereof and submit the copy of such acknowledgement to ICWAI;

iii) ICWAI will intimate CBEC for cancellation of user-id & password allotted by CBEC to the CFC

8. Members in practice have to apply to ICWAI for the certificate to act as Certified Facilitation Centres subject to fulfilling the eligibility criteria as above.

9. The Certificate of Registration for a CFC under the Scheme will be valid for a period of one year, unless the scheme is modified, withdrawn or the Certificate is suspended or cancelled before that as per the provisions of this scheme.

The Council of The Institute of Cost and Works Accountants of India has approved the release of Exposure Draft Cost Accounting Standards on Cost of Service Cost Centres as recommended by the Cost Accounting Standards Board (CASB), the standard-setting body of the Institute on March 27, 2010. The CASB's proposed standard may be modified in light of comments received before being issued as a standard in final form.

Please submit your comments on the proposed ED, preferably by email, latest by May 14, 2010.

Comments should be addressed to:

The Secretary,
Cost Accounting Standards Board
The Institute of Cost and Works Accountants of India,
ICWAI Bhawan, 3rd Floor
3, Lodi Road, Institutional Area,
New Delhi

Email responses should be sent to: casb@icwai.org

Copies of this exposure draft may be downloaded from the ICWAI website at http://www.icwai.org.

Exposure Draft of CAS -
Cost Accounting Standard on Cost of Service Cost Centre

The following is the Exposure Draft of COST ACCOUNTING STANDARD (CAS) on "COST OF SERVICE COST CENTRE" for comments. The standard deals with methods of determining the COST OF SERVICE COST CENTRE. In this Standard, the standard portions have been set in bold italic type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the cost of service cost centres.

1.2 This standard covers the service cost centres other than utilities as defined in CAS-8.

1.3 This standard deals with the principles and methods of classification, measurement and assignment of Cost of Service Cost Centres, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centres with reasonable accuracy.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Cost of Service Cost Centres including those requiring attestation.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/ or due to some abnormal situation of the production or operation.

4.2 Administrative overheads: Cost of all activities relating to general management and administration of an organisation. Administrative overheads shall exclude any overhead relating to production, operations and marketing.

4.3 Cost Object: This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are finally ascertained.

4.4 Direct Materials: Materials the costs of which can be attributed to a cost object.

4.5 Direct Employee Cost: The cost of employees which can be attributed to a Cost Object in an economically feasible way.

4.6 Direct Expenses: Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material or direct employee cost . Examples of Direct Expenses are royalties charged on production, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

4.7 Distribution Overheads: Distribution Overheads:

Distribution overheads, also known as Distribution Cost, are the costs incurred in handling a product from the time it is ready for despatch until it reaches the ultimate consumer.

The cost of any non manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

4.8 Finance Costs: Costs incurred by an enterprise in connection with the borrowing of funds. This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs . The terms Finance costs and Borrowing costs are used interchangeably.

4.9 Imputed Costs: Hypothetical or notional costs, not involving cash outlay, computed for any purpose.

4.10 Marketing overheads: Marketing Overheads are also known as Selling and Distribution Overheads.

4.11 Normal capacity: Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

4.12 Production Overheads: Indirect costs involved in the production process or in rendering service.

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably.

4.13 Selling Overheads: Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.

4.14 Service Cost Centre: The cost centre which provides auxiliary services across the organization.

The cost centre which provides services to Production, Operation or other service cost centres but not directly engaged in manufacturing process or operation is a service cost centre.

Explanation:

A service cost centre renders services to other cost centres / other units / related parties of an enterprise and in some cases to outside parties. Examples of service cost centres are laboratory, welfare services, safety, transport, dispensary, school, crèche, township etc.

4.15 Standard Cost: A predetermined cost of resource inputs for the cost object computed with reference to set of technical specifications and efficient operating conditions.

Standard costs are used as scale of reference to compare the actual costs with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.

4.16 Stand-by service: Any facility created to safeguard against the failure of the main source of services.

5. Principles of Measurement

5.1 Each identifiable and quantifiable service cost centre shall be treated as a distinct cost object for measurement of the cost of services rendered by the cost centre.

5.2.1 Cost of services for own production shall comprise direct material cost, direct employee cost, direct expenses and factory overheads.

5.2.2 Cost of services for the purpose of inter unit transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads and distribution overheads.

5.2.3 Cost of services for the inter company transfers shall comprise direct material cost, direct employee cost, direct expenses, factory overheads, distribution overheads and share of administrative overheads.

