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THE MANAGEMENT ACCOUNTANT

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THE CHANGING ROLE OF MANAGEMENT ACCOUNTANTS

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International Conference

12-13 January 2017

"Sustainability : Innovations, Emerging Trends and Practices"

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The Institute of Cost Accountants of India (ICAI)
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Editorial Office
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184 , Fax: +91 33 2454-0063
Headquarters
CMA Bhawan, 12, Sudder Street, Kolkata 700016
Tel: +91 33 2252-1031/34/35 , Fax: +91 33 2252-7993/1026
Delhi Office
CMA Bhawan, 3, Institutional Area, Lodi Road, New Delhi-110003
Tel: +91 11 24622156, 24618645 ,Fax: +91 11 4358-3642

WEBSITE
www.icmai.in

The Institute of Cost Accountants of India

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

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

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

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

MISSION STATEMENT

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

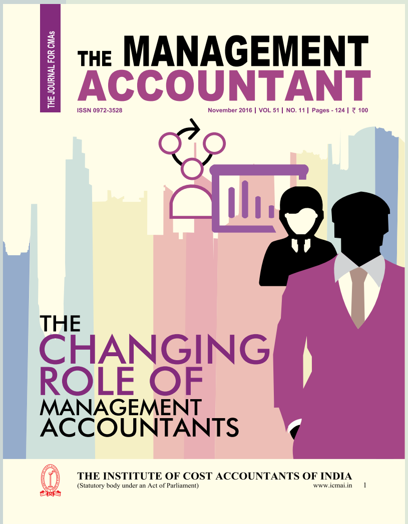
VISION STATEMENT

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

IDEALS THE INSTITUTE STANDS FOR

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

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



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EDITOR

CMA Dr Debaprosanna Nandy
on behalf of The Institute of Cost Accountants of India, 12, Sudder Street, Kolkata - 700016
editor@icmai.in

PRINTER & PUBLISHER

CMA P V Bhattad

on behalf of The Institute of Cost Accountants of India, 12, Sudder Street, Kolkata - 700016

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CHAIRMAN
RESEARCH, JOURNAL & IT COMMITTEE

CMA Avijit Goswami

EDITORIAL OFFICE

CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata - 700025
Tel: +91 33 2454-0086/0087/0184
Fax: +91 33 2454-0063

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EDITORIAL

Greetings!!!

Changing business practices and array of emerging technologies have transformed the role of Management Accountants. They are increasingly taking hands-on approach in guiding company operations and formulating business strategies. They are working hard to acquire the skills required for functioning smoothly in a new environment and need to be well conversant with the application and usage of technological tools.

Management Accountants are no longer a traditional 'bean counting', but now has to become a 'hybrid accountant' within an organization. They are now facing intense challenges and are expected to adapt with rapid changes in business environment.

Management accounting profession should adapt to the recent changes in order to be relevant and competitive in the near future. Generally, there are several factors that may influence the transformation to the current state of the Management accounting profession. To mention a few:

- **Environment of Business** – Globalization, Customer focus and Rapid changes in technology
- **Responses by Business** – Flattering hierarchical structures, World class manufacturing, Business to Business, Business to Customers, Reduce inventory costs and Value Chain
- **Management Accounting Tools** - Benchmarking, Activity Based Costing, Enterprise resource planning, Balance Scorecard, Target Costing, Supply chain management and Just in Time inventory technique etc.

With the advent of new accounting systems, corporate restructurings, changes in regulation and legislation, a strengthening competitive market and advancements in information technology systems, the role of the Management Accountants has changed widely. The emerging areas that are redefining the role of the Management Accountants are:

- Enterprise Resource Planning (ERP)
- Corporate Governance
- Integrated Reporting (IR)
- Multi Faceted Financial Analysis for Business Strategies
- Sustainability Reporting
- Corporate Social Responsibility (CSR)
- Performance Management

In the dynamic business environment, Management Accountants are experiencing significant changes of role and tasks. Therefore, to be competent and reliable in an organization, they are proactive to get involved in leadership, strategic management, operational alignment and long-life learning and improvement. They are also the internal business consultants of an organization and expected to be able to work closely with all managers in the operation and top level. They assist management by providing valuable information in their decision making, issues pertaining to value added activities etc. Globalization, intense competition, changing governmental regulations and innovations in technology led to changes in market environment which have greater impact to an organization. The fast changing environment requires the Management Accountants to cope with the unexpected changes.

The Management Accountants also play a major role on the social perspective where they assist in ensuring that the intended benefits of the social schemes launched by the government are actually percolating down to the grassroot level. They may also valuably contribute in the development and sustenance of projects to be achieved under the noble vision 'Make in India'. For this, they may be engaged in project monitoring, project evaluation and performance and project appraisal activities including social audit of these projects. They may address the challenges in building cost competitiveness to foster the Indian economy by playing catalytic role in accomplishment of the mission "Make in India".

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

THE JOURNAL FOR CMAs

THE MANAGEMENT ACCOUNTANT

-: PAPERS INVITED :-

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

Theme: 25 Years of Economic Reforms in India — December 2016

Subtopics

- Issues & Challenges
- Economic and Fiscal policy Reforms and its impact
- Sector wise Reforms and its impact
- India in the Global economy in post-reforms period
- Economic Reforms and Social developments
- Economic Reforms and Nation Building - Role of CMAs
- Economic Reforms - Unfinished Agenda

Theme: Indian Banking Sector in Transition — January 2017

Subtopics

- Impact Analysis of Dynamic Banking Scenario
- Technology trends and operating models
- New licensing agreements
- MSME Finance: Credit challenges and impetus for growth
- Managing Risk, Regulations and Capital
- M&A of Banks in India

Theme: Cost Leadership and Competitive Advantage — February 2017

Subtopics

- Impact Analysis of Dynamic Banking Scenario
- Technology trends and operating models
- New licensing agreements
- MSME Finance: Credit challenges and impetus for growth
- Managing Risk, Regulations and Capital
- M&A of Banks in India

Theme: Environmental Management Accounting — March 2017

Subtopics

- Conventional Accounting & Environmental issues
- Ecological Accounting – Role of CMAs
- Eco – Efficiency & Environmental Management
- Environmental Information, Costing & Sustainable Development
- Environmental Impact Assessment
- EMA Standards & benchmarking
- Environmental Risk Management in business Development
- EMA – Case Studies and emerging issues

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

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

Directorate of Research & Journal
The Institute of Cost Accountants of India (Statutory body under an Act of Parliament)
CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata - 700 025, India
Board: +91-33- 2454 0086 / 87 / 0184, Tel-Fax: +91-33- 2454 0063
www.icmai.in

PRESIDENT'S COMMUNIQUÉ

You have a right to perform your prescribed duty, but you are not entitled to the fruits of action. Never consider yourself the cause of the results of your activities, and never be attached to not doing your duty.

- Bhagavad Gita

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

My Dear Professional Colleagues,

Namaskar.

Diwali, the festival of lights,is just passed and we hope that it brings more 'light' into our lives. In true sense, Diwali should not be celebrated as just a festival but as a reminder of our true self and the way of life which we need to continue even after that, year after year. I wish all the stakeholders, members, students and their families a very bright future and prosperous life.

Draft Rules and Regulations under IBC 2016

In my last month communique, I apprised the members that the Central Government notified Insolvency and Bankruptcy Code 2016 on 28th May 2016 (Code 2016). This provides the complementary ecosystem for the insolvency law, and aims to ensure smoother settlement of insolvency, enable faster turnaround of businesses and create a database of serial defaulters. The implementation of the Code is through Regulations and Rules to be notified by the Ministry of Corporate Affairs. For the purpose of framing the Regulations and Rules, the Ministry of Corporate Affairs, constituted four Working Groups. CMA Sanjay Gupta, Vice President and CMA Dr. PVS Jagan Mohan Rao, Council Member represented the Institute as members of the Working Group-2 and Working Group-3 respectively. The technical support to Institute's members was provided by Technical Directorate, headed by CMA J K Budhiraja, Sr. Director (Technical). The Ministry of Corporate Affairs vide its public notices dated 6th October and 10th October 2016 invited comments on the draft Regulations/ Rules framed under Code 2016. The Institute through its website and also by emails requested members of the Institute to send the comments/ suggestions on the following draft Regulations/ Rules:

1. *Insolvency and Bankruptcy (Registration of Insolvency Professionals) Regulations, 2016*
2. *Insolvency and Bankruptcy (Registration of Insolvency Professionals Agencies) Regulations, 2016*
3. *Insolvency and Bankruptcy (Model Bye-laws of Insolvency Professionals Agencies) Regulations, 2016*
4. *Insolvency and Bankruptcy (Application to Adjudicating Authority) Rules 2016*
5. *Insolvency and Bankruptcy (Insolvency Resolution Process for Corporate Persons) Regulations, 2016*
6. *Insolvency and Bankruptcy (Liquidation of Insolvent Corporate Persons) Regulations, 2016*

Some of the members have sent the comments on the above. The Institute has submitted its comments/ suggestions on the above Regulations/ Rules 2016. I would like to emphasize once again that the Code provides enormous opportunities for CMAs to be "Insolvency Professionals" and function as Interim Resolution Professionals, Resolution Professionals, Liquidators, Bankruptcy Trustees, Valuers and Advisors to Valuers under the Code 2016. As per the above Regulations, the Institute may set up "Insolvency Professional Agency" (IPA) under the provisions of the Code 2016 and Cost Accountants as per the eligibility criteria given in Regulations will be enrolled as "Insolvency Professionals". Based on this enrollment and membership of IPA, the Insolvency Professionals shall be registered by the Insolvency and Bankruptcy Board of India. I once again urge the members of the Institute to build their technical capability to function as "Insolvency Professionals" and avail the opportunity presented by the Code 2016.

I know some of our members are working/practicing in the areas of amalgamation, merger, acquisition, reconstruction, reorganization, winding up of companies, valuers, advisors to valuers, involved in liquidating the assets of the company and distributing the proceeds to the creditors and other such areas related to the liquidation and winding up of the companies. May I request all concerned members to intimate the Institute with their brief profile regarding their experience in the areas listed above at technical.budhiraja@icmai.in, to create the database of such members for IBC 2016.

Round Table on Draft Regulations/ Rules 2016 under IBC 2016

The Central Government has constituted "Insolvency and Bankruptcy Board of India" (IBBI) on 1st October 2016 and Dr. M.S. Sahoo has been appointed Chairperson of IBBI. Dr. Sahoo had last served as a member at antitrust regulator Competition Commission of India and was earlier a member at capital markets regulator Securities and Exchange Board of India (SEBI). I congratulate him for taking over as Chairperson of IBBI. The Institute in a move to facilitate members of the Institute to discuss and deliberate on the six Regulations/ Rules released by the Ministry of Corporate Affairs and mentioned above, requested Dr. M.S. Sahoo, Chairperson of IBBI to be Chairman of Round Table held on 26th October 2016 at Kolkata. I, on behalf of the Institute, felicitated Dr. Sahoo thereat. The participants in Round Table deliberations and discussions were from Banks, Corporate and financial institutions. The Round Table was organized by Research and Journal Department of the Institute and was conducted by CMA J K Budhiraja, Senior Director (Technical). The brief on the draft Regulations/ Rules framed under the Code 2016 was given before these were deliberated and discussed. Dr. M.S. Sahoo, Chairperson IBBI also explained the doubts raised by the participants on the "Insolvency and Bankruptcy Code 2016" regarding its objectives and resolutions process envisaged in the Code. Dr. Sahoo explained doubts raised by the participants regarding implementation issues and other matters contained in these Regulations. The participants gave their feedbacks on the Regulations/ Rules in the Round Table discussions. Dr. M.S. Sahoo also requested participants to file their comments/ suggestions within stipulated time by the electronic mode through MCA portal.

Meeting with VIPs

I had an opportunity to meet Hon'ble Shri Thaawar Chand Gehlot, Union Minister of Social Justice & Empowerment on 5th October 2016 to extend professional support by CMAs to his ministry. Our discussions centred on the areas of monitoring of schemes and projects relating to the Ministry in which Cost and Management Accountants are competent and proficient. The dialogue was very positive.

In continuation with our efforts to connect with the states of the Country, I got an opportunity to meet the Hon'ble Chief Minister of Tripura, Shri Manik Sarkar on 31st October 2016 at Agartala. CMA Biswarup Basu, CCM, CMA Bibekananda Mukhopadhyay, Chairman, EIRC and CMA SN Banerjee, Chairman, Agartala Chapter also accompanied me. On behalf of the Institute we offered the Professional Support to the Government of Tripura. The discussions were very positive.

Observance of December 2016 as Quiz Contest month

Friends, as you are aware that the Institute is observing the month of November 2016 as Career Counselling Month all over the country involving all the Regional Councils and Chapters of the Institute. I urge the Regional Councils and Chapters of the Institute to observe the month of December 2016 as Quiz Contest month. Further details will be shared with you in due course. I hope that as always the Regional Councils and Chapters will come forward to make this initiative a huge success. Your constructive suggestions are always welcome.

Cost Consciousness week

I am pleased to inform you that Institute is planning to organize "Cost Consciousness Week" across the country for our Members and Industry in the first week of December 2016. The objective is to address the challenges in building cost competitiveness and explore the contributions that CMA fraternity can make to nurture the Indian economy by adopting Cost Management. Cost Management enhances the productivity of the scarce resources and thus, improves the GDP of the country. This activity will be conducted with the help of regional councils and the chapters of the Institute organising programs in their respective jurisdiction. It is also planned to submit a report of the nationwide events in a book format to the Ministry of Corporate Affairs.

Initiatives by various departments of the Institute

Advanced Studies Department

The webinars for 2nd batch, Diploma in Business Valuation and Diploma in Internal Audit are completed and the webinars for the Diploma in IS Audit and Control will be completed by second week of November 2016. Students enrolled for the courses are requested to take the benefit of these webinars which will supplement their knowledge on the subjects. The examination notification for the three Diploma Programs (Diploma in Business Valuation, Diploma in Internal Audit and Diploma in IS Audit and Control) for December 2016 term was hosted on the Institute website and the candidates are requested to see the website for time table and for notification. The last date for receipt of the applications for the Dip Management Accountancy Examination for December 2016 is over and the notification and time table in this regard is hosted on the Institute website.

Cost Accounting Standards Board (CASB)

With the approval of the Constitution Amendment Bill for Goods and Services Tax (GST) by the President of India post its passage in the Parliament and ratification by more than 50 percent of state legislatures,the GST is likely to be implemented in India by April 2017. On implementation GST there will be major implication on Indirect Tax Structure presently prevailing in India. The changed indirect structure would have impact on treatment of various cost items being the part of cost of production/ operation and services rendered. Further, the Ministry of Corporate Affairs vide notification G.S.R. 365 (E) dated 30th March 2016 issued the Companies (Indian Accounting Standards) Amendment Rules, 2016, which prescribes implementation of Indian Accounting Standards (IndAS) converged with the International Financial Reporting Standards (IFRS). The principles as enshrined in IndAS mandate the treatment of certain items in financial statements on "fair value concept". IndAS may also have impact on the treatment of cost items in cost statements. The "Principles of Measurement and Assignments of Cost" are given in various Cost Accounting Standards issued by the Institute and Form CRA-1 of the Companies (Cost Records and Audit) Rules 2014 for maintenance of Cost Records.

I am pleased to inform that the Chairman Cost Accounting Standards Board (CASB) considered his responsibility and took the above two items for consideration of CASB for carrying out modifications in the existing Cost Accounting Standards issued by the Institute. Being both the matters important for the profession are being deliberated by the sub-committees of the CASB for making their recommendation for consideration of CASB and accordingly the changes/ modifications will be proposed by the Board to the Council of the Institute.

Cost Auditing and Assurance Standards Board (CAASB)

GST would also impact some of the Annexures of CRA-3, particularly "Reconciliation of Indirect Taxes (for the Company as a whole)". Chairman Cost Auditing and Assurance Standards Board (CAASB) equally considered his responsibility and took this Item to CAASB suggesting the changes in various annexures of CRA-3. In view of importance of GST and implication on some of the Annexures, the Board constituted a sub-committee of experts among its members to suggest the changes/ modifications required in the Formats of CAR-3. The changes/ modifications as will be suggested by the sub-committee will be considered by the CAASB and accordingly will be proposed by the Board to the Council of the Institute. Members may be aware that the Council of the Institute on the recommendation of CAASB approved fifteen (15) Standards on Cost Auditing (SCAs) and were forwarded to the Ministry of Corporate Affairs in March 2016 for its approval as envisaged in proviso to Section 148(3) of the Companies Act 2013. I am happy to inform that the Ministry of Corporate Affairs in a process of approval constituted a "Standing Technical Committee" to review the aforesaid 15 SCAs and for making its recommendation to Central Government for their approval. One of the members of the Committee is a representative of the Institute. The Committee has already started its meetings to finalize the review and I hope that the Committee will finalize the recommendations before the end of financial year.

CAT Department

I am elated to share with you about the launching of CAT Course in the State of Andhra Pradesh, in collaboration with AP State Skill Development Corporation. The Course has been launched in the Chapters of Vijayawada, Nellore, Godawari and Vishakhapatnam. CAT Course in few more States is likely to be launched in the coming months.

Continuing Professional Development Department

I am thankful to the management committees of the Regional Councils and Chapters who have organised more than 25 programmes on the topics relevant to our members for updating their knowledge. Presentations made during these programmes are available at Institute's website.

International Affairs Department

CAPA events were hosted at Hyderabad during 19-22ndOctober 2016. Vice-President along with CMA PVS Jagan Mohan Rao, Council Member attended the CAPA Board meeting while CMA Rakesh Singh, Former President, chaired the meeting of Governance and Audit Committee of CAPA. CAPA invited the Institute to give a presentation during the meeting of the CAPA Committee on Public Sector Financial Management on the role of the Institute in development of Public Sector in India. CMA TCA Srinivasa Prasad, Former CCM and fellow member of the Institute presented the same which was appreciated by the CAPA. The next SAFA events are scheduled at Sri Lanka during 3-5thNovember 2016 which will be duly represented by the Institute's representatives.

Professional Development Directorate

I am happy to inform you that on the request of the institute, Reserve Bank of India (RBI) has clarified that there is no restriction to Cost Accountants Firms for appointment of Tax consultant in RBI. Further, on our request Software Technology Park of India and The Odisha Small Industries Corporation Ltd included Cost Accountants in their EOIs. I thank the Professional Development Directorate for taking up the matter with RBI and other organisations. Members are requested to visit PD Portal regularly for latest updates.

Research & Journal Department

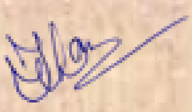
I am pleased to attend a National Seminar on 'GST and Startups: India in the Making' organized by the Directorate of Research and Journal of the Institute in association with Indian Accounting Association, Kolkata Branch on October 22, 2016 at J.N Bose Auditorium, Headquarters, Kolkata. In the inaugural session, CMA Dr. Bhabatosh Banerjee, President, IAA Research Foundation, former Professor & Dean of Commerce & Management, University of Calcutta Former President, Indian Accounting Association, Prof. Sunil Kumar Gandhi, University of Kalyani & Secretary, IAA-Kolkata Branch, Prof. Uttam Kr. Dutta, President IAA Kolkata Branch, CMA Biswarup Basu, council member, CMA Dr. D P Nandy, Director (R&J and Examination) of the Institute attended and deliberated in brief on the concerned theme. Technical Session I on 'Goods & Services Tax' and Technical Session II on 'Startups in India: Prospects & Challenges' had been delivered by eminent speakers and the event was a huge success.