5.2.4 Cost of services rendered to outside parties shall comprise direct material cost, direct employee cost, direct expenses, production overheads, distribution overheads, share of administrative overheads and marketing overheads.

5.3 Finance costs directly incurred in connection with the service cost centres shall not form part of the service department cost.

5.4 The cost of service cost centre shall not include imputed costs.

5.5 Where the cost of service cost centres is accounted at standard cost, the price and usage variances related to the services cost centres shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

5.6 Any Subsidy/Grant/Incentive or any such payment received/

receivable with respect to any service cost centres shall be reduced for ascertainment of the cost to which such amounts are related.

5.8 The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost . Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

5.9 Any abnormal cost where it is material and quantifiable shall not form part of the cost of services cost centres.

5.10 Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of services cost centres.

5.11 Credits/recoveries relating to the service cost centre including charges for services rendered to outside parties, if not material, shall be reduced from the total cost of that service cost centre.

5.12 Any change in the cost accounting principles applied for the measurement of the cost of service cost centres shall be made only if, it is required by law or for compliance with the requirements of a cost accounting standard, or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.

6. **Assignment of Cost**

6.1 Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.

6.2 The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.

7. **Presentation**

7.1 Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.

8. **Disclosures**

8.1 The cost statements shall disclose the following:

1. The basis of distribution of cost of each service cost centre to the consuming centres
2. The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties
3. Where the cost of service cost centre is disclosed at standard cost, the price and usage variances
4. The cost of services received from / rendered to related parties .
5. Cost of service cost centre incurred in foreign exchange.
6. Any Subsidy/Grant/Incentive and any such payment reduced from cost of service cost centres.
7. Credits/ recoveries relating to the cost of service cost centres
8. Any abnormal cost excluded from cost of service cost centres
9. Penalties and damages paid excluded from cost of service cost centres.

8.2 Any change in the cost accounting principles and methods applied for the measurement and assignment of the cost of service cost centre during the period covered by the cost statement which has a material effect on the cost of service cost centre shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be disclosed.

8.3 Disclosures shall be made only where material and significant.

8.4 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule prominently.❑

HEARTY CONGRATULATION

To our member, Shri Ram Singh on being appointed as Director (Finance) at Engineers India Limited w.e.f. January 28, 2010.

We have been receiving representations from students and members that owing to time constraint relating to accounts finalisation and examination pressures, many have not been able to send their entries to the second Essay Competition on time. We are hence **extending the last date for receipt of entry to 15th May.**

Please note the **topic for members** is :

Role of Cost and Management Accountants in Changed Scenario

And **topic for students** is:

Corporate and Social Responsibility- Expectations from Cost and Management Accountants

Participants are required to comply with the terms and conditions of the Competition and submit their entries complete in all respect, failing which their entries will not be considered.

The competition is open for all Indian Nationals.

In the **General** category, Grad CWAs, members and students of ICWAI above 25 years are eligible to participate.

In the **Students** category, only students of ICWAI in the age group 17- 25 years are eligible to participate.

First prize: Rs.20,000/-, Second Prize: Rs.15,000/- and Third prize: Rs.10,000/- in each category.

Terms and conditions

1. Entries may be submitted by individuals or jointly to Deputy Director (Research & Journal), ICWAI, 12 Sudder Street, Kolkata-700016.
2. Essay can be coauthored by student of ICWAI or member of ICWAI or Grad CWA only.
3. Essay should be in English only.
4. The essay should be accompanied by a declaration by the participant of the essay to confirm that it is original and that it has not been published earlier. Wherever required, reference must be quoted. This condition is mandatory.
5. Participants are required to clearly furnish their name, age, status- student/ member, address, email, phone number and one photograph along with the essay.
6. Participants shall be responsible for ensuring that all the information supplied by them regarding themselves is true, correct and complete. They shall keep the Institute informed of any change in information about them till the competition is over.
7. Entries should not exceed 5000 words.
8. The matter should be type written on one side of the page in 1.5 space. Each page should be signed by the participant/s.
9. Last date of submission is **15th May, 2010.**
10. Entries received after the last date will not be considered.
11. Entries received shall be the property of ICWAI and may be used freely.
12. ICWAI shall not be liable for any loss or damage of any nature incurred by the participant as a result of their participation in the competition. Participants shall indemnify ICWAI against any damages howsoever arising from their participation in the competition.
13. Participants shall comply with all national and international laws pertaining to Intellectual Property Rights.
14. Any or all of the terms of competition may be changed by ICWAI at any time without prior notice.
15. ICWAI reserves the right to stop or suspend the competition without assigning any reasons.
16. The award winners will be intimated by email/ post.
17. In case of any dispute or difference of opinion, the decision of ICWAI will be final.
18. Prizes will be given at a function organized by ICWAI. The winners will be provided second class AC return train fare or air ticket at the discretion of ICWAI. Lodging and boarding will also be provided as per Institute's rules.

WESTERN INDIA REGIONAL COUNCIL
OF
The Institute of Cost and Works Accountants of India

Set up under act of Parliament

(Founder member of IFAC, CAPA and SAFA)

ORGANISES ONE DAY SEMINAR ON

COST AND STRATEGIC MANAGEMENT FOR GROWTH OF SME SECTOR

Date	:	**Wednesday the 19th May, 2010**
Venue	:	Bhaidas Sabhagrih, Road No. 1, Near Mithibai College, Juhu Scheme, Vile Parle (West) Mumbai - 400 056
Time	:	9.00 a.m. to 6.00 p.m.
Fees	:	Rs. 1,500/- For Company Delegates / Members of ICWAI/CIMA/ICSI/ICAI Rs.1000/- for self sponsored Practising Cost Accountants Rs.750/- for students of ICWAI, CIMA, ICSI, ICAI & MBA
CEP Hours	:	CEP credit for ICWAI members – 4 (four) hours.

KNOWLEDGE PARTNER :

CIMA Chartered Institute of Management Accountants

CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS

IN ASSOCIATION WITH

SME CHAMBER OF INDIA

SMALL & MEDIUM BUSINESS DEVELOPMENT CHAMBER OF INDIA

and

MACCIA

MAHARASHTRA CHAMBER OF COMMERCE, INDUSTRY AND AGRICULTURE

SPONSORS :

भारतीय स्टेट बैंक State Bank of India

STATE BANK OF INDIA

IDBI BANK

IDBI BANK

CARE Ratings Professional Risk Opinion

CARE RATINGS

The Institute, set up in 1944 to develop the profession of cost and management accountancy in India, is a founder member of international accounting bodies like IFAC, CAPA and SAFA. The Parliament passed the Cost and Works Accountants Act in 1959. It got the assent of the President of India on 19th May 1959.

The SME Sector comprises about 98% and 99% of total establishments in USA and Japan. Its share of employment in these countries is 53% and 72%. SME enterprises at present contribute nearly 17% of India's GDP, which is expected to increase to 22% by 2012. This sector accounts for 95% of the industrial units, is contributing around 40% of manufacturing output, is the second largest employer after the agricultural sector and enjoys around 40% of exports in India.

This sector faced many unforeseen challenges during the last few years due to abnormal increases and decreases in prices of petroleum products, impact of sub-prime meltdown in economy all over the world, strain on financial sector universally and high inflation. All these factors have affected their capital requirements for keeping pace with speedy revival of Indian Economy. Besides many regulatory changes are taking place like new Companies Act, IFRS, GST, DTC, LLP, etc.

The Seminar aims to focus on Cost and Strategic Management issues to improve the contribution of SME Sector in the entire GDP. We expect about 1100 delegates to equip them to manage risks to solve complex real life situations either as an entrepreneur, an executive or a self employed professional.

PROGRAMME COMMITTEE

CMA Manubhai Desai	:	*Chairman, WIRC*
CMA Amit Apte	:	*Vice Chairman, WIRC*
CMA P.V. Wandrekar	:	*Hon. Secretary, WIRC*
CMA Dinesh K. Birla	:	*Treasurer, WIRC*
CMA A.B. Nawal	:	*RCM, WIRC*
CMA G.R. Paliwal	:	*RCM, WIRC*
CMA Aruna Soman	:	*Co-opted Member-EXCOM WIRC*
CMA S.G. Narasimhan	:	*Programme Co-ordinator, WIRC*
CMA Ashish Thatte	:	*Programme Co-ordinator, WIRC*

SOUVENIR

The Institute is bringing out a souvenir on this occasion. Kindly send your advertisement for projecting your organisation to diverse participants as per the details contained in the Advertisement Order form enclosed herewith.