Initiatives by Chapters

Lucknow Chapter of the Cost Accountants organised the Student Fest "Lakshya – CMAntra" on 15th October 2016 at Lucknow on the theme "Knowledge is not Power until it is applied". My message to the participants was that the role of Cost and Management Accountant has shifted its focus to a broader spectrum of cross-functional disciplines. To succeed in this changed scenario the budding CMAs require possessing necessary skills to hone their problem solving skills, sharpen enquiring mind, be good team player and develop a positive attitude. I hope that the other chapters of the Institute will also organise programs on similar theme to motivate and inspire the student's community. Nagpur Chapter of the Cost Accountants organised a members' meet on 2nd October 2016 at Nagpur. Speaking on the occasion I urge the Government to spread the Cadre of Cost Accounting Services to state government also so as to make state level capacity building perfect.

I wish prosperity and happiness to members, students and their families on the occasion of Bhai Duj, Chhath Puja, Kartik Purnima, Guru Nanak Jayanti and Children's Day and pray for the success in all of their endeavours.

With warm regards,



(CMA Manas Kumar Thakur)
1st November 2016

ICAI-CMA SNAPSHOTS

CMA Manas Kumar Thakur, President of the Institute addressing the group of representatives from Eastern India Regional Council and chapters under EIRC of the Institute at the 'Regional Council and Chapters Co ordination Meet' organised at Jamshedpur on September 11, 2016. From Left: CMA Bibekananda Mukhopadhyay, Chairman, EIRC, CMA Niranjan Mishra, Chairman, Regional Council & Chapters Co ordination Committee and Council Member, CMA Biswarup Basu, Council Member, CMA Ramesh Kumar Sharma, Chairman, Jamshedpur Chapter of the Institute

CMA Manas Kumar Thakur, President of the Institute lighting the lamp and inaugurating the Winners Felicitation organised by Thrissur Chapter of the Institute. CMA H Padmanabhan, Council Member of the Institute, CMA Jagadish A D, Chairman, Thrissur Chapter, CMA Suresh R Gunjali, Secretary SIRC, CMA Sankar P Panicker, RCM SIRC and Chief Guest Shri Pratap Varkey, MD, Sun Medical and Research Centre, Thrissur were among the eminent dignitaries present in the programme.

CMA Manas Kumar Thakur, President honoring the passed out student on the occasion of Winners Felicitation organised by Thrissur Chapter.

CMA H Padmanabhan Council Member, CMA Jagadish A D, Chairman Thrissur Chapter of the Institute were present in the occasion.

CMA Sanjay Gupta, Vice President of the Institute inaugurated the programme Discussion on GST –Applicability, Registration & Valuation of East Delhi CEP Study Circle (EDSC) for the members of the Institute held at Study Center, Laxmi Nagar, New Delhi in the presence of CMA CA O P Mishra, National Co-Convener, BJP (CA Cell), and other Council & Regional Council Members from Northern region on July 30, 2016.

Vice President, CMA Sanjay Gupta being felicitated at the seminar organized by North West Delhi CEP Study Circle on 'Role of CMAs: Decoding Model GST Law Series – 1' at Pitampura, August 6, 2016

Shri Shakti Sinha, Chairman of Quality Review Board of the Institute being felicitated by CMA Sanjay Gupta, Vice President of the Institute before commencement of the 24th Meeting of QRB in Delhi office on September 5, 2016

24th meeting of Quality Review Board in progress at Delhi office, September 5, 2016 From Left: Ms Yashodhara Ray Chaudhuri, Member QRB, CMA Kunal Banerjee, Member QRB, Shri Shakti Sinha, Chairman QRB, CMA Sanjay Gupta, Vice President of the Institute, CMA Arup S Bagchi, Secretary QRB, CMA Sivaraman Gopalakrishnan, Member QRB and CMA Narendra Kumar Bhola, Member QRB

CMA Rajendra Singh Bhati, Treasurer, NIRC of the Institute addressing at CBM-GST seminar on August 14, 2016. CMA Niranjan Mishra, Council Member of the Institute and Mr. Pawan Pahwa, keynote speaker are also seen

Campus Placement Program organized by SIRC of the Institute

CMA H Padmanabhan, Council Member of the Institute lighting the lamp on the occasion of inauguration of Soft Skill Program organised by SIRC at Chennai.

Chief Guest Shri T S Krishnamurthy, Former Chief Election Officer, Government of India, other Resource Persons, Students were also present in the occasion.

Training Sessions for the employees of Regional Councils and Chapters of the Institute

NIRC

EIRC

WIRC

SIRC

Institute observes Gandhi Jayanti on October 2, 2016, as 'Jagrukta Week' awareness and capacity building programme regarding Swachh Bharat Abhiyan

'Members Meet' at Regional Council & Chapters Co ordination meeting, Jamshedpur on September 11, 2016.

From Right: CMA Ramesh Kumar Sharma, Chairman, Jamshedpur Chapter, CMA Biswarup Basu Council Member, CMA Manas Kumar Thakur, President of the Institute, CMA Niranjan Mishra Chairman, Regional Council & Chapters Co ordination Committee and Council Member & CMA Bibekananda Mukhopadhyay, Chairman, EIRC

CMA Amit Apte, Council Member addressing the audience at the '16th London Global Convention', 17 - 20 October, 2016, in London

Chairperson of Insolvency & Bankruptcy Board of India (IBBI), Dr. M.S. Sahoo and other delegates at the discussion meet with the President and Vice President of the Institute

Council Member, CMA H Padmanabhan with children of the Orphanage in Chennai before lunch sponsored by the Institute on the occasion of Deepavali 2016

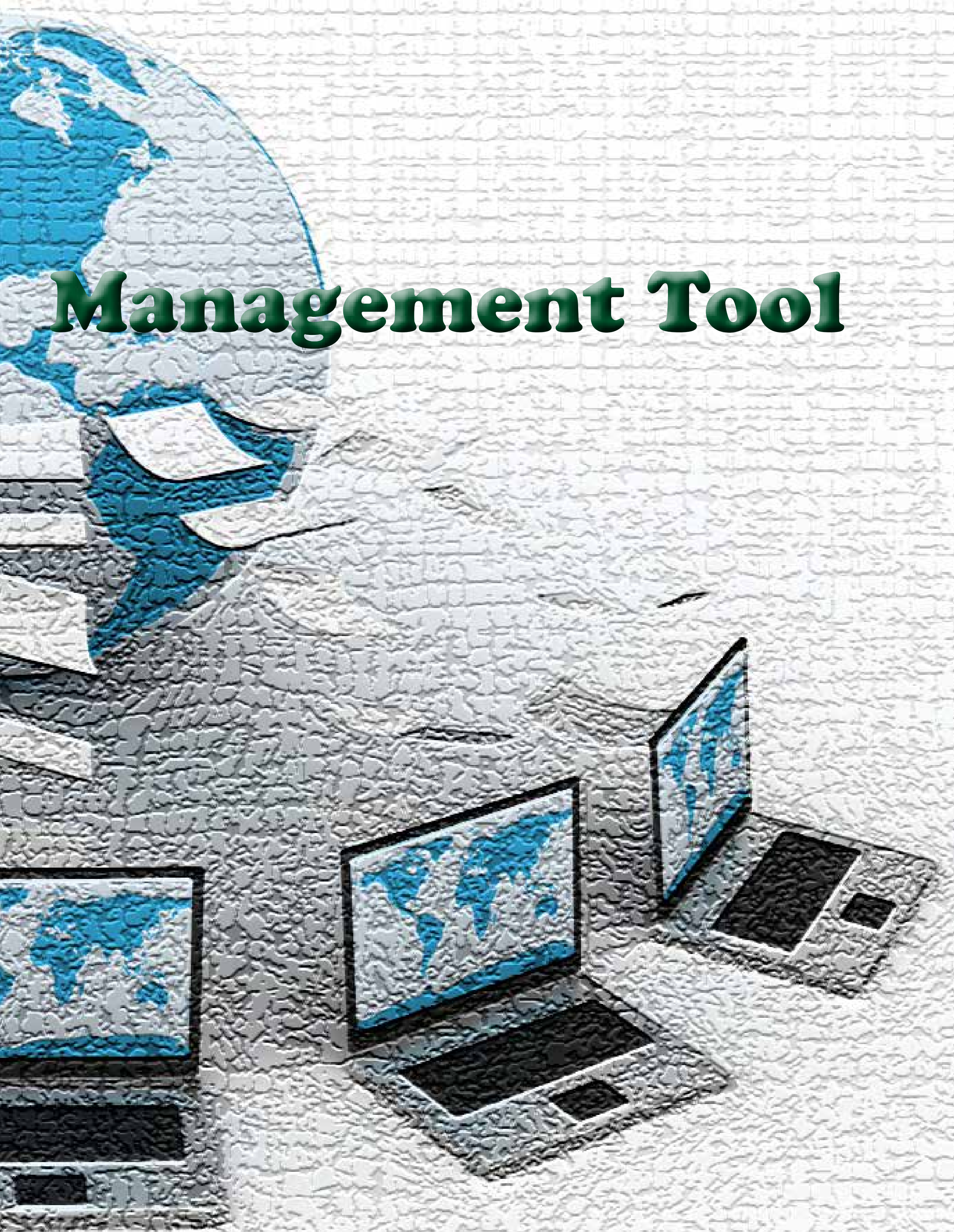
The Institute giving Deepavali gifts to incumbents of BLIND Association in Chennai by Council Member CMA H Padmanabhan, staffs of SIRC and students

National Seminar on "GST and Startups: India in the Making"

A National Seminar on **'GST and Startups: India in the Making'** was organized by the Directorate of Research and Journal of the Institute in association with Indian Accounting Association, Kolkata Branch, on October 22, 2016 at J.N Bose Auditorium, Headquarters, Kolkata. In the inaugural session, Chief Guest CMA Manas Kumar Thakur, President of the Institute addressed on GST that will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. The keynote address was presented by CMA Dr. Bhabatosh Banerjee, President, IAA Research Foundation, former Professor & Dean of Commerce & Management, University of Calcutta, Prof. Sunil Kumar Gandhi, University of Kalyani & Secretary, IAA-Kolkata Branch, Prof. Uttam Kr. Dutta, President IAA Kolkata Branch, CMA Biswarup Basu, Council Member of the Institute were among the other eminent dignitaries who attended and deliberated in brief on the concerned theme. Technical Session I was on '*Goods & Services Tax*' and CA Arun Agarwal, CMA Mrityunjay Acharjee, Associate VP, Balmer Lawrie & Co, Ltd were the speakers of session I. Technical Session II on '*Startups in India: Prospects & Challenges*' were discussed by Mr. Hindol Goswami, Deputy Editor, yourstory.com, CMA Dr. Sharmistha Banerjee, Professor, , Department of Business Management, University of Calcutta, Mr. Adhiraj Thirani, Director, Mama Mia Foods Pvt Ltd and Mr. Saumyajit Guha, COO, Calcutta Angels Network was the moderator of the session. Startup India campaign is based on an action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage start ups with jobs creation. The program was highly interactive and attended by more than two hundred academicians and professional members.

Cost Excellence: An Advanced Cost

Management Tool



CMA Satya S Mahasuar
Dy. Manager - Finance
NALCO Refinery, Odisha

Modern day Corporate Leaders are facing a list of challenges to drive the business in a turbulent economic environment with rapidly shifting market dynamics, stiff competition from global competitors, evolving technologies and innovation etc. resulting a potential slowdown across industries and countries. Nothing is very sure and certain how these economic trends will play out and what impact they will have on industries and countries. All this makes it more critical than ever before for corporate leaders and cost and quality competitiveness has remained as a single arrow in their archery to use in order to make them stand in the queue of survival for the fittest.

With a focused and continuous approach to improve profitability and create competitive advantage, manufacturing businesses across the world are implementing a variety of complex and far-reaching cost-control models and action plans. But, the findings of many research analysts is quite surprising, which explains that despite their strategic importance, many fall short of expected savings by up to 50% and fail to deliver benefits for months or even years. This means manufacturing businesses are leaving hundreds of millions of potential savings unrealized. There are enough gaps in thought process and the actual field level implementation, which have resulted a failure in achieving the expected benefits and to create a sustainable impact.

In the process of learning curve, now it's a realization for the think tank that it is typically not enough to slash costs through short-term measures such as squeezing suppliers, cutting down the facilities, and reducing head count. The call of the time is to move towards true cost excellence. This effort is based on the fundamental of controlling costs in an intelligent and sustainable way in order to protect against another upward creep in costs in the future. This sounds quite theoretical for our argumentative mind, but it's a practical reality for those who have successfully navigated their business model based on these fundamentals.

Cost excellence

An effective cost-excellence drive focuses on

- Identifying the gaps in existing mode of running business, the pulling factors by analyzing the deviation of "Best path" vs "Current path".
- Reviewing of Internal Control mechanism in the entire value chain.
- Assessing the Risks, analyzing the impacts and action plans to eliminate or neutralize with adequate back up plans in case plan A fails.
- Acquiring the knowledge and information for most effective and efficient way of doing the same set of activities and focusing on best practices followed by the leaders in the same or similar industry.
- Bridging the gaps by eliminating all unproductive activities adopting the concepts of LEAN and MUDA and applying six-sigma concepts. LEAN is a systematic method for eliminating waste (Japanese name of waste is MUDA).
- Addressing both the input (necessary resources and costs) to produce a product or service and the output (the quality that the customer requires).
- Competitors benchmarking without being complacent, as lowest cost producers tag does not ensure that you are best in class. A critical judgment is required to understand whether the lowest cost is an achieved effort or mere by chance or with some influence of environment.

Cost Excellence drive also impacts the business from many other perspectives like- increased transparency and accountability, higher employee morale, faster decision-making processes etc. leading to overall growth and sustainability of business.

In order to understand the Cost Excellence better and in a simpler way, the entire discussion is based on the following aspects.

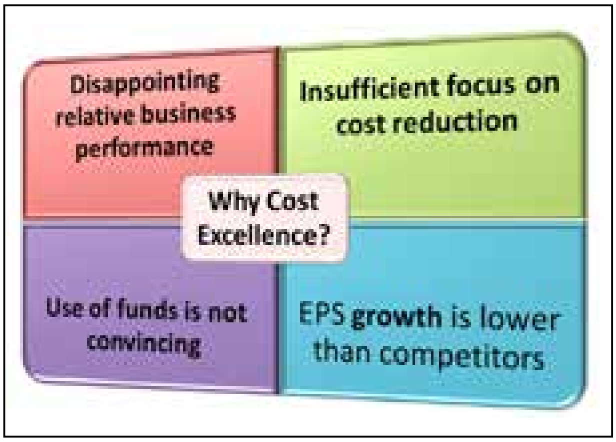
What is Cost excellence?

✓ Cost Excellence is a cost savings concept.
✓ It defines how much cost is saved in comparison with the base cost (bench mark cost) against identified cost buckets/ levers.
✓ Comparison must always be in like to like situations.
✓ Usually, it's a yearly concept in terms of commitment and computed with N-1 (last year actual) as base. Hence, any new business added in current year is out of the excellence scope, as there is no base cost available for that and therefore only like to like situation is considered for Excellence computation.
✓ It's a concept of beating inflation. For example, if the base cost was 100 and 6% is the inflation rate, the cost for the current year is 106. When the cost is managed below inflation i.e. less than 106, then it brings a favourable excellence savings and when cost goes beyond 106, it results in adverse excellence savings. However, not only beating inflation, the concepts of variance analysis, neutralization of external factors and uncontrollable factors are also taken into account, which will be more clear in later part of the literature and in computation methodology examples.

Cost Excellence has following salient features

Why Cost excellence?

Excellence Savings concept was originated on account of the following major issues which cropped up in business environment.



In Modern Business, Cost Savings is one of the important Organizational KPIs (Key Performance Indicators) of performance measurement followed up at Top Management. Apart from Profitability, Cash Flow and Working Capital management, Cost Excellence is also taking the position of leading KPI.

Steps of Excellence Flow

Cost Excellence base work and implementation is based on effective planning and execution of following steps.

1. Identification of Key Cost Levers:

Identification of Key cost levers is the beginning step of cost excellence. This varies for business sectors. For example- Power, Fuel, Freight/Distribution cost, Raw material, Fixed Cost and SG&A (Selling, General and Administration) etc. are the key cost levers in a general business environment.

2. Separation of Controllable and Uncontrollable parameters:

In a normal variance analysis, usually consumption, rate and mix variances are computed without analyzing the fact which are controllable and which are not. But, for pure performance analysis under cost excellence, it's highly essential to separate the uncontrollable factors, so that the savings action plans are focused only in the areas of controllable aspects only. For example, in case of Fuel (Coal) while consumption and mix is planned and controlled, the rate is purely regulated and not much scope is there to do except effective procurement planning.

The table below shows further clarity on the concept of cost levers, excellence consideration, pure performance and external factors.

Sl No	Cost Lovers	Description	Excellence Consideration	Performance	External
1	Freight Cost	Secondary Freight	Rate	Yes	
		Primary Freight	Rate	Yes	
2	Energy	Fuel	Spc. Consumption	Yes	
			Rate		Yes
		Power	Spc. Consumption	Yes	
			Rate		Yes
3	Variable Cost	Raw Materials, Consumables and others	Spc. Consumption	Yes	
			Rate	Yes	
4	Manufacturing Fixed Cost	Manufacturing Salary - Manufacturing Headcount - Manufacturing Salary/Wages	- Headcount - Wages & Salaries	Yes Yes	
		Maintenance Fixed Cost	Absolute Values	Yes	
		Other Fixed Cost (excluding manpower and maintenance cost as above	Absolute Values	Yes	
5	SG & A-Selling, General & Administration Cost	SG & A Salary - SG & A Headcount - SG & A Salary/Wages	- Headcount - Wages & Salaries	Yes Yes	

3. Neutralization of external factors and inflation:

Inflation is neutralized by considering the same in the base cost, while external factors are not taken in the base cost to make it a perfectly comparable one.

4. Focusing on pure performance related savings:

After the neutralization of inflation and external uncontrollable factors, the variations of current actual cost vs. the actual base cost of last year shows the pure performance related savings for which action plans can be set in order to make further improvisation and optimization.

5. Setting Tools and Rules for computation of Excellence :

Based on the principles of standard costing and variance analysis, computersied tools can be developed to have required templates and dashboards for tracking lever-wise excellence.

6. Setting and monitoring action plans:

Lever-wise excellence action plans need to be set based on the Excellence target set with (Budget/Forecast cost vs. Last year actual cost) and then monitoring the progress with (Current year actual cost vs. Last year actual cost) and resetting the action plans based on the business realistic situation.

7. Continuous review and communication:

Expected cost excellence during budget or forecast vis-à-vis the actual lever-wise cost excellence realised need to be reviewed by the top management on regular intervals to reset the action plans wherever required and finally communicating the gaps to the plants for necessary steps.

Excellence Computation Methodology

In order to understand the Cost Excellence Calculation, few examples are shown below for reference.

Example-1

Description	UOM	2015	2016	Reference/Formula
SGA				
- Manpower	m INR	317.00	336.00	A
- Others	m INR	455.00	341.00	B
Total SGA	m INR	772.00	677.00	C=A+B
SGA Headcount	n	178	205	D
Average Manpower Cost	k INR/Head	1,781	1,639	E=A*1000/D
Total Variance	m INR		95.00	F=(C'13-C'14)
Inflation Assumed	%		6.7	
Manpower Cost Variance	m INR		(19.00)	G=(A'15-A'16)
Headcount Impact	m INR		(48.08)	H=(D'15-D'16)*E'15/1000
Rate Variance Inflationary	m INR		(24.46)	I=(E'15*inflation) *D'16/1000
Pure Performance Rate Variance	m INR		53.54	J=(E'15*(1+inflation)-E'16)*D'15/1000
Other SGA Variance	m INR		114.00	K=(C'15-C'16)
Other SGA Inflationary	m INR		(30.49)	L=(B'15*inflation)
Pure Performance Rate Variance	m INR		144.49	M=(B'15*(1+inflation)-B'16
Total Variance	m INR		95.00	N=G+K
Variance considered for Excellence	m INR		149.95	O=H+J+M

Note: m INR stands for Million INR
=317m INR =317*1000000=31.7 Crores

In the above example, total SGA (Selling, General & Administration) cost is classified under SGA Manpower cost and the balance under Others SGA. Manpower SGA cost has been kept separately to assess the headcount impact specifically. Similarly, industries may shape their requirement as per their need and importance.