Please send your registration in attached form along with fees by Cheques / DD payable at Mumbai in favour of "WIRC OF ICWAI" to:

Western India Regional Council of
The Institute of Cost and Works Accountants of India,
4th Floor, Rohit Chambers, Janmabhoomi Marg, Mumbai 400 001
Phone: 2287 2010 / 2204 3416 Fax: 2287 0763 • Email: admin@icwai-wirc.org

PROGRAMME SCHEDULE

09.00 A.M.	09.30 A.M	Tea / Registration
09.30 A.M.	10.30 A.M.	Inauguration
10.30 A.M.	11.00 A.M.	TEA
11.00 A.M.	12.00 NOON	**Growth Opportunities for SME Sector for 2020**
12.00 NOON	01.00 P.M.	**Cost / Strategic Management for Sustaining Growth**
01.00 P.M.	02.00 P.M.	LUNCH
02.00 P.M.	03.00 P.M.	**Regulatory Changes for Accelerating Growth**
03.00 P.M.	03.30 P.M.	**Success Stories in SME Sector**
03.30 P.M.	04.00 P.M.	TEA
04.00 P.M.	05.00 P.M.	**Special Financial Products for SME Sector**
05.00 P.M.	05.30 P.M.	Open Forum for Discussions
05-30 P.M.	06.00 P.M.	Concluding Session

WESTERN INDIA REGIONAL COUNCIL OF
The Institute of Cost and Works Accountants of India

REGISTRATION FORM FOR DELEGATES FOR SEMINAR ON COST AND STRATEGIC MANAGEMENT FOR GROWTH OF SME SECTOR

Date : Wednesday, the 19th May, 2010

Venue : Bhaidas Sabhagrih, Road No. 1, Near Mithibai College, Juhu Scheme, Vile Parle (West), Mumbai - 400 056

Time : 9.00 A.M. TO 6.00 P.M.

Fees : Rs. 1,500/- For Company Delegates / Members of ICWAI/CIMA/ICSI/ICAI
Rs. 1,000/- for self sponsored Practising Cost Accountants
Rs. 750/- for students of ICWAI, CIMA, ICSI, ICAI & MBA

To
WESTERN INDIA REGIONAL COUNCIL OF
The Institute of Cost and Works Accountants of India.
4th Floor, Rohit Chambers, Janmabhoomi Marg, Mumbai - 400 001
Fax: 2287 0763 • Email: admin@icwai-wirc.org

Please register the following delegates for the Seminar :

S.No.	Name	Designation	Phone	Email
1)	....	....	....	....
2)	....	....	....	....
3)	....	....	....	....
4)	....	....	....	....

We enclose herewith Cheque / DD No. ....dated...........................on ....
Bank ....Branch for Rs...
(Rupees ....) in favour of WIRC OF ICWAI

Name of the Organisation ....

Communication Address ....

....

Phone Nos./ Mobile ....

E-mail ....

Signature ....

Designation/ Seal ....

WESTERN INDIA REGIONAL COUNCIL OF
The Institute of Cost and Works Accountants of India

FORM FOR ADVERTISEMENT IN SOUVENIR FOR SEMINAR ON COST AND STRATEGIC MANAGEMENT FOR GROWTH OF SME SECTOR

Date : Wednesday, the 19th May, 2010

Venue : Bhaidas Sabhagrih, Road No. 1, Near Mithibai College, Juhu Scheme, Vile Parle (West) Mumbai - 400 056

Time : 9.00 A.M. TO 6.00 P.M.

To

WESTERN INDIA REGIONAL COUNCIL OF
The Institute of Cost and Works Accountants of India,
4th Floor, Rohit Chambers, Janmabhoomi Marg, Mumbai - 400 001
Fax: 2287 0763 • Email: admin@icwai-wirc.org

Please book the following space in the souvenir to be published by you on the occasion of seminar on Cost and Strategic Management for Growth of SME Sector :

Souvenir Advertisement Tariff

Back Cover page	....	Rs. 50,000/-
Inside Cover Page	....	Rs. 25,000/-
Colour Page on Art Paper	....	Rs. 15,000/-
Colour Page (Ordinary Printing Paper)	....	Rs. 10,000/-
Ordinary full page	....	Rs. 7,500/-

Art material for printing in Souvenir is enclosed.

Our Cheque / demand draft No. ....dated ....for Rs.................................. (Rupees..) on ....Bank .... Branch, in favour of "WIRC OF ICWAI" payable at Mumbai is enclosed herewith.

Yours truly,

Name of the Organisation ....

Communication Address ....

....

Phone Nos. /Mobile .... E-mail ....

Signature ....

Designation/ Seal ....

The Institute of Cost and Works Accountants of India

EXAMINATION TIME TABLE & PROGRAMME - JUNE 2010

	PROGRAMME FOR SYLLABUS 2002		PROGRAMME FOR SYLLABUS 2008 (REVISED)		
Day, Date & Time	**Final** 9.30 A.M. to 12.30 P.M.	**Intermediate** 2.00 P.M. to 5.00 P.M.	**Intermediate–2008** 9.30 A.M. to 12.30 P.M.	**Final – 2008** 2.00 P.M. to 5.00 P.M.	**Foundation** 2.00 P.M. to 5.00 P.M.
Friday, 11th June, 2010	Operations and Project Management and Control	Cost and Management Accounting	Financial Accounting	Capital Market Analysis & Corporate Laws	___
Saturday, 12th June, 2010	Advanced Financial Management and International Finance	Information Systems and Technology	___	Financial Management & International Finance	___
Sunday, 13th June, 2010	Strategic Management and Marketing	Business Laws and Communication Skill	Commercial and Industrial Laws and Auditing	Management Accounting – Strategic Management	___
Monday, 14th June, 2010	Strategic Tax Management	Business Taxation	Applied Direct Taxation	Indirect & Direct – Tax Management	___
Tuesday, 15th June, 2010	Management Accounting – Decision Making	Management Accounting-Performance Management	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Organization and Management Fundamentals
Wednesday, 16th June, 2010	Management Accounting-Financial Strategy and Reporting	Advanced Financial Accounting	___	Advanced Financial Accounting & Reporting	Accounting
Thursday, 17th June, 2010	Cost Audit and Management Audit	Auditing	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Friday, 18th June, 2010	Valuations Management and Case Study	Quantitative Methods	Applied Indirect Taxation	Business Valuation Management	Business Mathematics & Statistics Fundamentals

EXAMINATION FEES

Stage (s)	Final Examination	Intermediate Examination	Foundation Course Examination
One Stage (Inland Centres) (Overseas Centres)	Rs.800/- US $ 100	Rs.700/- US $ 90	Rs.700/- US $ 60
Two Stages (Inland Centres) (Overseas Centres)	Rs.1600/- US $ 100	Rs.1400/- US $ 90	

1. Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of Rs. 30/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.

2. Last date for receipt of Examination Application Forms without late fees is 10th April, 2010 and with late fees of Rs. 200/- is **20 th April, 2010.**

3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of the Institute and payable at Kolkata.

4. Students may submit their Examination Application Forms along with the fees at ICWAI, 12 Sudder Street, Kolkata -700016 or Regional Offices or Chapter Offices. Any query can be sent to Sr. Director (Exam.) at H. Q.

5. For June 2010 term of Examinations questions on the subjects - "Business Taxation" and "Strategic Tax Management" for Syllabus 2002 & "Applied Direct Taxation", "Applied Indirect Taxation" and "Indirect & Direct - Tax Management" will be set considering the Finance (No.2)Act, 2009 involving Assessment Year : 2010-2011.

6. Examination Centres : Agartala, Ahmedabad, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Berhampur(Ganjam), Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Dubai and Muscat.

7. A candidate who is completing all conditions will only be allowed to appear for examination.

8. Probable date of publication of result : Foundation - 2nd August 2010 and Inter & Final - 22nd August 2010.

C. Bose
Sr. Director (Examination)

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA
EXAMINATION TIME TABLE & PROGRAMME - JUNE 2010
CERTIFICATE IN ACCOUNTING TECHNICIANS (CAT)

Day & Date	Time	Foundation Course (Entry Level) Part - 1
Tuesday, 15th June 2010	02.00 P.M. to 05.00 P.M.	Organisation and Management Fundamentals
Wednesday, 16th June 2010	02.00 P.M. to 05.00 P.M.	Accounting
Thursday, 17th June 2010	02.00 P.M. to 05.00 P.M.	Economics and Business Fundamentals
Friday, 18th June 2010	02.00 P.M. to 05.00 P.M.	Business Mathematics and Statistics Fundamentals

Day & Date	Time	Competency Level Part - II
Friday, 11th June 2010	09.30 A.M. to 12.30 P.M.	Financial Accounting
Saturday, 12th June 2010	09.30 A.M. to 12.30 P.M.	Applied Statutory Compliance

Examination Fees

Inland Centres	**Foundation Course (Entry Level) Part - 1**	**Rs. 700/-**
	Competency Level Part - II	**Rs. 700/-**