Example-2

Description	UOM	2015	2016	Reference/Formula
Production Power Consumption Power Rate	KT kWh/T INR/kWh	580 68.15 4.892	624 65.58 6.023	A B C
Power Cost	m INR	193.37	246.47	D=(A*B*C)/1000
Power Cost/T **Total Variance** Inflation assumed	INR/T **mINR** %	333.39	394.99 **(53.11)** 6.7	E=(D*1000/A) **F=(D'15-D'16)**
Volume Variance	mINR		(14.67)	G=(A'15-A'16)*E'15/1000
Rate Variance Inflationary Impact Pure Performance	mINR mINR mINR		(46.28) (13.41) (32.87)	H=(C'15-C'16)*B'16*A'16/1000 I=(C'15*Inflation)*B'16*A'16/1000 J=H-I
Consumption Variance	mINR		7.85	K=(B'15-B'16)*C'15*A'16/1000
Total Variance Variance considered for Excellence	mINR mINR		(53.11) (25.02)	L=G+H+K **M=J+K**

In the above example, total Power cost variance comprises of volume, rate and consumption variance. While volume variance has been ignored for cost excellence, only consumption variance and rate variance (pure performance) are considered for cost excellence variance.

Applying the similar methodology, the cost excellence can be computed for all the major cost levers and action plans can be prepared for keeping the consumption variance under control through various technological up-gradation and innovation, while purchase team can have best of purchase practices for controlling the rate variance parameters.

Conclusion

In Indian context, various advanced cost savings tools and technologies are used by the organizations to achieve cost competitiveness. But, Cost Excellence and its potentiality are still unexplored and the term is getting used only in intellectual speech and in caption for the award ceremony. The call of the time is now to develop a complete industry specific literature for cost excellence with effective tools and techniques, so that we can fulfill our name and strength in its true sense. Adding new areas and foraying to different areas is always an appreciable initiative, but at the same time strengthening our roots is equally important too. MA

satya.mahasuar@nalcoindia.co.in


HERE'S THE BEST PART ABOUT BEING A COST ACCOUNTANT.
New India Assurance has customized Health Insurance and Professional Indemnity policy just for you.
Health Insurance Policy
No health check-up required | No barrier for age of entry | Cover available up to 20 lacs | Continuity of cover, in case of shifting from another insurance company | Pre-existing condition covers as per terms and conditions of policy | Covers available for dependent parents of any age without health check-up upto 10 laks at the time of entry into the scheme by the member.
Professional Indemnity Policy
Covers all sums which the insured professional becomes legally liable to pay as damages to 3rd party in respect of any error or omission on his part whilst rendering professional service | Legal cost and expenses incurred in defense of the case as applicable
Leadership and beyond
दि न्यू इन्डिया एश्योरन्स कंपनी लिमिटेड
The New India Assurance Co. Ltd
India's Premier Multinational General Insurance Company
Website: http://icmai.newindia.co.in | Email: nia.113000@newindia.co.in
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COVER STORY

Management Accountant as Business Partner & Change Agent

CMA Ram Ganesh
Company Secretary cum Finance Manager
KSDC for SC & ST Ltd,
Thrissur

Role of Management Accountant- A short Intro

We, the Management Accountants are professionals who are the strategic partners in devising planning and performance management systems. Managements Accountants perform a series of tasks to ensure the Corporate Financial Security by building business strategy and performing multi faceted financial analysis. The role of Management Accountants ranges from preparation of periodical financial statements to implementation of corporate governance and risk management. A Management Accountant is expected to have commercial awareness coupled with accuracy professionalism & commitment. An analysis into the past reveals that an accountant has just been hired to maintain the book & accounts, however, when its relevance and his expertise came into light, his appointment in corporate has now become a news. It has become very common that many corporate have now started appointing Finance professionals as their Chief Executive on an assurance that that only they know the nitty-gritty of the entity.

Change from Cost Accountant to Management Accountant

When the stakeholders stressed for the accuracy of the figures reported in the Balance Sheet, Auditors appointment was made mandatory in all the corporate. Subsequently it was felt that there should be a separate set of finance professionals who can bring down the cost and identify the revenue leakage and thereby to improve the profit figures. However when the time passed by, the corporate felt the need of advice from these professionals and to be a part of every management decisions. The only professionals who is aware of the cost element can alone advice the Board to management the same, and thus in order to certify the profit, the expenses must be justified, and thus the role of Cost Accountant was enriched to Management Accountant. It was then felt that he has the fundamental role in Planning, Budgeting Forecasting and Variance Analysis and finally he had become the Integral and Indispensable component of the business decisions.

Management Accountant as a Strategic Partner

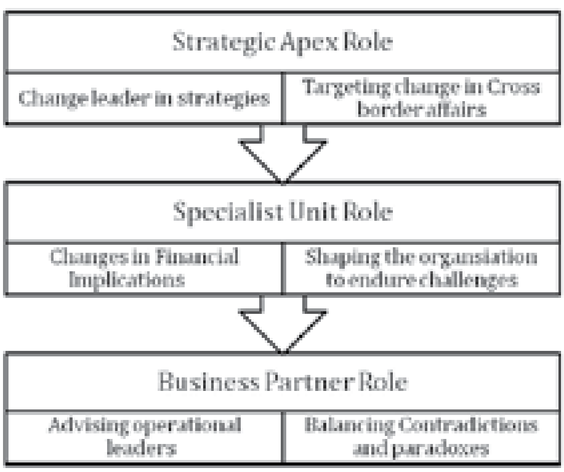
As explained above, the need for Management Accountant (hereinafter "MA") has rose to a level that there could be no decisions without him or his advice and thus MA is not a business partner but a strategic partner. Strategic Partners are those who help the entity more profit with less cost. MA plays a pivotal role in analyzing the financials so as to know the ventures or assignments that are being taken up and to be taken up is viable for the organization. Always the MA has the unique insights about the connections of cost efficiency and relation between core competence and success. They also have the vision as to where and how the cost elements make the biggest decision in the business. MA also has the skill of Organization design and Cross functional experience to make the corporate stronger and efficient.

Management Accountant as the change agent

Change Agent is a person who acts in order to make something different happen. It signifies the exerting power to alter an element of organizational importance and any person

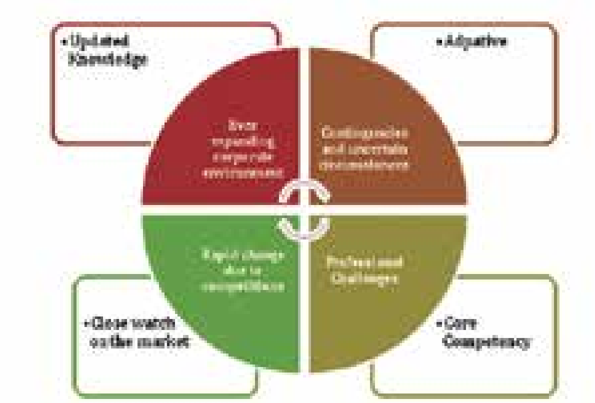
who is proactively participating in shaping the organizational change. There always require an effort of adaptations matching to the changing contexts to growing challenges and thus it is always proved that “Managing Change is the MA’s day job!!!” It is always the responsibility of the MA that the change in demands and opportunities and the factors that hinder the development must be highlighted to the Board at regular intervals. Since they work at or near Director Level, MA always hold an explicit change leadership roles. MAs also participate in the business partnership role in change management by implementing the changes to finance processes and procedures.

MAs have 3 very important roles to play as a change agent in the organization.



Measures and Challenges of MA to be a change agent

Following are the major measures to be adopted and challenges faced by a MA to manage change



Conclusion

MA is always a well streamlined and balanced professional facing many visible and invisible challenges every day. To be a strategic partner it is of paramount importance to balance the navigating politics and staying focused of the objective. He should render advice to the Management keeping in view of the changes that would occur in the future. Hence it is a prerequisite that the MA should always be a Change Agent so that he can be a Strategic Business Partner. MA

rg0801@gmail.com

INPUT - OUTPUT ANALYSIS TOWARDS PERFORMANCE EVALUATION

The present paper examines the performance of listed steel companies in the large sector in India through input-output analysis. It considers two input variables: i) level of technology deployed, and ii) total assets used. On the output side, it considers first set on aspects of capacity utilization with two variables: i) net sales, and ii) market capitalization, and the second set on productivity front for three factors, i) materials, ii) energy, and iii) manpower along with resultant profitability and return on total assets.

Correlation results clearly confirm that the use of technology and total assets are mainly for enhancing output with hardly any relationship towards factor productivity levels and returns, particularly when out of top three, top two companies are in red.

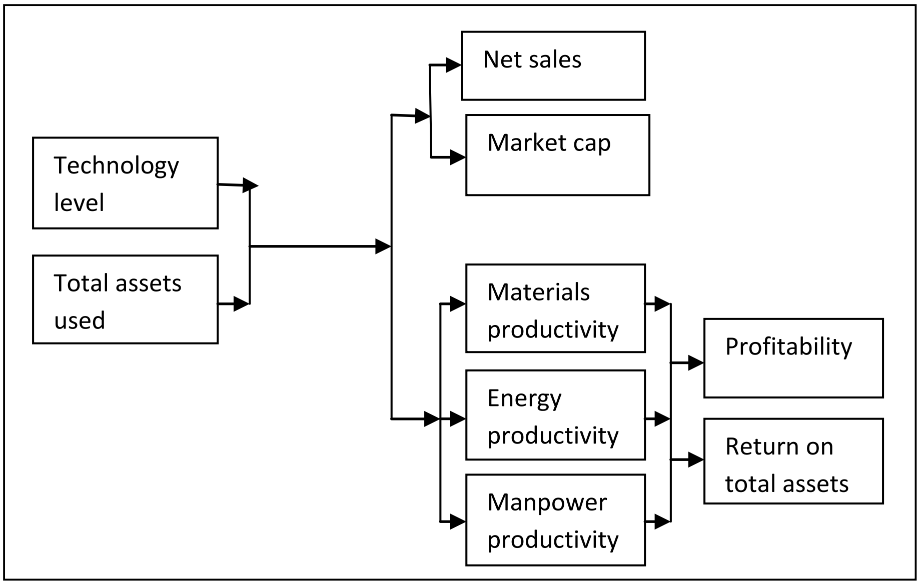
CMA Dr. Mohit Kumar Kolay
Professor
Al Yamamah University
Riyadh

India became the third largest steel making nation in the world last year, and continues to hold its position in the current year. Last year domestic crude steel production was 88.1MT registering a growth of 7.9% over the previous year as compared to contraction of 3% in the global scenario. In fact, World Steel Association forecasts 7.3% growth in steel demand in 2016 for India as compared contraction of 0.8% in the global demand. The Indian steel industry no doubt enjoys advantages of domestic availability of raw materials and cheap labor. Tata Steel, one of the steel companies in the private sector in India has been the lowest cost steel producer in the world along with Korea. In fact, Indian steel industry is very modern now with the state-of-the-art steel mills. Steel companies have always strived for continuous modernization and up-gradation of older plants and higher energy efficiency levels. However, domestic steel industry has been now facing a challenge due to increase in Chinese steel imports. The combination of predatory pricing and import glut jeopardized billion of dollars in loans raised by the domestic steel companies for capacity expansion. In fact, the steel sector is the major contributor to the non-performing assets (NPAs) or bad loan woes of the public sector banks in India saddled with gross NPAs of around Rs.3 lakh crores. If we look at the listed steel companies in the large sector in India, out of the ten, top three companies dominate the whole sector, state-run Steel Authority of India Limited (SAIL) and the two private steel plants, Tata Steel and JSW Steel. However, out of the top three, two companies, SAIL and JSW are both in the red with significantly negative returns. Steel sector is no doubt capital intensive, and technology driven organizations, but some are still languishing with huge manpower base eroding the profitability in spite of cheap labor. It would be interesting to examine, and compare the performance of ten listed steel companies in the large sector with a focus on assessment of contribution of their level of technology deployed, to what extent it adds up to the capacity, and helps to increase sales and market goodwill and to what extent it helps to improve the level of factor productivity achievements towards profitability and return on investments.

Methodology adopted:

The level of technology deployed by steel companies has been reflected here in the present study by the total net block. As working assets need to be associated also with the level of technology deployment, total assets used has also been considered as another input variable. The capacity of steel companies and their utilization have been reflected by the level of business in terms of net sales as the output variable. As the steel output governs the manufacturing sector, and the country's economic growth, the market goodwill in terms of market capitalization of steel companies has been considered as another output variable. On the productivity achievement side, three most relevant factors have been considered here in our present study, the materials, the energy, and the manpower productivity, along with the resultant profitability percent, and the return on total assets. Factor productivity has been calculated here as the reverse of factor cost as percent of net sales. Relationship between the input and the output parameters on each of the two aspects, capacity expansion and productivity achievements have been studied here towards their performance evaluation as reflected in the Figure-1.

Figure-1: Input-output performance parameters of steel companies



Performance analyzed:

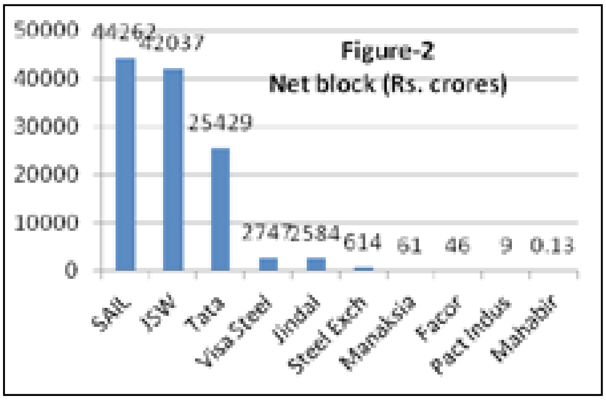
On the capacity and its utilization front, the main input parameter, the level of technology deployed in terms of net block has been dominated by the top three organizations, SAIL, Tata Steel, and JSW Steel accounting for 95% of total net block of Rs. Cr. 117 789 as presented in the Table-1.

Table-1: Comparative performance on capacity utilization front (Rs. Crores)

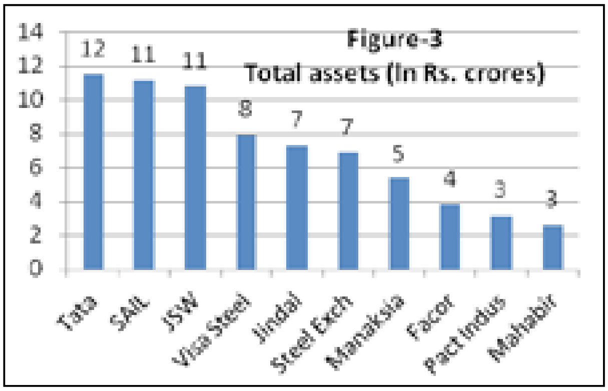
Companies	Input variables		Output variables	
	Net block	Total assets	Net Sales	Market cap#
JSW Steel	42 037	49 244	36 707	42 351
Tata Steel	25 429	101 117	38 210	35 726
SAIL	44 262	68 974	39 086	19 558
Jindal	2 584	1 439	7 401	1 758
Steel Exch.	614	971	1 565	704
Visa Steel	2 747	2 879	922	167
Manaksia	61	207	289	56
Mahabir M	0.13	13	10	50
Pact Indus	9	23	51	26
Facor Steels	46	45	30	6
Total	117 789	224 911	124 272	100 402

Market cap as on Sept 27, 2016 at 16-05

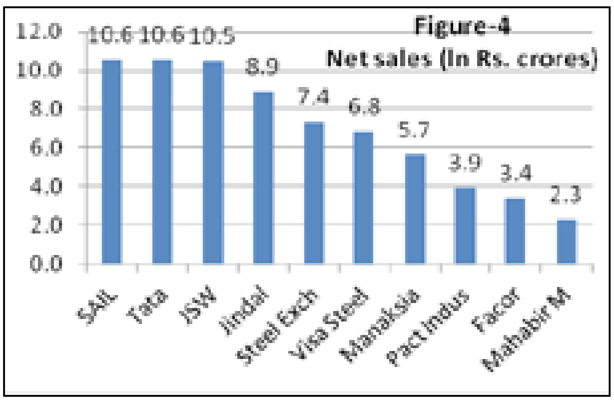
SAIL being the largest public sector steel company with many plants at various locations in India has the highest amount of net block. On the other extreme, Mahabir Metal has the lowest net block of hardly Rs. Cr. 0.13 as shown in the Figure-2.



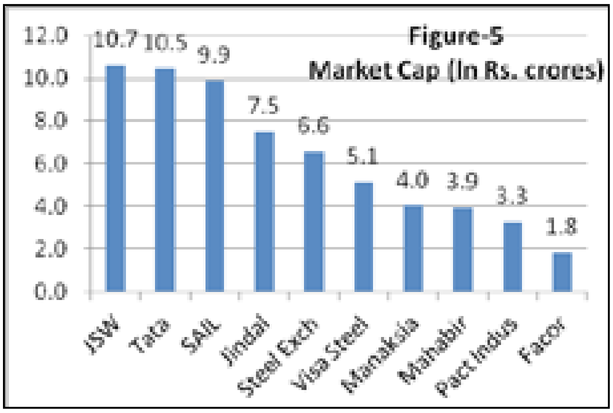
On the deployment of total assets, the top three companies constitute 98% of total assets of Rs. Cr. 224 911 just like net block. Tata Steel occupies the highest position in terms of total assets holding of Rs. Cr. 101 117 while Mahabir Metal has the lowest of hardly Rs. Cr. 13 as reflected in the Figure-3 (ln terms).



On the output front, net sales have again been dominated by top three companies accounting for 92% of total net sales of the whole sector of Rs, cr. 124 272. SAIL occupies the highest position of net sales of Rs. Cr. 39 086, while Mahabir Metal at the bottom of the table with hardly a figure of Rs. Cr. 10 as shown in the Figure- 4 (ln terms).



Likewise, the market capitalization has also been dominated by the top three holding 97% of total market cap of Rs. Cr. 100 402 of the sector. Here JSW Steel occupies the highest position with a market cap of Rs. Cr. of 42 351, while Facor Steels at the lowest position with a figure of Rs. Cr. 6 as shown in the Figure-5 (In terms).



To examine the relationship on the capacity utilization front, the relationship of two input variables, i.e., net block and total assets has been examined with two output variables, i.e., net sales, and market capitalization of ten listed steel companies in the large sector. The correlation matrix (as in the Table-2) shows significant relationships amongst all the input and output variables. In fact, the level of technology deployment in terms of net block governs very strongly the capacity utilization in terms of net sales with correlation coefficient as the highest with a figure of 0.96.