1. Application Forms for CAT Examination will be available from Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, New Delhi - 110003. Cost of form Rs.30/- per form.
2. Last date of receipt of Examination Application Forms without late fee is 10th April 2010 and with late fee of Rs.100/- is 20th April, 2010.
3. Examination Fees to be paid through Bank Draft of requisite fees drawn in favour of "ICWAI A/C CAT" payable at New Delhi.
4. Students will send their Examination Application Forms along with the fees to Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, New Delhi - 110003.
5. Examination Centres : Agartala, Ahmedabad, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Berhampur (Ganjam), Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottyam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vellore, Vijayawada, Vindhyanagar, Waltair.
6. A candidate who is fulfilling all conditions will only be allowed to appear for examination.
7. Probable date of publication of result : Foundation Course (Entry Level) Part - 1 is 2nd August, 2010 and Competency Level Part - II is 22nd August, 2010.

C. Bose
Sr. Director (Examination)

NOTIFICATION

The Examination Committee of the Council of ICWAI at its 268th meeting decided to open new examination centers at

(a) Jabalpur (Center Code 127) (b) Kannur-Kerala (Center Code 223) and (c) Noida (Center Code 425) with effect from June 2010 term of examination.

While selling the existing Examination Application forms the Chapters and Regions are requested to inform the students accordingly.

C. Bose
Sr. Director (Examination)

The CONTINUING EDUCATION PROGRAMME DIRECTORATE IS ORGANSING FOLLOWING PROGRAMMES. FOR FURTHER DETAILS and on-line registration VISIT OUR WEBSITE **http://mdp.icwai.org/ OR www.icwai.org** (click the link Management Development Programmes).

CONTACT PERSON
Mr. D Chandru
Additional Director (PD&P)
CEP Directorate,
ICWAI Bhawan, 3rd Floor
3 Institutional Area, Lodi Road
New Delhi-110 003.
Tel - 011-24643273 (D), 24622156/157/158

Name of the Programme	Duration	Course coverage	Venue	Fee (Rs.)
Contract Management	16-19 June, 2010	• An Overview of Tender Procedure • Negotiation Skills & Techniques • An Overview of World Bank Procurement System • Contracts – Concepts and Legal Issues • Contracts and their Management • CVC Guidelines	Hotel Howard Johnson The Monarch, Church Hill, Off. Havclock Rd., Udagamandalam (Ooty) – 643001. Tel- 0423-2444418/20 Check-in Time- 12.00 Hrs. on 16th June, 2010 Check-out Time – 12.00 Hrs. on 19th June, 2010	The Programme is Residential (Single Room Basis) Fee- Rs.30000/- Fee for Accompanying spouse Rs.3000/- for all the three days (Fee includes course fee, course material, accommodation, all meals and visits)
Management of Taxation – Service Tax, VAT, Excise & Customs, TDS and Proposed GST	16-19 June, 2010	• An overview of Service Tax • Export & Import of Services • Valuation of Taxable Services • Service Tax Credit – Eligibility, Availment Procedures and problem Areas • CENVAT Credit • VAT – General Issues & Problems • Issues in TDS – Impact on Direct Taxation • Issues & Problems in Excise and Customs • Proposed GST	Hotel Howard Johnson The Monarch, Church Hill, Off. Havclock Rd., Udagamandalam (Ooty) – 643001. Tel- 0423-2444418/20 Check-in Time- 12.00 Hrs. on 16th June, 2010 Check-out Time – 12.00 Hrs. on 19th June, 2010	The Programme is Residential (Single Room Basis) Fee- Rs.30000/- Fee for Accompanying spouse Rs.3000/- for all the three days (Fee includes course fee, course material, accommodation, all meals and visits)
WORKSHOP ON IFRS CONVERGENCE By Dr. TP Ghosh	7, 8 & 9 July, 2010	• Basic of IFRSs • Financial Instruments • Consolidation Issues • First Time Adoption of IFRS	Hotel The Park, 15 Parliament Street, New Delhi-110 001 Tel-23743000	Rs.15000/- (Rupees fifteen thousand only) The Programme is Non Residential

FOR ATTENTION OF MEMBERS

ICWA OF INDIA MEMBERS BENEVOLENT FUND

OBJECTIVE

The Fund has been created to provide:

1. Outright grant of prescribed amount to the beneficiary in the event of death of a member of the Fund.
2. Financial assistance of prescribed amount repayable in prescribed manner by the members of the Fund in case of financial distress due to prolonged illness or temporary loss of employment, illness of spouse/dependent children of member of the Fund; and education of dependent children of deceased member of the Fund.