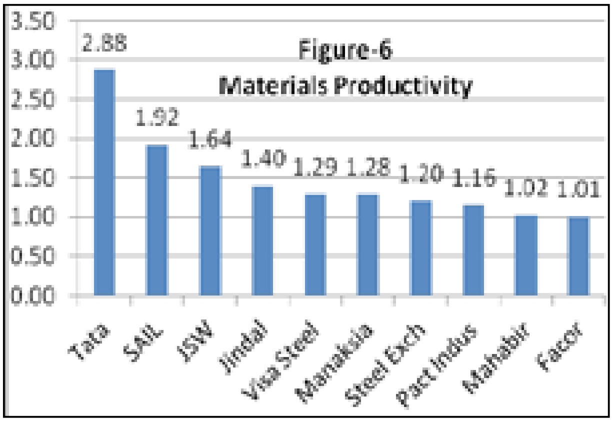
Table-2: Correlation matrix between input and output variables on capacity utilization front

	Net block	Total assets	Net sales	Market cap
Net block		0.83	0.96	0.88
Total assets	0.83		0.94	0.87
Net sales	0.96	0.94		0.93
Market cap	0.88	0.87	0.93	

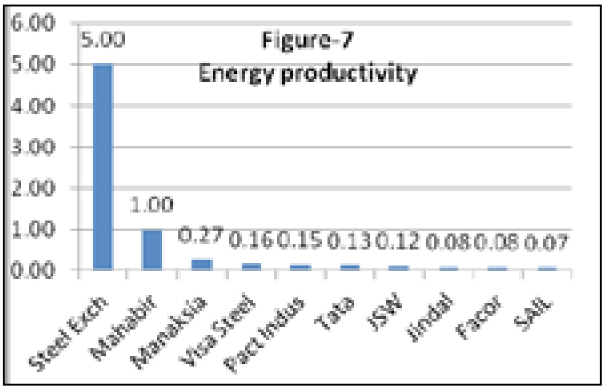
Then, on the factor productivity and return front, the Table-3 shows the comparative performance of ten listed steel companies. On the extent of net sales achieved per unit of materials cost incurred, i.e., materials productivity varies from a minimum of 1.01 for Facor Steels to 2.88 for the well known Tata Steel (as in the Figure-6).

Table-3: Comparative performance on productivity and return front

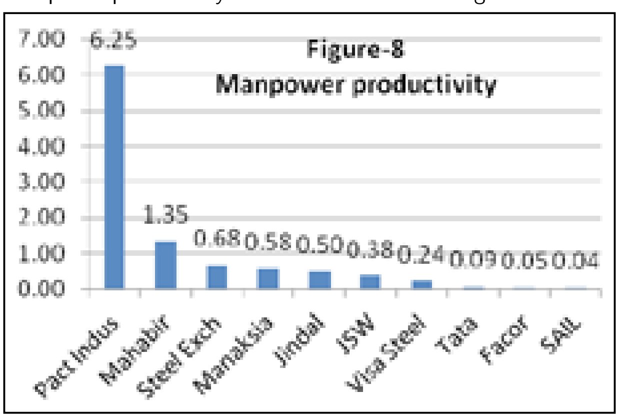
Companies	Productivity				Return	
	Materials	Energy	Manpower	Total	Profitability	Return on TA
JSW Steel	1.64	0.12	0.38	0.71	-9.53	-7.10
Tata Steel	2.88	0.13	0.09	1.03	12.83	4.85
SAIL	1.92	0.07	0.04	0.68	-10.58	-6.00
Jindal	1.40	0.08	0.50	0.66	0.17	0.86
Steel Exch.	1.20	5.00	0.68	2.29	1.82	2.93
Visa Steel	1.29	0.16	0.24	0.56	-26.18	-8.39
Manaksia	1.28	0.27	0.58	0.71	1.72	2.40
Mahabir M	1.02	1.00	1.35	1.12	0.74	0.53
Pact Indus	1.16	0.15	6.25	2.52	0.39	0.87
Facor Steels	1.01	0.08	0.05	0.38	-42.25	-27.99
Overall	1.48	0.71	1.02	1.07	-2.37	-1.31



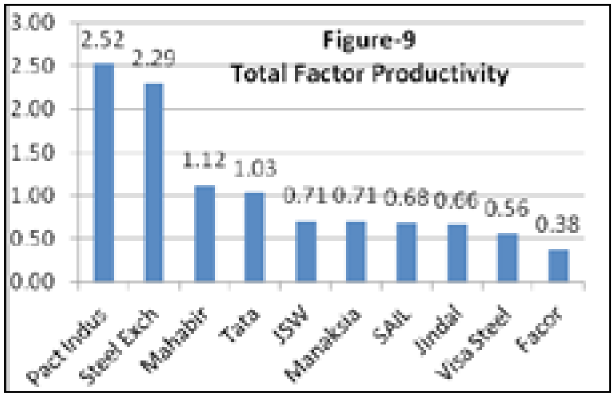
On the energy productivity side, i.e., net sales made per unit of energy cost incurred, it varies from a high of 5.00 for Steel Exchange to a low of 0.07 for SAIL (as shown in the Figure-7). However, the level of energy productivity achieved will be largely governed by the product mix of these steel companies.



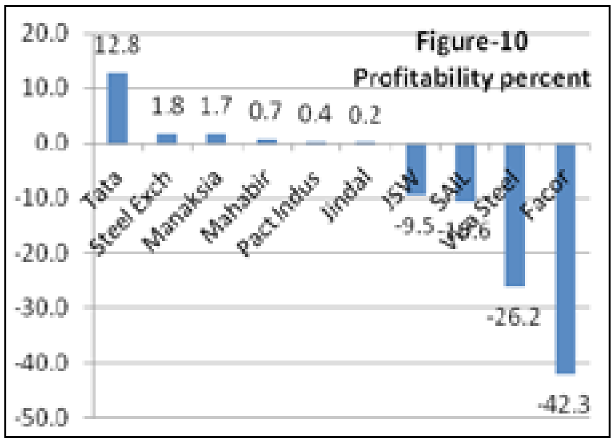
On manpower front, it is well known that SAIL being a public sector steel plant with a huge manpowerbase, its output per unit of manpower cost incurred has been the lowest at 0.04. On the contrary, Pact Industries has been the most cost effective with manpower productivity of 6.25 as shown in the Figure-8.

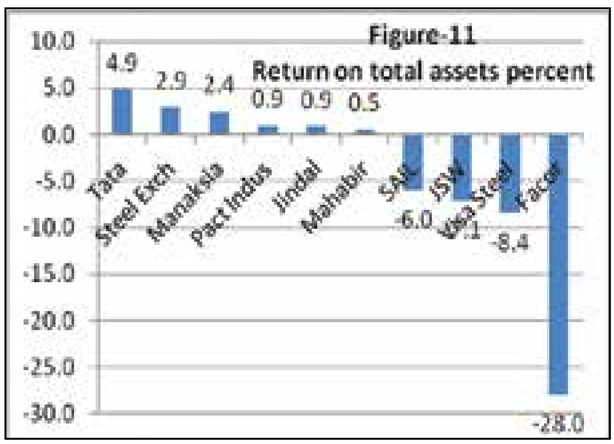


On integrating three factor productivity, materials, energy, and manpower, the total factor productivity is shown in the Figure-9 which varies from a high of 2.52 for Pact Industries and a low of 0.38 for Facor Steels.



Now, if we reflect on profitability and return on total assets, we see as expected Tata Steel, the lowest cost steel producer in the world indeed occupies the highest position, though out of ten, four steel companies are in red. Even the top two companies, SAIL and JSW Steel are also making significant losses as reflected in the Figure-10 and Figure-11.





Now, if try to study the relationship of each factor productivity level achieved with the two independent input variables, the level of technology deployed, i.e., the net block and total assets used, hardly any significant relationship is observed, except materials productivity with total assets as in the Table-4. In fact, total factor productivity is observed to show negative relationship with both net block and total assets deployed. Same is the situation for return on total assets with the net block. On the whole, it can be confirmed there is practically no significant relationship is observed of productivity levels and return parameters with the two input variables, the net block and the total assets used by these steel companies.

Table-4: Correlation matrix between input and output variables on productivity and returns front

	Productivity levels				Return	
	Materials	Energy	Manpower	Total	Profitability	ROTA
Net block	0.66	0.27	-0.31	-0.29	0.08	-0.02
Total assets	0.95	-0.25	-0.31	-0.20	0.30	0.17

Conclusions:

The present study confirms that the level of technology deployed along with total assets deployed as input variables governs quite significantly the output of steel companies on capacity expansion and its utilization in terms of net sales and market capitalization. However, these two input variables hardly reflect any relationship with factor productivity achievements and the resultant profitability and return on investments. This demonstrates that the steel companies in India generally uses technology for capacity expansion and higher levels of output rather than improving factor productivity levels, and cost effectiveness, particularly in abundance of raw materials and cheap labor. This is evident from the fact that the two out of the top three companies that dominate the steel sector are making losses barring aside Tata Steel. Possibly, focus has to be more on output along with its associated scale economy particularly when India's per capita steel consumption is hardly 61 kg against a global average of 222kg, and it plans to move to second position in the world steel production. MA

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3. *World Steel Association Report, 2015 & 2016*

kolaymohit@gmail.com

At the Helm

Our heartiest congratulations to CMA K. Sreekant, Associate Member of the Institute who assumed the charge of Director (Finance) of Power Grid Corporation of India Limited on September 1, 2016.

CMA K Sreekant has about thirty years of experience in the power sector involving all facets of finance & accounting function and in particular, long term financial planning, investment appraisals, formulation of capital budgets, resource mobilization from domestic and international markets and corporate accounts. Prior to taking up this assignment, he was working as General Manager (Finance), NTPC.

We wish CMA K. Sreekant the very best for all his future endeavours.

CMA for P2P process improvement in SSC

CMA Ramesh Kumar Ganti
Freelance Professional
Secunderbad

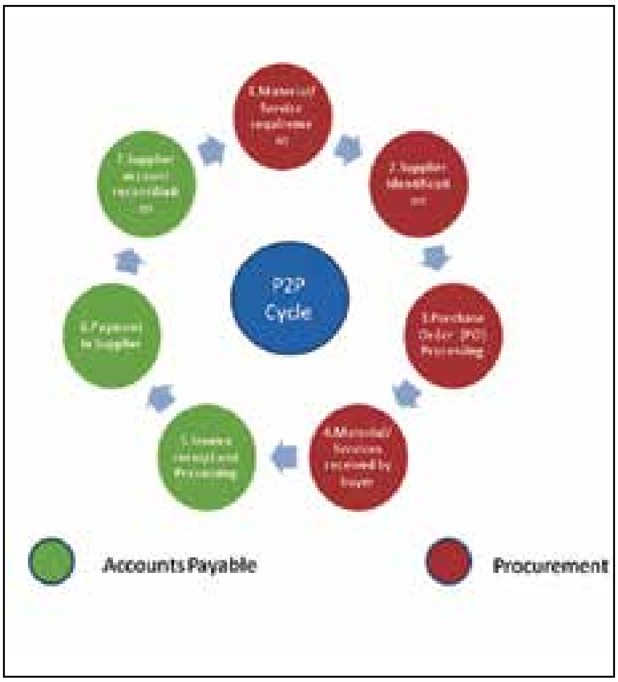
As pre-read for this article, please refer to item ""Cost optimization thru Shared Service Centre for Finance & Accounts operations" appeared in September 2016 edition of The Management Accountant.

After company board has decided to "make" i.e. IN-source the processes of BU's. The first step is taken to set-up a Shared Service Centre (SSC) i.e. a new department under finance organization is opened and the identified processes from BU's will be transferred to the SSC.

CMA's can take the leadership/strategic contribution in this transformation journey and play a pivotal role at every step from identification of processes to be transitioned to SSC and ensure they are stabilized in least amount of time with minimal disruption in operations.

Of all the business process, Procure to Pay (P2P) is the ideal foremost process to start moving from BU's to SSC.

Procure to Pay (P2P) is the process of obtaining and managing the raw materials needed for manufacturing a product or providing a service. It involves the flow of information to a supplier as well as the data that surrounds the fulfilment of the actual order and payment for the product or service. The complete P2P cycle is given below:



The low hanging fruit in F&A function is Accounts Payable (AP) related processes under Procure to Pay (P2P). AP is the idle process to move into SSC as it has high chance of success which will encourage other accounting processes to transition like, Accounts Receivable (part of O2C), General Ledger (R2R), Fixed assets (FA), payroll and others.

The major activities in P2P along with what it entails is given for better understanding in a BU are given below:

Activity under P2P	Brief description of the Activity
Vendor Master Data	Includes tasks like set-up of new vendor, modifications, deletions, and any changes in vendor master data in an accounting software
Procurement	A business process where a BU or organization takes action to buy goods and services. Procurement begins with identifying the requirement and ends with payment for the goods/service.
Scanning and Indexing	These 3 are sequential steps done after receipt of invoice from vendor/supplier. Scanning involves receipt of invoices and physically sorting them and digitizing the document in an document management application. After scanning is done, the invoices are indexed in a pre-determined manner. Post indexing of the invoice and then are moved for processing.
Invoice Processing	The process of recording of invoice sent by a supplier/vendor for goods/serviced provided to the organization. Once a invoice is processed i.e., recorded in the accounting system it will be paid as per pay terms agreed with vendor/supplier.
Payment Processing	The process where a organization clears/pays the invoices processed/recorded in the accounting system to vendor/supplier as per payment term agreed.
Accounts Payable close	On monthly basis AP books have to be closed as to know the accurate amount of liability and to account the expenses incurred in the period to arrive at the factual profitability of the organization.
Vendor reconciliations	Reconciliation of vendor account is done to correctly reflect the amount payable and also has to be agreed with vendor books (it will be receivable in his books)
Exception/deviation Management	A process in place within AP department for steps to be taken by the staff of AP to resolve invoice(s) which were not able to be processed due to a discrepancy due to various reasons like PO mismatch, quality of goods, invoice received before receipt of goods and others. The exception/deviation can occur either during processing of invoice or before payment.
Vendor Helpdesk	A call centre setup to receive calls from suppliers or internal stakeholders to know the status of invoice

Below table gives view of how some of activities within P2P will transform and its benefit to the organization:

When done from BU (before SSC)	When done from SSC (after SSC)
Vendor Master Data Redundant vendor master records (as each BU will create vendor master for in their BU system)	**Vendor Master Data** Only 1 vendor master for each vendor for better control and consolidation
Procurement Price for each BU will be negotiated individually and there is possibility of not getting the best price	**Procurement** Centralised negotiation will help to get best price and better planning of inventory and services
Scanning and Indexing -No document management workflow as all invoices will be paper based. -Manual tracking of invoices will lead to possible loss of invoices and delay in tracking in case of query or during audit	**Scanning and Indexing** -Document management flow can be introduced to digitize the receipt of invoices. -A proper tracking of invoices will help to resolve queries from vendor/suppliers.
Invoice Processing -Each BU will process the invoices as per it's own rules and may not be as per company standards -Processing of invoices will not be in FIFO basis -Controls on processing will probably be weaker as there is a possibility of connivance with vendor/supplier	**Invoice Processing** -Invoice Processing can be standardised and consistent way of processing based on company policy can be implemented -Processing of invoices will be in FIFO basis -Centralised processing will ensure controls are followed and minimising connivance/fraud opportunities
Payment Processing -As BU will not have company-wide cash flow position there could be cash management issues -Possibility of not following PO terms of payment (out-of-turn payment based on relationship with BU Finance team) -Weak control as same member can have access to invoice processing and payments (lack of SoD)	**Payment Processing** -Centralised payments processing will help in better management of cash, as future payments are known to treasury department -Payment processing will be done as PO terms (reduction of ad-hoc payments) -Better control as segregation of duty can be implemented (no access of processing and payments module to same team member)
Accounts Payable close -Close will be a major challenge as each BU will have to close and send to centralised accounting team for consolidation -Policy for close may not be followed as Head Office may not have monitoring time and resources on monthly basis	**Accounts Payable close** -Close will become a smooth & seamless activity as it will be centralised at SSC -Corrections/modification to close can be done much faster and accurately -Corporate policy for close can be followed and improved upon

When done from BU (before SSC)	When done from SSC (after SSC)
Vendor reconciliations -Selection and periodicity of vendor/supplier reconciliation -Will be difficult to perform as same supplier may supply materials to different BU -Correction or detection of fraud is difficult or will get delayed till a detailed audit is done	**Vendor reconciliations** -Standardized process for selection and periodicity of supplier accounts -Calendarization of supplier reconciliation will help to keep accounts hygiene and clean -Fraud detection/double accounting/payment can be identified faster and accurately
Exception/deviation Management -Slower resolution of exception/deviations while processing invoices or payment discrepancies as Supplier will have to contact multiple units for resolution	**Exception/deviation Management** -in SSC a dedicated team can be set to resolve the queries of vendor/supplier on faster and efficient basis -Supplier satisfaction will improve for better service from Supplier's
Vendor Helpdesk -No vendor helpdesk will be feasible for each individual BU	**Vendor Helpdesk** -for the combined volume of transactions a vendor helpdesk can be set-up combined with exception/deviation management team for faster and efficient resolution of Supplier and also for buyers within organization.

At a high level the process transformation happens for P2P activities when the process is moved to SSC from individual BUs. There are various benefits which occur to all stakeholders from this change. CMAs will be able to lead this critical initiative that requires more than an Accountant's knowledge, which is available to Management Accountants.

Conclusion:

Below given are the overall benefits for moving to SSC model:

- Consolidation of limited resources with specific knowledge
- Avoiding duplication and redundant tasks
- Keep BU focussed in its core activities (transfer non-core activities to SSC)
- Cut costs of operations
- BU's will have time to concentrate on innovation and new revenue generation ideas

CMAs contribution will be immense in this transformation and transition of processes from individual BU's to the SSC. CMAs can take lead and involve all concerned stakeholders like CFO, BU Finance Head, BU Production Head, BU Purchase Head, CIO, and Corporate Finance Head. It is critical that extensive communication and progress status report is circulated among the stakeholders to get support and buy-in of this major initiative. MA

rkganti@hotmail.com

CMAs' role as GAME CHANGERS

CMA Nimishakavi Ram
Manager
GENPACT, Hyderabad

Today in present world, the change is taking place at a rapid speed. The present business environment is very different than that of earlier years. Technology has changed the way we do business, the way we do transactions, the way we communicate and above all the way we think. The pace of change is accelerated than ever before. Any positive change in general, aims for growth; for betterment; for economic development and so on ...so need to welcome any positive change.

The present government is bringing revolutionary policy reforms in India. The government has launched series of programs to ignite the development of Economy. Two of them are 'Make in India' and 'Start Up India'.

'Make in India' campaign focuses on attracting investments majorly in Manufacturing, Automobile, Food processing, Infrastructure development, Power sectors etc. This campaign opens up new opportunities for Indian and foreign entrepreneurs. This campaign is going to unlock huge employment opportunities. And again 'Start up India' campaign intends to build strong start up ecosystem working towards innovation, development of new products, processes or services making best use of technology to accelerate the growth of Indian economy. The motto of this campaign is to turn a job seeker to a job creator.

CMAs in this very dynamic business environment have a great role to play as a Game changer. Being equipped with variety of competencies and tools, CMAs can leverage their expertise in building new businesses, advise in developing business models, optimum Capital structure decisions and sorting out Market strategies. CMAs can analyze risks at various levels and improve performance or efficiency in processes, supply chains, utility or energy consumption.

Govt of India initiatives

As per NASSCOM report, 2015 India is a home for over 3000 startups starting per year standing behind US, UK and Israel. If this growth is continued on the same lines then Indian startups are going to generate almost 2.5 lakhs jobs in next 4 to 5 years. The demographic dividend which is being enjoyed by India will definitely boost up the startup culture. On the other hand, Government's initiatives of 'Easy of doing Business' and various incentives will boost 'Make in India' and 'Digital India' programs which will drive sustainable economic growth and generate huge employment opportunities and open new avenues for professionals.

CMAs can use their expertise and provide advises to new entrepreneurs under any of the above campaigns. They are able to offer advisory services - in the process of applying for patents, trademarks or designs; formation of a Company/Partnership/ any Legal Entity; attracting the promoters, creating a roadmap and Project Reports; sorting out an apt Business Model and in adherence to government or SEBI norms to avail various incentives or relaxations in the initial stage of business.

CMAs can apply various tools such as Lean techniques to eliminate any non-value added activities to increase operational efficiency and reduce overall cost. Product Life cycle Management (PLM), Learning curve concepts which can be applied in reducing overall cycle time and ensure availability of qualitative goods at reasonable price. With the help of Business Process Management technique and Value Analysis potential risks can be identified and analyzed in a structured manner, thereby suggest corrective actions to mitigate the risks.

Business Process Outsourcing / Shared services

BPO or shared services is a concept of sub-contracting various non-core activities or operations to a third party. America and Europe countries are looking towards India as a major destination for outsourcing their operations in order to reduce operational costs. Over the years business processes are becoming more complex and redundant with non-value added steps thereby reduce efficiency and increase overall cost. Number of challenges in this sector like Process in-efficiency, complications of Transfer Price on Inter-company transactions and payments, competition with global players and so on offer many challenges as well as opportunities for CMAs.

Business Process Re-engineering (BPR) and Value Stream Mapping (VSM) are two powerful tools to drive overall operational efficiency and reduce cost. CMAs can play diversified roles in this Sector as Transition Lead who takes care of Business expansions, Quality Lead to drive organizational re-structuring and quality improvements, Client Manager who builds and maintain a rapport with Clients and so on.

E-commerce

Indian e-commerce market is expected to reach over $100 billion by 2020 and will grow at 50% rate in next 5 years. The advent of e-commerce presents phenomenal growth opportunities for Indian SME sector. Currently around 17% of India's GDP is being contributed by SMEs and more than 25% of SMEs have their on-line presence through e-commerce and taking leverage of potential benefits.

Other hand, e-commerce is facing many challenges like huge discounts, incremental costs, trailing market share and market place, declining valuation, regulatory requirements etc. Raising funds is not a big issue here but managing them is really a matter of attention.

There is a need for CMAs to play really a crucial role in facilitating advisory support in pricing strategies and in meeting government guidelines. CMAs can use their expertise of Strategic Cost analysis to ensure of meaningful cost competitiveness and avoid any pricing trap.

Conclusion

This is the best time than ever before for CMAs to grab diversified opportunities in diversified sectors. Apart from having an in-depth knowledge on technical skills, one should also have soft skills like communication, strategical thinking, emotional balance to drive changes etc in order to excel in his role. At present many CMAs are already performing roles as leads of Business development projects, Re-engineering and Transformations projects, Service delivery leads etc in above mentioned sectors. The Zeal, analytical mind, desire to excel, endurance to face tough challenges are the basic traits of any individual to play the role of a Game changer. MA

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nimishakaviram@yahoo.com

Performance Measurement System for Start-ups and Scale-ups

Running a startup or scaling up a business is akin to successfully landing or taking off an aircraft. Measurement systems help the company to know the course, correct direction and speed necessary to have a safe flight.

A simple set of integrative financial and non-financial measures, both leading and lagging indicators are required for the board and executives to guide the company.

In this paper we detail financial and non-financial measures that may be used by startups and scaling up companies.

Aishwarya Nair
Junior Consultant (Finance)
Browne & Mohan Consultants
Bangalore

SaiVinoth T.R.
Assistant Consultant (Sales & Marketing)
Browne & Mohan Consultants
Bangalore

Whether it is a startup or a growing company, measurement systems are required to act as guide posts. Measurement systems indicate the direction and pace at which the businesses are reaching their stated goals. The good old adage "What gets measured gets done", aptly sums up the role of performance measures. Designing effective performance measures requires appreciation of the industry and nuances. Performance measures differ among information intensive businesses, product oriented businesses, and service oriented businesses. To give an example, measuring the gross merchandise value (GMV) would be useful for an information intensive business, but itwouldn't make sense for a product oriented business such as a Medical devices startup. Scaling up is an important stage in the evolution of the company. Accounting literature has not addressed the performance measure systems for startups and scaling up companies. This paper is an attempt in that direction. We have developed an integrated financial and non-financial measurement framework that is required to guide, manage and control companies at these crucial stages.

Metrics for Start-ups

Table 1 presents comprehensive list of financial and non-financial measures for a startup.

Revenue growth

Apart from the actual revenue growth, you could use other revenue growth indicators which would provide additional insight into your performance.. In other words, keep a record of the gross merchandise value (GMV), whatever term this translates to for your business.Booking refers to the amount your customer is obliged to pay over the course of your contract regardless of when they're due. In this sense, bookings are a forward-looking measure that will help you to assess the future health of your organization. Billings which refers to cash collected in advance at the time of booking is another good measure.

Cash

Efficient cash management is essential for startups. The most useful cash flow measure for start-ups is the cash burn rate. Keeping a track of how much cash goes out every month is critical at this stage of business. It would also be useful to measure net burn which is all revenue minus gross burn (monthly expenses and cash outflows). This measure indicates how long the cash you have will last for you to run the organization. It is equally important to measure the rate at which you're able to earn cash to cover your monthly expenses.

Account Payables

In keeping with the above factor, it is equally important to monitor the account payables.You could measure the percentage of account payables to sales to understand the change in the level over the years and to compare with competitors within the industry.

Maximum Earnings Decline ratio

Maximum earnings decline ratio is calculated as 1-(Quarterly costs/ Quarterly earnings). It indicates how much you can afford to lose in terms of earnings before it becomes impossible for you to handle the costs for the quarter. It is a powerful metric that would help you detect areas that require attention before it's too late. Additionally, you could measure the maximum earnings decline ratio for each product line and product, thus enabling you to monitor the earnings more efficiently.

Customer acquisition cost

An important cost that startups should monitor is the cost of acquiring customers.CAC should include all costs incurred in acquisition including discounts, referral fees and so on. Additionally, keep track of the customer acquisition payback period which is the time you take to recover the amount spent on acquiring a customer. This should also reduce with time.A powerful tool you could use is the Pirate Metrics devised by McClure (2007).

Discount to Total sales(%)

The percentage of discount to total sales indicates a portion of the cost you've incurred to acquire and retain customers. In a healthy business, this should see a decline over time.

◗ Number of customers who received discount to total customers (%)

Another way to measure the efficiency of your sales and marketing process is to measure the percentage of customers who were acquired or retained through discounts. Fewer discounts would have to be given with improved efficiency.

◗ Number of customers acquired through freebies to total customers (%)

Giving away freebies could be a way of acquiring more customers for a startup. With time though, there should be a shift towards acquiring customers through proven quality standards rather than simply giving freebies.

◗ Number of active users to total users (%)

Measuring the number of active users to total users will eliminate the accidental one time users or first time users. It is more important to see a growth in active users than overall number of users.

◗ Delivery time per order

This is yet another measure of efficiency of production as well as sales. The aim here is not just to shorten the delivery time per order but to standardize the time taken in order to ensure accurate predictability and maximum efficiency.

◗ Number of deliveries on time to total deliveries (%)

Every business should strive to achieve a high degree of effectiveness in terms of consistently delivering orders on time. Such a measure could add to the value of your business and indirectly reduce the cost of customer retention.

◗ Number of orders that required rework to total number of orders (%)

Inconsistency in production could add to cost of poor quality, thereby affecting your margins. A competent production and sales process would enable you to save on this cost by reducing the number of orders that require rework.

◗ Net Promoter score

The net promoter score is a tool used to gauge customer satisfaction. It measures how likely it is that your customers would recommend your product or service to others. The net promoter score would be the percentage of customers who are likely to recommend or promote your product/service minus the percentage of customers who are unlikely to do so.

◗ Customer concentration risk

It would be unhealthy for any business to derive its revenue from a single or just a handful of customers.A lower customer concentration risk is generally preferred to mitigate the risk of losing customers and to reduce the customers' bargaining power.

◗ Number of awards and honorary mentions in a year

The awards and honorary mentions your business achieves could be used to both validate the performance of your business as well as to motivate your employees.

◗ Number of star VCs

Gaining funds from elite VCs such as Sequoia Capital and Helion Venture is yet another way of validating the performance of your business and the potential it holds.

◗ Funds from star VCs/star angel investors to total funds (%)

Apart from the number of star VCs or angel investors who have endorsed your business, the extent to which they have invested in your business can also play to your advantage.

◗ Number of star hires in a year

Star hires refer to the level of talent you manage to bring in to your business. Hiring seasoned experts would not only help you with specialized skills required for your business but would also add value to your business and attract more talent.

◗ Number of units sold per staff per month

The number of units sold per staff per month can be used as a measure of productivity of your staff. This should see an upward trend as efficiency improves and experience curve kicks in.

Metrics	Information Intensive Business	Product Oriented Business	Service Oriented Business
Financial Metrics:			
Revenue growth/ Real revenue growth	✔	✔	✔
Gross Merchandise Value (GMV)	✔	✔	✔

Bookings	✔	✔	✔
Billings			
Net cash burn ratio	✔	✔	✔
Net cash earned to cash required ratio	✔	✔	✔
Account payables to sales (%)	✔	✔	✔
Maximum earnings decline ratio	✔	✔	✔
Customer Acquisition Cost (CAC)	✔	✔	✔
Customer acquisition payback period	✔	✔	✔
Non-Financial Metrics:			
Rate of customer acquisition	✔	✔	✔
Rate of customer activation	✔		
Rate of customer retention	✔	✔	✔
Number of customer referrals	✔	✔	✔
Discount to Total sales (%)	✔	✔	✔
Number of customers who received discount to total customers (%)	✔	✔	✔
Number of customers acquired through freebies to total customers (%)	✔	✔	
Number of active users to total users (%)	✔	✔	✔
Delivery time per order	✔	✔	✔
Number of deliveries on time to total deliveries(%)	✔	✔	✔
Number of orders that required rework to total number of orders (%)	✔	✔	✔
Net Promoter score	✔	✔	✔
Customer concentration risk	✔	✔	✔
Number of awards and honorary mentions in a year	✔	✔	✔

Number of star VCs	✔	✔	✔
Funds from star VCs/star angel investors to total funds (%)	✔	✔	✔
Number of star hires in a year	✔	✔	✔
Number of unit sold per staff per month	✔	✔	✔

Table 1: Financial and Non-financial measures for a startup

Metrics for Scale-ups companies

Scaling up is not just about increasing the scale of production or entering more markets, it is about continuing to move ahead (Sutton &Rao, 2014). It takes to successfully plan and pursue a scaling up strategy, just enough stay ahead in the race and yet de-risk from overcapacity and technology obsoleteness. Table 2 presents financial and non-financial measures for a Scaling up company.

Contribution margin

Maintaining profitability to sustain in the long run becomes crucial. The contribution margin, or the profit per unit without considering fixed costs, is a good measure for scaling up. It indicates the profitability of a particular product or service. Benchmarking against similar products or services in the industry can be useful. For a services firm or a project related business, it would be beneficial to monitor the number of low margin projects taken up in relation to total number of projects.

Cost

As your business grows you should be able to take advantage of economies of scale. The additional contribution from increased units would cover fixed costs.

Account receivables

Scale-ups often face problems of bad debts leading to cash inefficiency. A good method is to measure account receivables greater than 90 days as a percentage of total account receivables. This would allow you to customize the terms of payment for each product line depending on the risk associated with them.

Revenue per employee

Monitoring the revenue per employee trend will enable you to understand whether the additional employees have brought in proportionate growth to the organization

Utilization rate

This metric is particularly useful for firms engaged in professional services. The utilization rate is the percentage of hours spent on billable projects to total number of hours worked. Each industry would have its own widely accepted target.

Return on Assets to Cost of Capital

As your business scales up, it is also useful to monitor the return on assets in comparison with the cost of capital. If the cost of capital is higher than the return on assets then it means that the capital invested is not being utilized efficiently.

Debt Free Cash Flow

Debt free cash flow is the percentage of cash earned that is not being used to pay off debt i.e., cash flow before finance costs after tax adjustments. A higher percentage of debt free cash flow is healthier as this can be used as internal funds for growth. If the debt free cash flow is low, you could consider making some changes in the debt structure to reduce finance costs.

Inventory turns

The inventory turn for a period is usually calculated as the cost of goods sold or net sales divided by the average inventory for that period. While scaling up it is important to have higher number of turns. Low inventory turns would indicate that more cost gets tied up in inventory. It would also help to explain market trends if demand for some products has been declining and you need to scale down your production of certain lines in order to remain profitable. Just-In-Time (JIT) is an efficient technique used by businesses to avoid costs tied up in inventory. Understanding your buffer stock level will take you a step further in proficient inventory management.

Customer retention cost

It is the cost incurred to keep your customer so that they continue to purchase from you. The ROI on customer retention cost should be higher than that on customer acquisition costs as customer retention costs are generally lower. For this reason it is beneficial to spend more efforts on customer retention. Having a low customer retention cost will directly contribute to higher lifetime value (LTV).

While a business transitions from start up to scale up there is a different set of non-financial measures that needs to be focused on. To assess sales, marketing, and, production performance the following measures would be useful.

Predictable deal velocity

Deal velocity could be measured as the number of units of product/service sold per week or the number of deals closed per week. It could go by different names such as sell through rate, closing rate or success rate. A scale up should be able to have a predictable deal velocity which would in turn help to make accurate financial predictions.

Number of repeat purchases

The number of repeat purchases is a good measure of the business' ability to retain customers. The higher the number of repeat purchase, the higher would be the lifetime value (LTV) of customers.

Number of orders with rework to total number of orders (%)

As with startups, scale-ups too should work on reducing the cost of poor quality by adopting best practices of production such as Total Quality Management (TQM).

Number of customer complaints per department

Monitoring the number of customer complaints per department is an ideal way of identifying departments that have been unable to scale up efficiently along with the rest of the organization and deserves more attention.

Number of non-critical product/service variants to total variants (%)

Providing a high number of product/service variants does not imply higher revenue or profit. In fact, for a scale-up it is essential to cut down on non-critical variants. This would lead to improved operations and margins.

Customer churn rate

The customer churn rate is the percentage of customers lost in relation to the total customer base. A rising customer churn rate would indeed be an area of concern and would require you to evaluate sales, marketing, production, and demand for your product/service.

Market concentration risk

For a scaling business, market concentration risk is just as important to monitor as customer concentration risk. If the business is concentrated in one or a few markets then market instability could stem the growth of the business.

Channel concentration risk

Channel concentration risk measures how concentrated or varied your channels of distribution are. For instance, if you have offline and online channels you could measure the percentage of revenue generated through both channels.

Revenue from top 5 customers to total revenue (%)

This is the percentage of revenue generated from the largest or top few customers to the total revenue. It is healthier for a business to have revenue streams spread out across customers.

Number of new geographical markets entered

For a business that is scaling up, rate of entering new geographical markets should be high to improve their presence and customer base. However, this should be done with careful research and planning.

Number of awards and analyst citations in a year

Scale-ups too can gain from higher number of awards and analyst citations as a tool for attracting more customers as well as to gain further funds if required.

Number of influencers on the board

It is always healthy to have independent influencers on the board who can give their expert views and to a great extend help in driving the business in the right direction during your scale-up phase.

A scale up should also focus on achieving high return on investment on recruiting process based on the following metrics.

Time taken to hire employee

It is crucial to strike the right balance between too much time and too less. An efficient hiring process would involve just the right time required to carefully evaluate candidates and to get them on board.

Cost of hiring employee

The cost of hiring employees is yet another factor that has to be monitored for effective hiring process. While not going above and beyond the reasonable cost, it is equally important to not compromise on the quality of hire to minimize the cost.

Quality of hire

Finally, we come to the quality of hire. This is the most crucial aspect of the hiring process. If you manage to consistently maintain the quality of hire then you could generate high return on investment of the recruiting process.

Metrics	Information Intensive Business	Product Oriented Business	Service Oriented Business
Financial Metrics:			
Contribution margin	✔	✔	✔
Number of low margin projects to total projects (%)			✔
Cost of goods sold to revenue (%)	✔	✔	
Account receivables > 90 days to total account receivables (%)	✔	✔	✔
Revenue per employee	✔	✔	✔
Utilization rate		✔	✔
Return on assets to Cost of Capital	✔	✔	✔
Debt free cash flow	✔	✔	✔
Inventory turns	✔	✔	✔
Customer retention cost	✔	✔	✔
Non-Financial Metrics:			
Predictable deal velocity	✔	✔	✔
Number of repeat purchases	✔	✔	✔
Number of orders with rework to total number of orders (%)	✔	✔	✔
Number of customer complaints per department	✔	✔	✔
Number of non-critical product variants to total variants (%)	✔	✔	✔
Customer churn rate	✔	✔	✔
Market concentration risk	✔	✔	
Channel concentration risk		✔	✔
Revenue from top 5 customers to total revenue (%)	✔	✔	✔
Number of new geographical markets entered	✔	✔	✔

Number of awards and analyst citations in a year	✔	✔	✔
Number of influencers on the board	✔	✔	✔
Time taken to hire employee	✔	✔	✔
Cost of hiring employee	✔	✔	✔
Quality of hire	✔	✔	✔

Table 2: Financial and non-financial measures for Scaling up business

Conclusion

Many senior managers acknowledge that inappropriate balancing of expected results with resources at hand or inappropriate alignment of resources and the activities are most common reasons for failure. Aligning the individual's role and responsibilities, ownership and accountability with the intended change or outcomes is a tough task. Measurement that improves managerial effectiveness, ownership and accountability in achieving results is needed to drive a startup or scaling up program.Businesses are bound to vary in terms of what they offer and how they bring it to the market. Thus, the set of metrics that is appropriate for a particular business will depend on the nature of the business and the stage of growth. The objective is to pick those measurements that are important for your business and to play your strengths from there. These metrics are intended to provide real insight into business performance and to guide businesses through these crucial stages. MA

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aishwarya@browneandmohan.com
svinoth@browneandmohan.com

Obituary

The Institute and its members deeply mourn the demise of CMA Nimai Pada Mukherjee, member of the Institute who left for heavenly abode on September 17, 2016. After his retirement from Coal India, he entered into practice as Cost Accountant. He had immense contribution in building up the Bhopal Chapter of the Institute and was also the past chairman of the chapter. May his family have the courage and strength to overcome the loss.

INTEGRATED REPORTING – Accountants redefining the role of Management

CA Subhash Nathuramka
Nemani Garg Agarwal & Co. Chartered Accountants
Goregaon

In anera of globalisation, liberalised trade, rapidly changing technology the framework of business has also undergone a sea change. The businesses now have to be quite conscious about the possible future developments rather than sticking to the past events and present environment alone. The efficacy of the traditional reporting system therefore is increasingly being questioned because of its inability to to look after the interests of various stakeholders with a view to preparing the business for future challenges in the form of known, unknown, internal as well as external factors. Cases are not uncommon where well established companies had to succumb due to their inability to adapt to changing technology and market factors. Some of the examples include Nokia and Kodak. In the Indian context there are examples of MTNL, BSNL, HMT, PSU banks which have found the going tough because of their inability to have strategic focus on future due to which these companies have lost to their share of business to some of the companies which could invent and adapt themselves on time keeping in view changing business environment. Hence there is a need for a new system of reporting which can effectively address the shortcomings of traditional system.

Integrated Reporting (IR) is a new approach towards corporate reporting, with a focus on conciseness, strategic relevance and future orientation. With the new approach, IR aims at making the reporting process more productive, resulting in tangible as well as intangible benefits. Through integrated thinking, IR enables better understanding of the factors that materially influence an organization's ability to create value over time. The process works to make behavioural changes and improvement in performance in the whole organization.

An integrated report tells as to how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. IR enables a business to bring these elements together through the concept of 'connectivity of information', to tell an organization's value creation story.