Beneficiary means member of the Fund including dependent spouse/dependent children/parents/dependent minor brothers and sisters of the member of the Fund.

PROCEDURE OF MEMBERSHIP

An Associate / Fellow Member having paid up to date membership fees to the Institute can become a Life Member of the Fund on application being made in the prescribed application form along with a remittance of Rs.500/- (one time payment) by a Demand Draft favouring 'ICWAI Members Benevolent Fund' payable at Kolkata. The application form can be collected from the headquarters of the Institute at Kolkata or downloaded from the website of the Institute www.icwai.org. Soft copy of the application form can also be sent on requisition made to e-mail: membership.kb@icwai.org .

For the purpose of obtaining benefit from the Fund, a member should ensure to pay his up to date Associate/Fellow membership fees to the Institute and his name should continue to exist in the Register of Members of the Institute.

FOR ATTENTION OF MEMBERS

PAYMENT OF MEMBERSHIP FEES

Members of the Institute who are having outstanding membership dues have been communicated individually to pay their dues. In addition, their due position is also uploaded on Institute's website www.icwai.org under the option Members->Member Details->Search Details & Check Dues. All members having outstanding dues are requested to pay the same immediately.

Further, the Annual Membership Fee for 2010-2011 for Associate and Fellow Members of the Institute shall become due and payable on 1st April, 2010 at the following rates:

Associate Annual Membership Fee : Rs.500/- (Rs.125/- for members entitled to pay at reduced rate)

Fellow Annual Membership Fee : Rs.1000/- (Rs.250/- for members entitled to pay at reduced rate)

All members are requested to pay their respective membership fees along with arrears, if any, immediately for dues upto 2009-2010 and not later than 30th September, 2010 for dues as on 1st April, 2010.

The fees may be paid by Cash/Demand Draft/Pay Order/Cheque at the Headquarters/Regional Councils/Chapters of the Institute. The Demand Draft/Pay Order/Cheque should be drawn in favour of "The ICWA of India" and payable at Kolkata. In case of outstation cheque not payable at Kolkata, Rs.30/- is to be added towards Bank Charges. In case of payment made at the Regional Councils/Chapters of the Institute, the position will be updated upon receipt of the remittance at the Headquarters.

NOTE: MEMBERS SHOULD ENSURE TO INDICATE THEIR NAME AND MEMBERSHIP NO. ON THE REVERSE OF DEMAND DRAFT/PAY ORDER/CHEQUE TO BE DRAWN IN FAVOUR OF "THE ICWA OF INDIA" PAYABLE AT KOLKATA IN CASE PAYMENT IS TENDERED BY DEMAND DRAFT/PAY ORDER/CHEQUE. IT SHOULD ALSO BE ENSURED NOT TO ENCLOSE ANY OTHER INTIMATION ETC. ALONG WITH THE REMITTANCE OF MEMBERSHIP FEE.

FOR ATTENTION OF MEMBERS

PROCEDURE FOR CHANGE OF ADDRESS

Members are requested to check their status from the option Members->Member Details->Search Details & Check Dues on Institute's website www.icwai.org and inform us the following:

1.	In case of any change in the **professional address and other particulars**, the same is to be intimated through a signed hard copy preferably in the format **(Format "A" – Please see Annexure I)** given below to:	Additional Director-cum-Joint Secretary Membership Department The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016. The signed intimation may also be sent by fax to no. 033-22521723. Otherwise, a scanned file of the signed intimation may be sent to e-mail: membership.kb@icwai.org
2.	If the **journal mailing address** is desired to be changed as per the professional address, the intimation in **(Format "A" – Please see Annexure I)** is also to be made to:	Additional Director-cum-Joint Secretary Membership Department The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016. The signed intimation may also be sent by fax to no. 033-22521723. Otherwise, a scanned file of the signed intimation may be sent to e-mail: membership.kb@icwai.org
3.	In case of any change in the **journal mailing address only**, the same is to be intimated through a signed hard copy or by e-mail preferably in the format **(Format "B" – Please see Annexure I)** given below to:	Deputy Director (Research & Journal) The Institute of Cost and Works Accountants of India 12, Sudder Street Kolkata – 700 016. e-mail: research@icwai.org / rnj.arpan@icwai.org

Annexure I

Format "A"

	CHANGE OF ADDRESS IN THE LIST OF MEMBERS	
IN BLOCK LETTERS	NAME IN FULL :	
	MEMBERSHIP NO. :	
	QUALIFICATION :	
	ADDRESS :	
	CITY :	
	STATE :	
	PIN CODE :	
	PHONE NO. (OFFICE) :	
	PHONE NO. (RESIDENCE) :	
	PHONE NO. (MOBILE) :	
	E-MAIL :	
	SIGNATURE OF MEMBER :	

NOTE : PLEASE INDICATE N.A., IF ANY OF THE COLUMNS IS NOT APPLICABLE.