IR is relevant to any enterprise irrespective of its size or nature of business. Substantial improvements can be achieved in understanding value creation, greater collaboration within teams, more informed decision making and positive impact on stakeholder relations.

Taking example of India Economy it is interesting to note that despite higher economic growth in the second half of 2000s, India has not been able to generate sufficient number of jobs in manufacturing and services. The GDP growth increased to 8.6 per cent during 2005-10 from 6 per cent during 2000-05, but the net addition to jobs remained almost flat at around 27 million during the two time period. If the concept of integrated reporting is adopted in this case strategic focus would have been on creation of jobs, growth in exports, aiming better social parameters like health, sanitation, education etc. Relationship of education with employment would have been established. In the process ultimate results in long term would have been muchbetter although economic growth could be a bit lower in the short run.

In case of public sector undertakings sometimes social angle overwhelmingly takes precedence disregarding the interests of other stakeholders including the government as revenue raiser, the government as major shareholder, employees, customers etc. If a system of integrated reporting is followed even the PSUs could be benefited immensely by balancing of interests of various stakeholders, focus on strategic goals and effective use of various kinds of capitals. MTNL and BSNL once market leaders in telecom sector had to cede leadershipposition to private players because of their inability to create and preserve value by balancing the interests of all stakeholders. The same story could be repeated in case of PSU banks which are steadily losing their leadership position to private banks.

Some of the illustrations would help in understanding the distinction between traditional reporting and integrated reporting

	Traditional reporting framework	**Integrated reporting framework**
Impact of near expiry patents	Future impact which may be substantial on revenues and profits may not be captured as past data are not influenced.	IR would carefully analyse the management decisions for development of new patents to withstand impact of expiry of old patents.
Retirement of Key managerial personnel	Impact may not be captured as past data are not influenced.	IR would carefully overview the management decisions for succession planning.
Factors influencing corporate image	If corporate image is dented for any reason(e.g. recent case of WelspunIndia where a major overseas customer of the company severed its business relations with the company because of quality issues in the material supplied) impact may not be captured as past performance data are not influenced.	IR would carefully analyse the management decisions for maintaining good corporate image.

	Traditional reporting framework	Integrated reporting framework
Social angle	Social factors like anti-smoking, anti-liquor drives may not be captured in short term as these have slow gradual impact on operations of business.	IR would overview management decisions taken for preparing the business for alternative activities. e.g. ITC developing FMCG business in the wake of decline in sale of cigarettes.
Structural Changes in business	If the business undergoes a structural change traditional reporting may not capture the effect which can be sometimes rapid.	IR would overview the impact of management decisions to cope with structural change in business. e.g. IT industry facing structural change i.e. growing importance of newer areas like cloud computing, growing importance of data business over voice call in Telecom industry

Why Integrated Reporting (IR)?

It is the responsibility of the business to manage the financial capital that investors provide. However in modern times greater responsibility of business is to create and preserve the value generated from non-financial capital such as people, trademarks/ copyrights and natural resources. Existing Corporate reporting which overemphasizes on historical data, current performance, existing assets etc. no longer reflects the needs of the modern times. Cases are not uncommon where seeming well doing entity suddenly finds the going tough so much so that its very survival is threatened. There are also cases where the level of activity is severely curtailed due to internal or external factors which were not properly and timely managed. Some of the situations which can be avoided or their effected be mitigated if the mechanism of IR is adopted-

- Shut down of operations due to labour unrest
- Adverse effects of anticipated technological obsolescence not planned for
- Adverse effects of resignation, retirement of key personnel not planned for
- Major lapses in regulatory compliances, payment of taxes
- Defaults in honouring the commitment towards lenders
- Social unrest arising out of corporate actions like increase in level of environmental pollution
- Effects of Patents, mining leases nearing expiry not planned for

IR scores over the traditional system of reporting in following respects-

1. Present reporting system is largely based on financial capital while IR includes various kinds of capital viz. financial, human, intellectual, manufactured, social and natural.

2. Traditional system is based on historical financial data with short term view. IR connects past and future with strategic view with short, medium and long term framework.

3. A wide range of factors determine the value of an organization – some of these are financial or tangible in nature and are easy to account for in financial statements (e.g. property, cash), while many such as intellectual capital, competition and energy security are not. IR reflects the broad and longer-term consequences of the decisions organizations make, based on a wide range of factors, in order to create and sustain value.

4. IR enables an organization to communicateas to how it is drawing on all the resources (financial, human, intellectual, manufactured, social and natural) and relationships it utilises to create and preserve value in the short, medium and long term, helping investors to manage risks and allocate resources most efficiently.

5. IR enables better communication between company and capital market and can help business getting capital at a reasonable cost.

International Integrated Reporting Council (IIRC) framework

The IIRC is a global coalition of regulators, investors, accountants, standard setters, and nongovernmental organizations. It has accepted that integrated reporting is beneficial to all stakeholders of business including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policymakers.

The IIRChas issued a framework for integrated reporting.

The frameworkdoes not include requirements on specific key performance indicators, measurement methods, or the disclosure of individual matters of an organisation. However it does tell about the basic ingredients of an integrated report.

An integrated report may be prepared in response to existing compliance requirements, and may be either a standalone report or be included as a distinguishable, prominent, and accessible part of another report or communication. During transition period it should include acomply or explain a statement by the people responsible for the governance of business.

Integrated report vis-à-vis other reports

The integrated report should be seen as the lead among all corporate reports. Other reports like annual financial statements, sustainability reports can be viewed as supporting reports. The integrated report connects different types of information including financial and non-financial and explains how the company creates value and how it can continue to create value in the future.

The IIRC has defined the following seven guiding principles of integrated reporting:

1. Strategic focus and future orientation.
An integrated report should provide information into the organization's strategy and how it relates to the company's ability to create value in the short, medium, and long term as well as to its use of and effects on the capitals.

2. Connectivity of information.
A holistic picture should be shown of the combination, interrelatedness, and dependence between the factors that affect the organization's ability to create value over time.

3. Stakeholder relationships.
Insight should be provided into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account, and responds to their legitimate needs and interests.

4. Materiality.
Information should be disclosed that substantively affects the organization's ability to create value over the short, medium, and long term.

5. Conciseness.
The report should be concise.

6. Reliability and completeness.
All positive and negative matters should be included in a balanced way and without error.

7. Consistency and comparability.
Information should be presented (a) on a consistent basis over time, and (b) in a way that it can be compared with other organizations to the extent it is material to the organization's own ability to create value over time.

Content Elements of reporting

- Organizational Overview and business model
- Operating context, including risks and opportunities
- Strategic objectives
- Governance and Remuneration
- Performance
- Future Outlook

Presently there is no standard format and no specific disclosure requirements. It is an evolving area where companies have to develop their own formats and make experiment to fetch best benefits.

Integrated reporting is based on two fundamental concepts i.e. value creation and the capitals. Value creation is not done by or within the organization alone. It is also influenced by the external environment, the organization's relationships with others and the resources used and affected. Value creation can be understood as the change in value of the capitals over time. The six indicative capitals are (every organization may create its own categories of capitals depending upon its area and nature of activity):

- Financial capital i.e. the pool of funds that is available to an organization for use in the production of goods or the provision of services

- Manufactured capital i.e. physical objects (as distinct from natural physical objects) that are available to an organization for use in production of goods or the provision of services. Such physical objects include equipment, public infrastructure

- Intellectual capital – Organizational, knowledge based intangibles such as technology, parents, research and development and organization's internal systems and procedures

- Human capital such as people's skills, competencies, capabilities and experience and their motivations to innovate

- Social and relationship capital such as institutions and the relationships within and between communities, groups of stakeholders and other networks, ability to share information to enhance individual and collective well being

Natural capital- all renewable and non- renewable environment resources and processes that provide goods or services that support the past, current or future prosperity of an organization

The integrated report sets out how the organisation uses various capitals and how trade-offs are managed.

Recent trends in India

While India is yet to formally adopt integrated reporting the concept is slowing gaining ground. The stock market analysts have increasingly started taking an integrated approach while making valuations of enterprises. The bias is clearly tilted towards strategic relevance and future orientation. While discounting of free cash flows has been accepted as a popular method of valuation risks attached with the free cash flows are seen from the angles of adherence to good governance practices, management decisions boosting the level of intangibles as also the decisions materially influencing the value creation over a period of time. The companies like Sun Pharma, Lupin, Asian Paints, Bosch, United Phosphorus etc. are being valued at a premium by the analysts. Many of the principles of integrated reporting are apparently going into such valuations. In addition to quarterly results analysts are going into the details of management commentaries so as to find out the strategic decisions taken/proposed by the management so as to create value over a period of time making appropriate use of various capitals. Merely having resources is not considered adequate. Use of such resources to the benefit of stakeholders is analysed. Due to this approach companies like DLF, JP Infra despite having huge land banks are not rated very highly because of inadequate use of their resources affecting their free cash flows. Good governance one of the planks of integrated reporting has also come to be accepted by one and all. There is erosion in value in companies having issues with various stakeholders like lending institutions, banks (e.g. Kingfisher), major customers (e.g. Welspun) , major suppliers, employees, the government (e.g. Cairn India) etc.

There are a number of companies with established businesses which are quoting below their book value. E.g. Tata Steel, SAIL, Oriental Bank, DLF, J.P. Associates etc. which underlines the importance of intangibles and future outlook about the business rather than the asset base alone.

From the above trends it appears that integrated reporting has already indirectly entered into the system and would gain strength in the times to come.

Role of Finance Professionals

Finance professionals with particular reference to cost and management accountants are considered to be experts in the area of recognition, measurement and reporting of financial and cost data. It is therefore considered that the profession has a natural role to play in integrated reporting. However, to be effective in the implementation of IR members of the profession have to enhance their knowledge beyond the domain of financial accounting, costing and law to various other spheres like corporate management, business model of the company, competitive strengths, intangible assets, quality of manpower etc. to make a footing in the field of integrated reporting.

Management accountants need to broaden their content knowledge to include non-financial information, to help the organizations they work for to implement IR both internally and externally. The members of the profession have to learn to convert critical nonfinancial information into financial information which is key to implementation of IR. Some of the indicative examples of conversion of qualitative information/goals into quantitative targets are given below-

S.No.	Qualitative Information/Targets	Quantitative Targets
1	Improvement in quality standards	% rejection at various levels
2	Key Result areas set for employees Production Manager Quality Control Manager Maintenance Manager Finance Manager Personnel Manager	Production targets % rejection No. of breakdowns Average Cost of capital, Financial penalties on account of non -compliance of laws Employee turnover, No. of strikes

S.No.	Qualitative Information/Targets	Quantitative Targets
3	Maintaining high corporate image	No. of prestigious corporate awards won No. of investor complaints No. of times there is Positive or Negative reporting in independent media Movements in Quoted price of company share
4	Looking after all stakeholders' interests	Credit rating by external agencies Internal rating by lenders Employee Turnover Corporate Governance Rating No of Qualifications or otherwise in Auditors' Report Severance or otherwise of relationship with number of major suppliers or major customers or key personnel

Concluding Remarks

The concept of IR needs to be adopted irrespective of any legal requirement. The business entities should not wait for the regulators like SEBI to come out with rules for compulsory compliance of integrated reporting. Instead of taking compliance oriented approach integrated reporting should be accepted as a tool for value addition for the companies and its stakeholders.

Finance professionals should appreciate that more and more companies are now interested in getting value addition out of the accounts, costing and audit functions in addition to fulfilling the compliance requirements. IR provides a great opportunity to the professionals to be seen as value providers rather than only compliance makers. During the preparatory stage IR may not become mandatory through regulations still this is a concept which should be embraced as it aims at value addition, better risk management which have become essential to business.

Finance professionals may initially opt for voluntary compliance of integrated reporting framework on the lines set by IIRC. Some of the companies may take up pilot projects for implementation of the framework. Their experiences should be widely shared.

The concept of IR needs to be adopted irrespective of the size of the business unit. Today's small and medium units are capable of becoming large in the times to come. IR framework is capable of giving strength to every unit irrespective of the size.

One of the challenges of IR is making conversion of nonfinancial information into financial information. The members of the profession should inculcate a habit of making such a conversion whenever any critical nonfinancial information is found in the system.

IR can be initially adopted on the lines of South Africa on an "apply or explain" basis.

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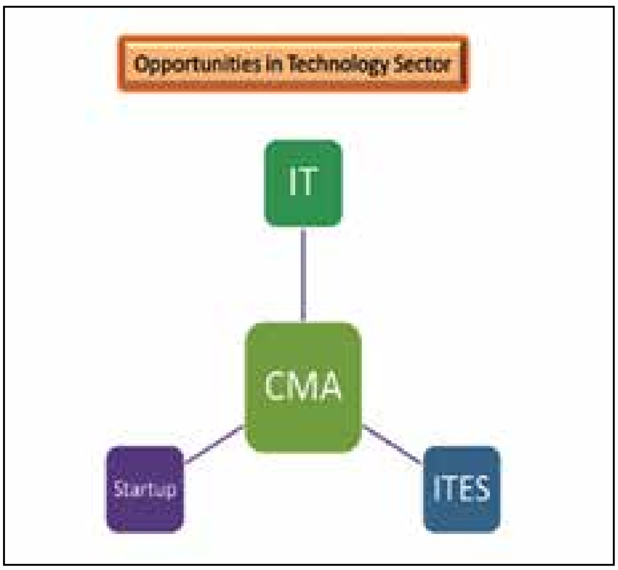
snathuramka@yahoo.com

Role of Management Accountants in Technology Space

CMA Venkatesvaran P
Group Manager, Vice President
iNautix Technologies
Chennai

The IT sector in India has recordeddouble digit growth rate year on year in the last two decades and is expected to continue so. The opportunities that lay ahead in the sector continue to expand. While the majority of the workforce in Software development is engineers, the need for other professionals from specialist education, skills and experience are high in demand. Professionals from various domains are required to play a pivotal role in various departments of the IT sector. Management Accountants by virtue of their education and experience comes highly equipped with knowledge in various areas like Finance &Accounts, Cost &Management Accountancy, Direct &Indirect Taxation, Commercial &Industrial Law, Management Philosophy &Practice, to name a few. With these expertise, Management Accountants can extend their expertise into IT, ITES and Startups which are emerging and are potential growth sectors.



Information Technology

Management Accountants can play an important role in Information Technology a.k.a. Software development sector. They can take up roles like Business Analyst, Quality Assurance and Project Manager.

Role in Software Development:

Management Accountants can take part in various stages of the Software Development Life Cycle (SDLC) right from Requirements Analysis through implementation of the software into live environment.

Business Analysis

Management Accountants can be well equipped to perform a role of a Business Analyst (BA) in the SDLC process. The BA role typically involves Requirement analysis which encompasses discussing with the Business Users to understand the needs of the business, which has to be built in the software. A Management Accountant will be rightly equipped to deep dive into the integrities of the business need and convert them into Software Requirement Specification (SRS) Documents. Management Accountants can play a very good role of a BA in building software solutions in the area of ERP in modules like Accounting and Financial Statements, Direct and indirect Taxation, Costing and Profitability Analysis, Inventory Management, Fixed Assets, Payroll and all other modules which synchronises with accounting and finance. They can be very capable in development of software solutions for Manufacturing, Construction, Engineering, Banking, NBFC, Service, Consultancy etc.

Design and Contraction:

While Design and Construction phase of software involves engineers to put their best of their brains, CMAs also has a role to play in terms of reviewing the design to validate if the design is capable of achieving the requirements of the business for which the software is build. Design review helps early detection of defects which can be rectified at an early stage of SDLC and prevent cost escalation on account of rectifying defects after the product is built.

Quality Assurance:

Management Accountants can get involved in ensuring the quality of the software that is being developed for the business, as they are experienced to understand the business needs and know what exactly needs to go into the software being developed. There are various forms and stages in Quality Assurance that

Management Accountants can be engaged.

Functional Testing

Management Accountants can validate that the software performs the functions that is indented to be developed for the business. Functional Testing is performed as part of the software development process and generally done within the organization that develops the solution. The objective of Functional testing is to ensure that the software is built as envisaged in the requirement specification.

User Acceptance Testing/Business Acceptance Testing/Beta Testing

Management Accountants are also users of various software for their day to day functioning in their course of employment and profession. They can involve in the User Acceptance Testing (UAT) where the software developed in tested from the Business User's perspective.

Project Management:

Project Management involves managing the end to end software development project from an overall perspective which includes planning, staffing, controlling the overall schedule, cost and quality of a software development project. As Management Accountants are educated on various facets of project management, they can very well take up opportunities as Project managers in IT sector.

Finance Department

A role for a Management Accountant is obviously wide open for an opportunity in Finance department to take care of finance, accounting, taxation, budgeting and reporting in an IT sector. CMAs will also be involved in detailed budgeting and cost control for different software projects executed in the software development organization. They will be often called upon to ascertain the profitability of projects, process, departments, etc.

ITES:

Similar to software development, CMAs can take up high profile opportunities in Business Process Outsourcing. With experience in core industries, they can be involved in managing the back office operations, transaction processing book keeping, MIS. This can be extended further towards financial analysis, forecasting, development of business being outsourced. They can work on developing innovating ideas to improve the operation process, reduce overall cost of operation

Start-ups:

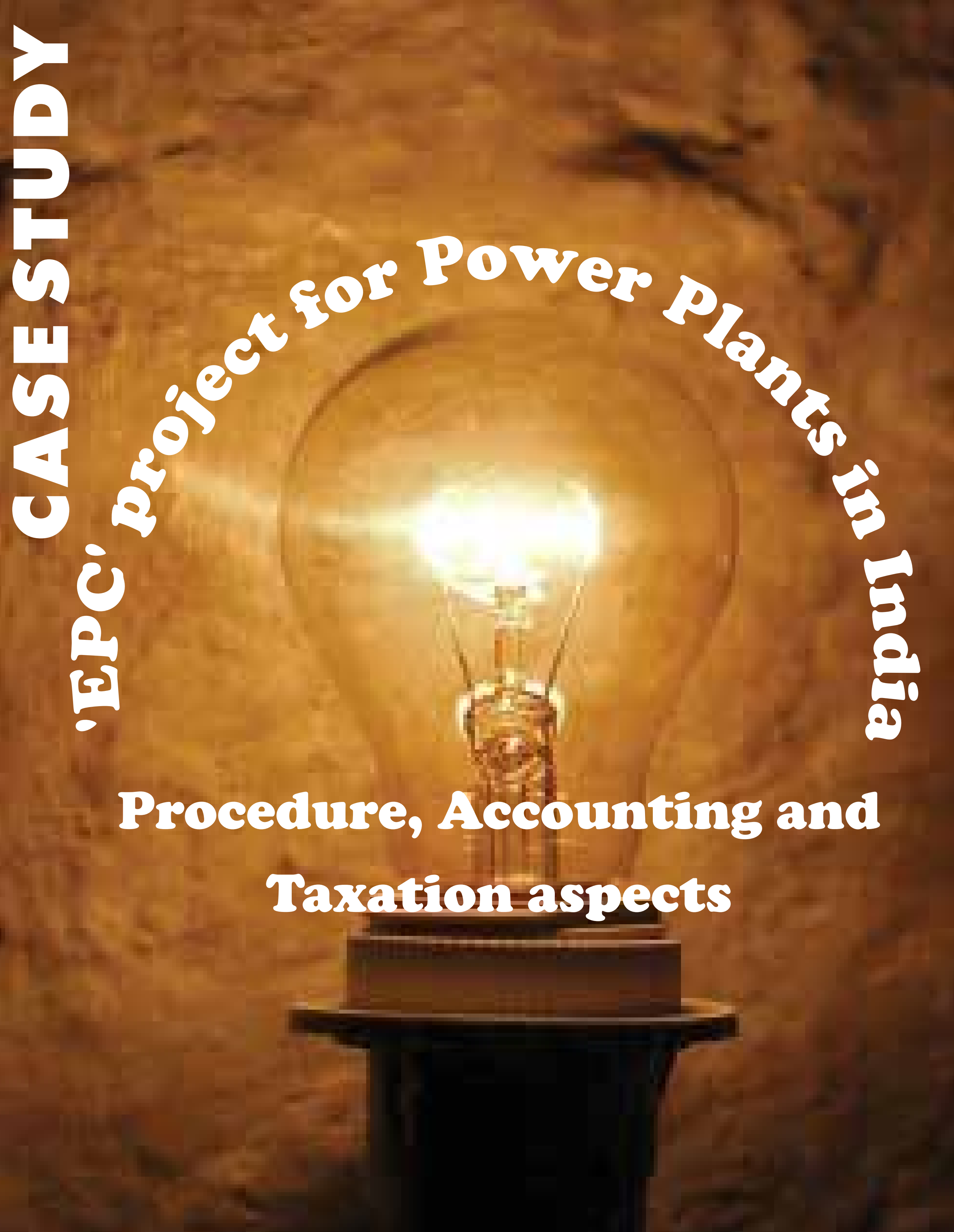
The current revolution is Startups and we are going to see tremendous amount of growth in the startups in India. This opens a lot of opportunity for Management Accountants to take up key positions in business development, Product development, and Finance management.