Format "B"

	CHANGE OF ADDRESS IN THE JOURNAL MAILING LIST	
IN BLOCK LETTERS	NAME IN FULL :	
	MEMBERSHIP NO. :	
	QUALIFICATION :	
	ADDRESS :	
	CITY :	
	STATE :	
	PIN CODE :	
	PHONE NO. (OFFICE) :	
	PHONE NO. (RESIDENCE) :	
	PHONE NO. (MOBILE) :	
	E-MAIL :	
	SIGNATURE OF MEMBER :	

NOTE : PLEASE INDICATE N.A., IF ANY OF THE COLUMNS IS NOT APPLICABLE.

For Attention of Practising Members

GUIDELINES FOR RENEWAL OF CERTIFICATE OF PRACTICE

The members of the Institute holding Certificate of Practice having validity upto 30th June, 2010 are requested to comply with the following guidelines for renewal of their Certificate of Practice:

1. Application for renewal of Certificate of Practice upto 30th June, 2011 has to be made in the prescribed Form 'D' duly filled in and signed on both sides together with Renewal Certificate of Practice fee for Rs. 500/- and all other dues to the Institute on account of annual membership fees and entrance fees. The annual membership fee for Associate and Fellow Members are Rs. 500/- and Rs. 1000/- respectively. The entrance fee for Associate and Fellow Members are Rs. 600/- and Rs. 500/- respectively payable at a time at the time of application for admission. The fees may be paid by Demand Draft/Pay Order/Cheque payable at Kolkata if remitted by post to the Headquarters of the Institute. In case remittance is made through an outstation cheque, Rs.30/- is to be included towards bank charges. The fees may also be paid directly by cash at the Headquarters or by Cash/ Demand Draft/Pay Order/ Cheque at the Regional Councils or Chapters of the Institute.
2. It may please be noted that under Section 6 of the Cost and Works Accountants Act, 1959, the annual membership fee and Renewal Certificate of Practice fee fall due on 1st April each year.
3. Special attention is invited to the fact that the validity of a Certificate of Practice expires on 30th June each year unless it is renewed on or before the date of expiry in terms of Regulation 10 of the Cost and Works Accountants Regulation, 1959. Therefore, a member signing any document as a practising Cost Accountant without having his Certificate of Practice renewed on or before the due date, makes the signed document invalid.
4. It may please be noted that mere payment of fees alone will not be sufficient for renewal of Certificate of Practice. Application in prescribed Form 'D' duly filled in and signed on **both sides is absolute necessary.** Soft copy of Form 'D' can be downloaded from Institute's website www.icwai.org under the option Members->Download->Forms.
5. It is also essential to furnish a certificate from the employer in the following form or in a form as near thereto as possible if the practising member has undertaken any employment or there has been a change in employment:

   "Shri ………………………………………………….is employed as (designation)……………………………………..in (name of Organisation)…………………………………….and he is permitted , notwithstanding anything contained in the terms of his employment, to engage himself in the practice of profession of Cost Accountancy in his spare time in addition to his regular salaried employment with us.

   Signature of Employers
   under seal of Organisation"

6. In order to enhance professional competence and evolve a systematic mechanism to update knowledge of members in practice, a scheme of Continuing Education Programme (CEP) was introduced in the year 2003.

   A revision of the said scheme has been made by the Council of the ICWAI in 2009 as follows:

(i) The member should undergo minimum mandatory training of 10 hours per year w.e.f. 2009-10.

(ii) The certificate of attendance for training will have to be enclosed with the application for renewal of Certificate of Practice.

The detailed revised guidelines in this connection are available on Institute's website www.icwai.org under the option Members->Guidelines/Procedures->For Mandatory Training For all Members of ICWAI under Continuing Education Programme.

The requirement specified above does not apply to a member in practice who has attained the age of 65 years as on 1st July, 2010.

Hence, all practising members are requested to send their application for renewal along with other requirements as indicated herein above immediately, in any case so as to reach the Institute Headquarters not later than **15th June, 2010.**