Tip of an iceberg:

The roles for CMA in Technology discussed in this article is just a tip of the iceberg. There are many other opportunities that they can take up based on skills that they have acquired and only sky is the limit. MA

thinkofvenky@gmail.com

CASE STUDY



'EPC' project for Power Plants in India

Procedure, Accounting and Taxation aspects

CMA Subhasish Paul
Senior Manager (A & F)
Reliance Infrastructure Limited
Mumbai

Over the last 30 years, life has witnessed radical changes in the perception towards our day to day activities. Now our expectations are to have things readymade at our door steps or on the table. Homemade foods have been replaced with ready to eat Pizzas, Burger, Cakes etc may be considered as one of such example. Tremendous growth in 'Online' shopping is another example. There may be variety of reasons for the same. We may have time scarcity or we have alternate works to do or we have ready availability of things etc. Sometimes 'supply' creates 'demand' and induced us to accept things and gradually force us to make it a habit. In our construction arena also, perception has changed a lot. In the early days, for construction of a Power Plant, the Customer had to give order to specialized agency for engineering and designing. For Boiler or Turbine Generator, order needs to be placed with original manufactures. For Various erection and civil work, orders need to be given to various contractors. But now the ultimate customer wants a 'readymade' power plant so that it can 'turn the key' on for power generation. This need gives rises to 'EPC' (Engineering, Procurement and Construction) Concept in which ultimate customer assign responsibility of construction of a power plant to a specialized private /public player who under takes all the activities of construction for a fixed sum of consideration and within a specific time frame. Normally customer provides the required 'Land' and rest activates are done by the 'Contractor'. Finally a readymade power plant is handed over to the customer.

EPC Contract : Concept and Features

EPC stands for 'Engineering', 'Procurement' and 'Construction'. Under an EPC contract, a contractor is obliged to deliver a complete facility to the customer who needs only 'turn a key' to start operating the facilities. This is the reason it also called as 'Turnkey' Project. The contractor must deliver the project for a stipulated consideration, by a specified time and it must perform to a specified performance level. The main features of a EPC power projects are as follows.

A. Fixed Completion Date:

EPC contractor needs to complete and hand over the project within a specified date /period from the start date of the project after successful guarantee test. The start date is called 'Zero date' of the project. If the project is not completed within this period, the contractor is liable for delay liquidated damages (DLDs). DLDs are the losses which the consumer suffers if the project is not delivered in a specified date. This period is calculated from the estimated completion date (considering the extensions granted by the customer, if any) till the actual date of handing over. Normally it is expressed as a % (percentage) on the total contract value subject to a Maximum amount. For example, the LD clause may be ' 0.5% of contract value for each month of delay from the completion date subject to maximum of 10% for total contract value'. So to avoid LD, during designing stage, 'PERT' and 'CPM' analysis to be done accurately so that all critical activities are identified properly and requires resources are made available to finish these activities within the specified time limit.

B. A Fixed Contract Price:

The contract price remains fixed for entire duration of the contract. Contractor has a very little scope to increase the contract price. It is only possible when the customer causes the delay and/or customer requirements have changed which causes the contractor to increase costs. Normally contract price is fixed based upon the 'Tax rates' prevailing on the date of contract. Contract price to the extent of increase/decrease in Taxes (Customs rate, sales tax rates, Service Tax rates) may be modified if terms of the contract permit so. Generally, a separate clause is attached as ' Contract price is subject to change due to variation of tax rates which are subject to change time to time as per Government regulations'. The computation for variation of contract price and accounting of the same will be discussed later on in this article. Any cost overrun will have to be borne by the Contractor.

C. A Single Point Responsibility:

The contractor is sole responsible for construction and handing over the power plant. All the activities like designing, engineering, procurement, construction, commissioning and testing to be done the be contractor. Now it is upto the contractor whether to have it's own engineering team to designing and engineering or to subcontracting it to the professional designing agency who have expertise in the same job. Timely procurement of the materials and construction accordingly leads to timely commissioning and testing of power plant.

D. Performance Guarantee:

Customer will not accept the facilities (power plant) unless it is satisfied that the product will give the predetermined standard of performance. So, before taking over, it is the responsibility of the contractor to satisfy (by trial run) the customer that the plant runs at the desired capacity for a specified period of time. Therefore EPC contracts contains a clause called 'Performance guarantee test'(PG test) backed by performance Liquidated damages (PLDs) payable by the contractor if it fails to meet the performance guarantees.

E. Defect Liability Period :

This is the period, beyond construction, during which any defects will be rectified by the contactors as per the clause. Normally, contractors are usually obliged to repair defects occurs in 12 to 18 months following completion of performance guarantee test. The Clause has to specify the repair obligation of contractor for all items or for critical items only.

F. Security:

Customer wants security form the contractor for due discharge of obligations under the EPC contract. Normally it does takes in the following forms.

- **A performance Bank Guarantee :**
  Normally 10% to 15% of the contract value is given as security in the form of PBG or Bond
- **Advance Bank Guarantee:**
  Normally as per contract, a certain portion of contact value (Say 10%) is given to the contractor by the customer as 'Mobilization Advance'. An advance Bank Guarantee of the equivalent amount is to be furnished by the contractor and to be kept till such advance is fully recovered from the Running Bills (Accounting treatment of such advance from customer and its subsequent recoveries will be discussed in subsequent paragraphs)
- **Retention from Running Account Bills :**
  payment terms usually provides a stipulation that a certain % of Bill value, say 10 % of Bill value, will be kept as Retention, part of which will be released after Provisional taking over (PTO) and remaining portion will be released after Final Taking over (FTO)

G. Variation:

Generally a variation clause is kept in the contract. Customer keeps the right to variation in any part of the contract and agrees to the variation suggested by the contractor.

H. Force Majeure:

Force Majeure Clause is always included in any EPC Contract. It is an event which no human foresight could anticipate or even if anticipated, could not be controlled. "Force majeure" describes those uncontrollable events (such as war, labor stoppages, or extreme weather) that are not the fault of any party and that make it difficult or impossible to carry out normal business. A company may insert a force majeure clause into a contract to absolve itself from liability in the event it cannot fulfill the terms of a contract (or if attempting to do so will result in loss or damage of goods) for reasons beyond its control. Drafting of this clause is very vital. Suppose there is an Natural disaster in a power plant during construction phase and it takes three months to back to the normal flow of work. In addition due to this incident, Material value of Rs 50 crores becomes obsolete. Now who will bear this loss of materials and notional loss due to the delay in work schedule? This depends upon the conditions mentioned in the clause. There are chances of dispute in this area.

EPC Contract Structure with Customer

So far we have discussed above, it is evident that in EPC project, the EPC contractor is to deliver a single project at a ready state. The contract between the Customer and the Contractor is so made to do a single job in totality. Now interesting question is that can there be more that one contract for single job?

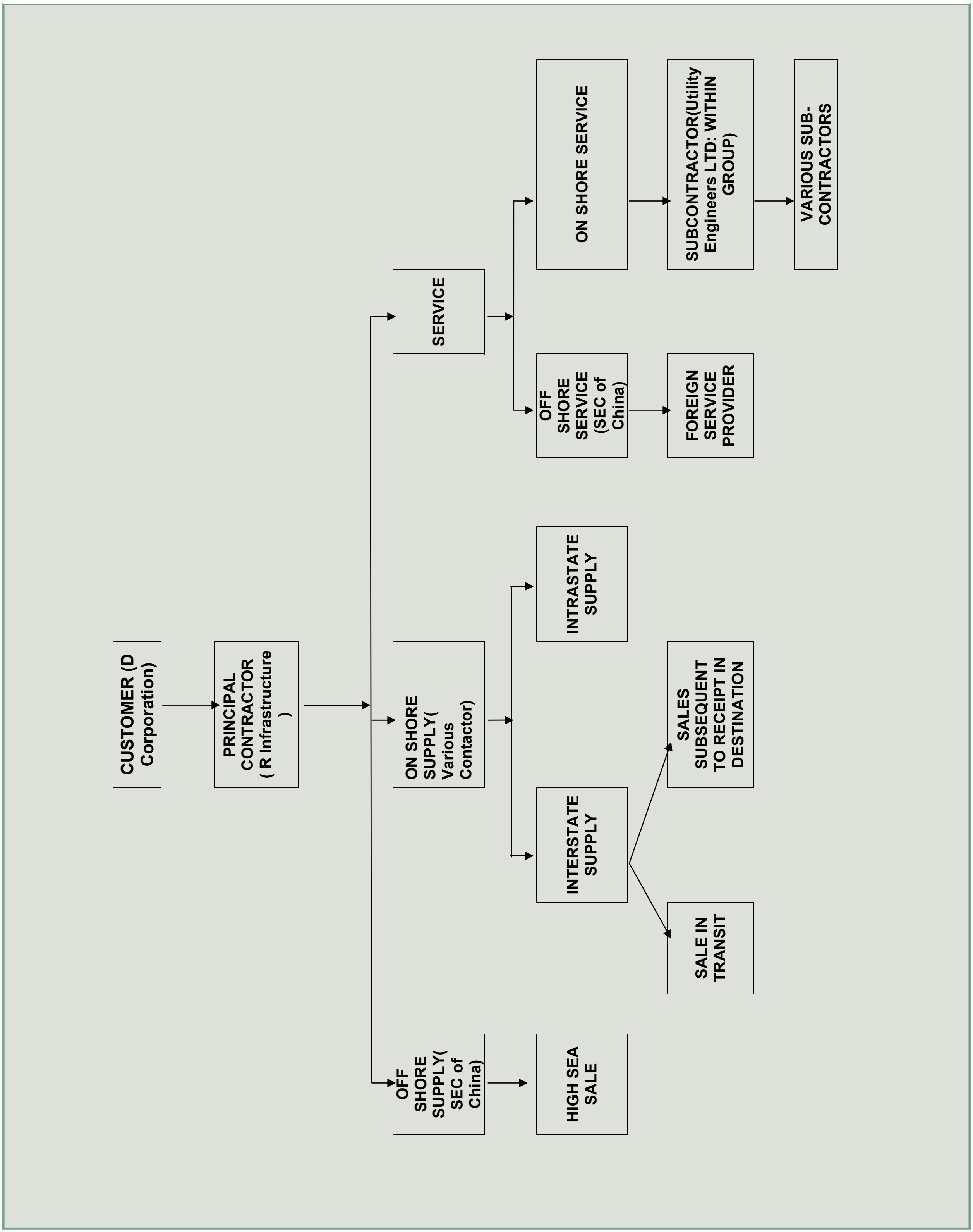
There is a concept of 'Split EPC' Contract. Under split EPC contract, the EPC contract is, as the name implies, split into two or more separate contracts. The basic split structure involves the splitting the EPC contract into two or more contract. The typical structure is to make separate contract for

A. Off shore Supply Contract

B. Onshore Supply contract and

C. Onshore service contract

The following table shows the typical structure of a EPC contract for Construction of a Power Plant



Contract Value

D Corporation (a statutory Body) wants a power plant (a turnkey project) at Asansol, West Bengal. It has invited international competitive bidding from the reputed EPC contractors. Being the lowest bidder, R Infrastructure has obtained the project from D Corporation for construction of 1200 MW (600 MW X2) power plant within a specified time and Fixed contract value. Total Contract value is Rs 4000 Crores. This price is inclusive of all taxes and duties i.e. sales tax, VAT entry tax, service tax and cess there off, Octroi duty etc. as applicable on the indigenous as well as on offshore supplies. All taxes and duties including Work Contract taxes, VAT, Service Tax and Cess there off etc on civil and erection work shall be included in the contract prices. The Contract has been divided into three main parts as given in the following Table

SL NO	Contract Name	Particulars	Value in Dollar(crores)	INR Value (in crores)	Remarks
1	First Contract	Off Shore Supply (including port clearance and port charges)	$ 23,622.	1500.00 (Rate 1$ = Rs 63.5 on the date of signing the contract)	Entire Boiler, Turbine, Generator and related materials including the mandatory spares to be supplied.
2	Second Contract	On shore supply (including Inland transport and Insurance)	NA	1500.00	All other materials as per Billing Break-up Unit (BBU) to be supplied from domestic supplier
3	Third Contract	3a. Onshore service (including Service Tax @ 12.36 % on the date of contract and all other applicable tax on the date of contract)	NA	800.00	Entire Engineering, Civil and Erection work to be done as per BBU
		3b. foreign Service	$ 3.149	200.00 (Rate 1$ = Rs 63.5 on the date of signing the contract)	Foreign consultancy service for erection of BTG
	Total Contract Value			4000.00	

On the basis of Total contract value, a detailed Billing Break-up Unit (BBU) is being prepared. BBU is the work schedule and its corresponding contract value assigned to it for individual item of work done or material supply. Contractor can raise the invoices on customer on the basis of BBU. For supply item it is relatively easy but for service part it is complicated to fix the BBU.

On the basis of engineering done for the project, total and the corresponding sequence of materials required are being listed down. BBU is prepared for all the materials required to be supplied along with its corresponding value. Once any particular items are supplied as per BBU, R Infrastructure can raise invoice on D Corporation at the rate specified in BBU.

For service portion, life will not be so simple like supply. Service work is being done by various subcontractors. BBU is normally done on basis of achieving a particular mile stone. It may so happen that Five contractor's work for two months together constitute a single milestone and one corresponding bill can be raised upon customer on the basis of 10 bills (5 bill of five constructor for two months) of five contractors. Here one : one correlation between the work of subcontractor and customer billing as per BBU is not possible.

Tax Variation Clause:

Normally there should always be a clause for treatment and implication of variation in statutory Taxes and Duties on Total Contract Price as below

'If any rates of taxes are increased or decreased or a new tax is introduced, or an existing tax is abolished, or any changes in interpretation or application of any Indian taxes and duties occurs during the contractual period which was or will be assessed on the contractor in connection with performance of the contract, the variation in taxes and duties in actual against documentary evidence shall be reimbursed/adjusted/recovered by the owner as the case may be. However, the statutory variations in taxes and duties would be restricted to direct transaction between the Owner and the Principal contractor. This adjustment shall not be applicable on procurement of Raw Material, intermediate components etc. by the contractor or the bought out items dispatched directly from sub vendor's work to site. Also no statutory variation shall be payable against foreign supplies'.

Completion Schedule

Completion of Work and handing over the project within the stipulated time is the essence of any EPC contract. The project should be delivered within the specified time from the 'Zero date'. The date on which initial first advance will be received will be considered as 'Zero Date'. The completion schedule of Unit #I & Unit #2 (Commercial Operation Date - COD) shall be 35 and 38 months respectively from Zero date. Zero date for the project be 14.12.2013. So the for 1st Unit must be delivered on or before 13.11.2016 and 2nd unit before 13.02.2017 unless time extension is not granted for valid reasons The completion of project depends upon the availability of Land. So there should be a specific mention regarding the land availability in this clause. Suppose, it has been agreed upon with the Customer that the Land for 'Main Plant' (the Area where Boiler, Turbine, Generator ESP, Cooing towers etc) will be handed over within one months from the date of 'Zero date' and the balance land will be handed over within three months from the 'Zero date' . This clause is very important for obtaining time extension if the land is not handed over within the specified time. Experience says there are always local troubles by the land looser for their compensation which causes hindrance for smooth handing over of land.

Payment Terms

Payment terms for offshore supply, onshore supply, services, Transportation, insurance and post charges are not same. Following table depict the Payment terms and their conditions for releasing payments for various items.

SL NO	Items of Billing	Stages	% of payment	Conditions
1	**Supply of Equipment and Materials –Off Shore and Onshore**	**On Initial Advance**	**10% Contract price**	1. Acceptance of LOI 2. Submission of Bank Guarantee for Equivalent Amount of Advance 3. Submission of 10% Total contract performance Bank Guarantee valid upto 90 days from the defect liability period. 4. Signing of Contract agreement 5. Approval for Network for Contract execution
		Against proof of dispatch i.e. GR/RR/ Bill of Lading. Prorate payment as per the approved billing schedule for each identified goods.	**60%**	1. Production of invoices, packing lists and evidence of dispatch from manufacturers works / Dealers Godown /Indian post including inspection report where necessary and approval of test certificates and dispatch clearance issued by owner.
		Upon arrival of equipment on site , prorate payment as per billing schedule	**20%**	1. Physical verification and acceptance of the equipment by the owner that the equipment received in good condition and stored at site. 2. Original Guarantee certificate is attached along with Material Dispatch Clearing Certificate (MDCC)
		On Provisional take Over	**5%**	1. Provisional takeover of two units. 2. Attending all the punch points and completion of all outstanding works.
		On Final take over	**5%**	1. On successful completion of performance Guarantee test and issuance of Final take over Certificate. 2. Submission of the Equipment performance Bank Guarantee for equivalent amount valid for warrantee period.

SL NO	Items of Billing	Stages	% of payment	Conditions
2	**Freight and Insurance**	**Ocean freight and Marine Insurance including inland insurance, port clearance and port charges and Local transportation**	**100%**	1. pro-rata to the value of the equipment received at site and on production of invoices by the Contractor. The aggregate of all such prorata payments shall, however, not exceed the total amount identified in the Contract for Local Transportation. However, wherever equipment wise local transportation charges (including insurance charges, Port clearance and Port charges) have been identified by the Contractor, the payment shall be made after receipt of equipment at site based on the
3	**Erection of Plant and Equipment including structural steel and Civil Construction work and foreign consultancy service**	**On Initial Advance**	**10% of Contract price**	1. Establishing their site office preparatory to mobilization of their establishment for civil construction works 2. Submission of an unconditional Bank Guarantee for an equivalent amount, which shall be initially kept valid upto ninety (90) days beyond the schedule date for completion of the facilities under the contract. However, in case of delay in completion of facilities covered under the contract the validity of this advance Bank Guarantee shall be extended by the period of such delay. 3. Acceptance of the Employers Letter of Acceptance (LOA) by the contractor. 4. Submission of unconditional Bank Guarantees towards Contract Performance Securities for both First, Second and Third Contracts (including the Contracts entered into with the Contractor's Assignee, if applicable in case of foreign Contract), initially valid upto ninety (90) days afler the end of schedule Defect Liability Period as specified in the Contract. However in case of delay in completion of defect liability period the validity of BG shall be extended to such period of delay. 5. Submission of an unconditional Bank Guarantee from Manufacturing and Engineering Associates towards faithful performance of the Joint Deed of Undertaking Tor an amount specified in the deed and valid upto ninety (90) days after the end of Defect Liability Period of all equipment covered under the contract. However, in case of delay in completion of facilities the validity of these Bank Guarantees shall be extended by the period of such delay. 6. Submission of PERT network and its approval by the Employer
		Against progressive Running Account Bill	**80%**	1. Certification by project Manager for Mile stone achieved. 2. Certification by the project Manager's field quality assurance and surveillance representative for the successful completion of quality check points involved in the quantum of worked billed.

SL NO	Items of Billing	Stages	% of payment	Conditions
		On provisional take Over	**5%**	1. On completion of the facilities including all associated auxiliaries and Ancillary work and by the Project Manager issue of completion Certificate.
		On Final Take Over	**5%**	1. On successful completion of Guarantee Test of the facilities including all associated auxiliaries and ancillary work under the package and issuance of Operational Acceptance Certificate *and* Completion Certificate by the Project Manager.
4.	**Mandatory Spares and Recommended Spares**	**When Ordered**	**100%**	1. Hundred percent (100%) Local Transportation charges (including insurance, port clearance and port charges) for the spares (both for First and Second contract) shall be paid to the contractor pro-rata to the value of spares received at site and on production of invoices by the contractor. The aggregate of all such pro-rata payments shall, however, not exceed the total amount identified for the contract of Local Transportation. However, wherever item wise local transportation charges (including transit insurance, port clearance and port charges) have been identified by the Contractor, the payment shall be made after receipt of spares at site based on the charges so identified in the contract.

Liquidated Damage (LD) for delayed execution

LD for delay in successful completion of Facilities: If the contractor fails to achieve successful completion of facilities for Unit -I & Unit-ll within 35 months & 38 months respectively from the Zero date, the contractor shall pay to the employer as liquidated damages and not as penalty, a sum calculated, at the rate of one fourth of one percent (1/4%) of total contract price per week of delay for each unit.(Price of each Unit shall be 50% of total contract price for all contracts (i.e. Total of 'First Contract', 'Second Contract' and 'Third 'Contract').Maximum deduction for LD: The total amount of Liquidated Damages for delay shall not in any case exceed five percent (5%) of the total contract price (1.e. Total of 'First Contract', 'Second Contract' & 'Third Contract').

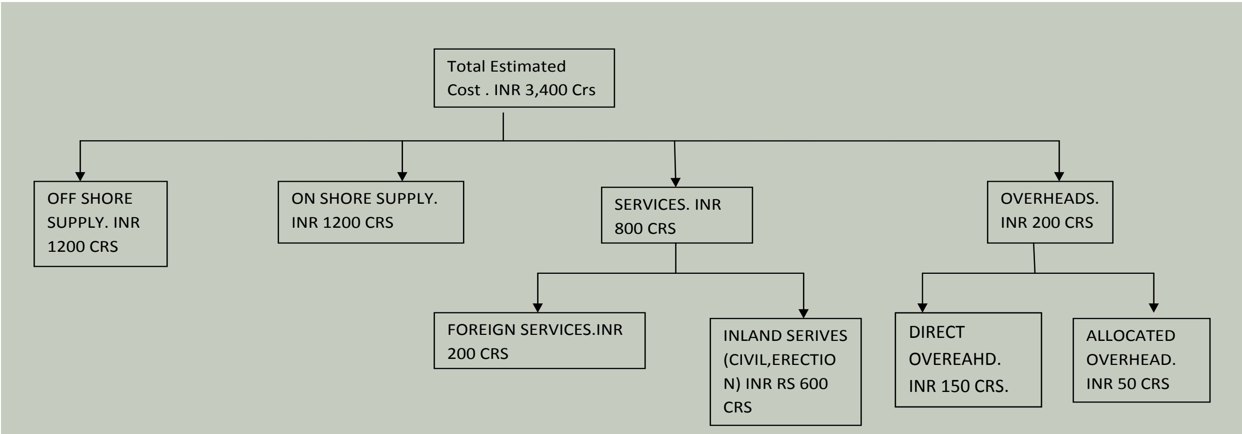
However the payment of Liquidity Damages shall not in any way relieve the Contractor from any of its obligations to complete the facilities or from any other obligations and liabilities of the contractor under the contract.

Performance Guarantee Liquidated Damage:

This is another type of Liquidity damages. The equipments (Turbine Generator, Unit transformer, Generator Transformer etc) installed should performed as per the standard specified in agreement. Guarantee test for the specified equipments to be done along with the declared guarantee parameter. If the equipments fail to achieve the desired level of performance, then liquidity damage for the shortfall in performance will be levied at a specified rate for each unit of shortfall as has been agreed upon.

Cost Structure:

Profitability of an EPC projects depends upon the 'Cost Optimization'. As the Upper Limit i.e. the maximum possible revenue is Fixed, Profitability depends upon the 'Minimization' and 'optimization' of Costs. Before submitting the Tender for the project, the Contractor does details estimates of the costs for the project. Based upon this cost estimation, tender value is 'Quoted' by the Contractor. It should a reasonable margin to justify the investments of such huge amount in a long term project. Following Chart gives a broad value of the cost of projects.



How System Works :- A Diagrammatic Representation

Refer the diagram below and system will work as follows.

1. On obtaining order by R Infrastructure from D Corporation, R Infrastructure will start engineering and designing for execution of the projects. It may have own Engineering Department or it can get it done from specialized agencies like TPSC, Rites etc.

2. R Infrastructure will place order on SEC at China for oversees supplies. Materials will be dispatched by SEC through Ship. During transit 'High Sea sale' will be affected by transferring the document of title of goods. All custom clearance will be done by R Infrastructure on behalf of D Corporation and Materials will be dispatched at site of D Corporation

3. Supply Orders will be placed on 'Interstate' and Intrastate' vendor by R Infrastructure. 'Sale in transit' will be affected by endorsing the Documents of title during their movement from one state to West Bengal. Intrastate materials will also be transferred in favor of D Corporation.

4. All Materials received at site will be recorded in a register called 'Transit Stock Transfer register (TST) and will be issued free by D Corporation to R Infrastructure.

5. R Infrastructure will issue all service orders back to back to Utility Engineers Limited which in turns will issue order to various subcontractors.

6. All materials received as FIM by R Infrastructure, will be issued to various subcontractors of Utility Engineers Ltd for actual erection and installations.

7. All Free issue of Materials will be supplied to subcontractors of Utility Engineers Ltd to erection and installations. Ready Mix Concrete is a very essential element as a huge quantity is required for construction of various civil structures. Generally Cement and Admixture are supplied to subcontractor and sand and stone chips are added by them to prepare RMC at site from the Batching Plant installed at site. Sometimes, entire contract is given to any subcontractor for supplying of RMC. Then there will be no FIM form R Infrastructure. In second situation, it s exempted as per Excise Notification No 4/97. But in First Case, It is 'work Contract' Services and Service Tax will be applicable.

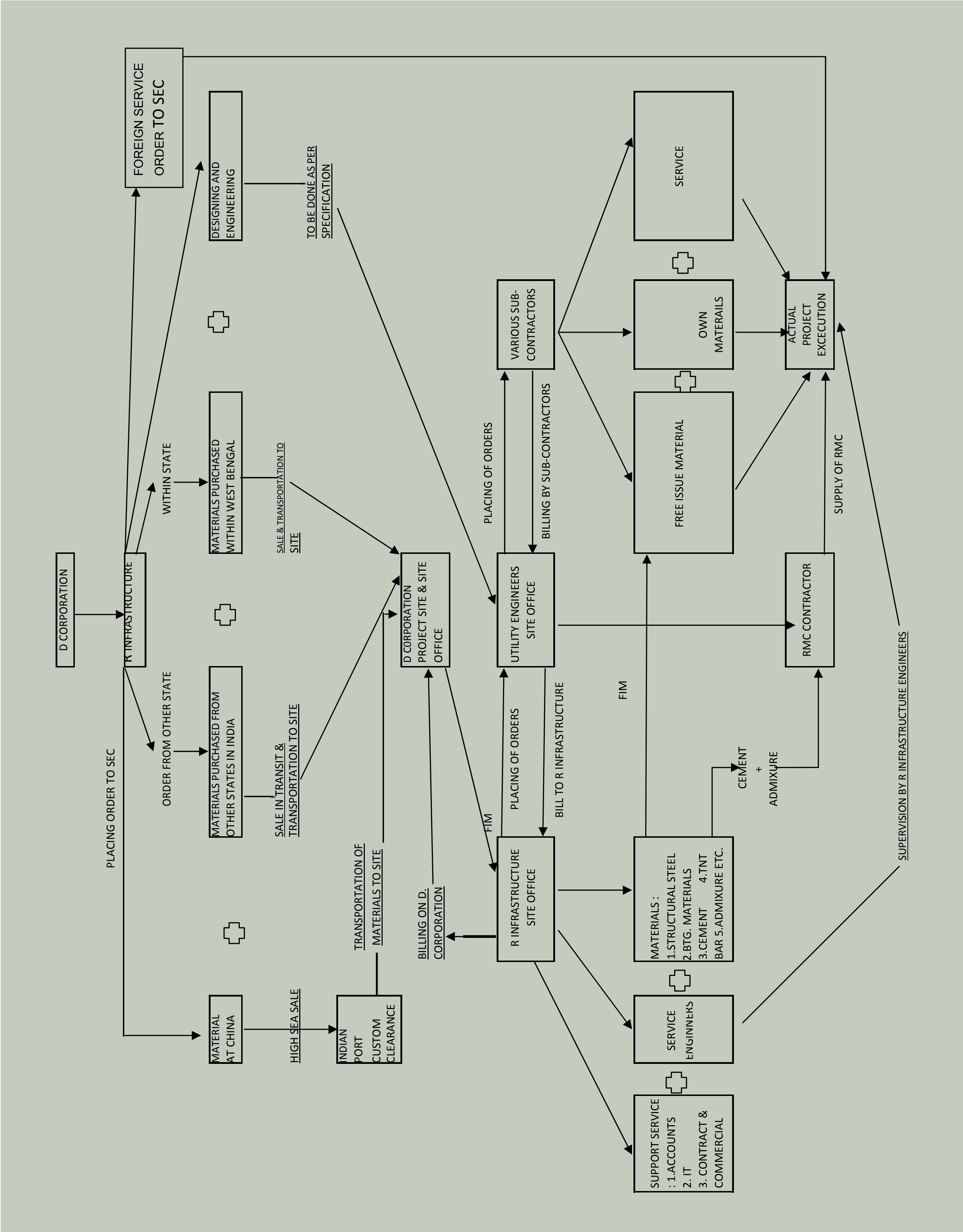
8. Accounts departments, IT departments and Contract Commercial Departments act as the Support Service Role. Accounts Department processes all the vendors and customer invoices, make necessary tax compliance. Contract commercial department coordinates with various Package Owners at site and raises customer invoices as per BBU.

9. Various subcontractors of Utility Engineers Ltd will raises Invoices on Utility Engineers Ltd. Utility Engineers Ltd will raise Invoices on R Infrastructure. R Infrastructure will raise bills on D Corporations. All invoices will be raised by the respective parties as per the terms of their respective BBU.

10. R Infrastructure will places overseas service orders on SEC who will supervise all the BTG erection works.

11. R Infrastructure will have their own engineers at site to supervise the works of various subcontracts along with the engineers from Utility Engineers Ltd. Engineering and designing activities are done by the R Infrastructure Designing team and handed over to Utility Engineers Limited.

12. At the end Materials reconciliation to be done at overall level. All contractors /Vendors Work Order/Purchase Order to be reconciled and closed. Final Retention money of all the parties will be released after all statutory compliance being done, materials being reconciled and all punch point being achieved.


D CORPORATION
R INFRASTRUCTURE
FOREIGN SERVICE ORDER TO SEC
DESIGNING AND ENGINEERING
TO BE DONE AS PER SPECIFICATION
WITHIN STATE
MATERIALS PURCHASED WITHIN WEST BENGAL
SALE & TRANSPORTATION TO SITE
ORDER FROM OTHER STATE
MATERIALS PURCHASED FROM OTHER STATES IN INDIA
SALE IN TRANSIT & TRANSPORTATION TO SITE
PLACING ORDER TO SEC
MATERIAL AT CHINA
HIGH SEA SALE
INDIAN PORT CUSTOM CLEARANCE
TRANSPORTATION OF MATERIALS TO SITE
D C0RPORATION PROJECT SITE & SITE OFFICE
BILLING ON D. CORPORATION
FIM
PLACING OF ORDERS
UTILITY ENGINEERS SITE OFFICE
VARIOUS SUB-CONTRACTORS
BILLING BY SUB-CONTRACTORS
BILL TO R INFRASTRUCTURE
R INFRASTRUCTURE SITE OFFICE
FIM
SERVICE
OWN MATERAILS
FREE ISSUE MATERIAL
ACTUAL PROJECT EXECUCTION
SUPPLY OF RMC
RMC CONTRACTOR
CEMENT + ADMIXURE
MATERIALS : 1.STRUCTURAL STEEL 2.BTG. MATERIALS 3.CEMENT 4.TNT BAR 5.ADMIXURE ETC.
SERVICE ENGINNERS
SUPPORT SERVICE : 1.ACCOUNTS 2. IT 3. CONTRACT & COMMERCIAL
SUPERVISION BY R INFRASTRUCTURE ENGINEERS

Now We will discuss the procedure for 'High Sea sales' in EPC Project

High Sea Sale : Procedure and Impact of Tax

1. Concept and procedure:

High sea sale means Sale of Goods by the importer to another person when the goods are on high sea and before entering into the Customer frontier on India by endorsing the document of Title. Even High Sea sale could be affected by endorsing the document of title when the goods are in Custom Station (before custom clearance). Section 2(4) of the 'Sale of Goods Act' permits transfer of goods by 'endorsement' or delivery of documents of title.

In our case, R Infrastructure Places order for supply of BTG materials from SEC of China. SEC dispatched goods on Ship from Shanghai Port to be reached at Haldia Port in India. SEC will prepare all the necessary documents (Bill of Lading, packing Lists, Invoices etc) in the name of R Infrastructure and send the documents to R Infrastructure directly or through Bank (under Letter of Credit Agreement). During the transit i.e. when the goods are on high sea, R Infrastructure will transfer the title of goods by endorsing the 'Bill of Lading' in favor of D Corporation. In LC agreement SEC may prepare Bill of Lading in the name of Guarantor Bank and the bank endorsed the 'Bill of Lading' in favor of R Infrastructure and R Infrastructure will endorsed the 'Bill of Lading' in favor of DVC.

Bill of lading should be endorsed as follows
Please deliver the goods to D Corporation or Order
Place :
Date: For R Infrastructure

R Infrastructure will prepare sale invoice for D Corporation in local currency (INR). R Infrastructure will deliver endorsed Bill of lading, local invoice, Invoice from SEC, Packing lists, certificate of origin, certificate of insurance and other necessary documents to D Corporation for customer clearance.

After arriving / few days before arriving the shipment at Haldia Port, D Corporation (or any other person on behalf of D Corporation duly authorized) will file 'Bill of Entry' along with other documents received from R Infrastructure for custom clearance. On paying necessary custom clearance charge along with custom duty (The assessable value will be the value as mentioned in HSS agreement), if any, Goods will be cleared from Custom station. In EPC projects, R Infrastructure takes the responsibility of custom clearance on paying the necessary fees and gets it reimbursed from D Corporation on submission of documentary proof.

After completion of custom clearance formalities, D Corporation will hand over copy of Bill of entry and other necessary documents for High sea sale to R Infrastructure who will in turn submit all the documents with the Bank for payments.

2. Documents requires for High Sea Sales:

The following are the major documents requires for High sea sales

a. High Sea sale agreement:

An high sea sale agreement(In Stamp paper) will be entered into between R Infrastructure and D Corporation before arriving the cargo at territorial jurisdiction of Haldia Port. It is very important that the date of agreement must be the date before arrival of goods at territorial jurisdiction of Haldia Port.

b. Sale Invoice:

Commercial invoice / Sale invoice is another document required for import customs clearance procedures under High Sea Sale business. Such commercial invoice under high sea sale must be in local currency of importing country, and not in foreign currency. The details of goods sold with rate and total invoice value is mentioned in such commercial invoice under High Sea Sale.

c. Consignee Copy of Bill of Lading:

Bill of Lading is the documents of title of goods. Document of title of goods is transferred by R Infrastructure to D Corporation by endorsing the consignee copy of bill of lading. It is the one of the most essential documents to be submitted along with other necessary documents for import.

d. Import Invoice:

It is the invoice issued by SEC in favor of R Infrastructure. This invoices needs to be endorsed by R Infrastructure in favor of D Corporation.

e.Packing List:

It contains the lists of items originally dispatched by SEC in the name of R Infrastructure. This needs to be endorsed by R Infrastructure in favor of D Corporation.

f. Insurance certificate:

This is also another important document for affecting High sea sale

g. Certificate of Origin:

Certificate of Origin of goods is another document required for import customs clearance procedures and formalities under High Sea Sale. Such Certificate origin also required to be endorsed by high sea seller in favor of High sea buyer under High Sea Sales.

h. Purchase Order placed by the R Infrastructure to SEC China

3. Taxation aspect of High sea sale

Article 286(1)(b) of the Constitution of India states that no law of the state shall impose or authorized to impose of, tax on sale or purchase of goods where such sale or purchase takes place in the course of import of the goods into or export of goods out to the territory of India.

As per Sec 5(2) of CST Act, 1956 'A sale or purchase of goods deemed to take place in the course of Import of the goods in the territory of India only if the sale or purchase either occasions such import or is effected by the transfer of the documents of title to the goods before the goods have crossed the custom frontiers of India'.

High sea sale is considered as a sales carried out outside territorial jurisdiction of India. Accordingly **no sales tax is levied in respect of High sea sales.**

Service Tax on Custom clearance and Transport of Goods by Road Services will be discussed along with the Accounting treatment for individual item of expenses and income.

Payment Through Letter of Credit (LC) : Understanding the concept

A LC is a written instrument issued by a bank at the request of its customer, the Importer (Buyer), where by the bank promise to pay the Exporter (Beneficiary) of the goods or services provided that the exporter presents all the all documents called for, all exactly stipulated in the LC, and meets all other terms and conditions as mentioned in the LC.

There are two types of LC : revocable and irrevocable. A revocable LC can be revoke without the consent of the Exporter before the documents are presented for payment. This is generally not accepted by Exporter and rarely used. An irrevocable LC cannot be changed or cancelled without the consent of all the parties including the exporter. Normally all LCs are Irrecoverable.

How system works

Step 1: The importer and the exporter makes a agreements for purchase and sale of goods where payments is to be made through LC

Step 2: The Importer requests its Bank (Issuing Bank) to issue a letter of Credit in favor of Exporter. The Importer has to have credit facilities with the Issuing Bank to make such request for issuing LC.

Step 3 : The Issuing Bank issue a Letter of credit as instructed and send it to the Bank of Exporter (Advising Bank) either through electronic mode or through register Post as per the instruction of the Importer. Normally the advising bank located in the country of Exporter.

Step 4 : The Advising Bank will verify the LC and send a copy to Exporter.

Step 5: The Exporter examines the LC to ensure that all the documents are is in line with all the terms and conditions as the purchase and sale agreement. The Exporter has to ensure that all the terms and conditions of the LC can be fulfilled and all the documents as mentioned in LC can be produced.

Step 6: If the terms and conditions of LC differs from the conditions stipulated in purchase and sale agreements and /or the terms and conditions of LC could not be fulfilled, the exporter will ask the importer to make the necessary changes in LC to comply with the agreement. When Importer and exporter mutually agreed upon all the terms and conditions, it is being considered as final an incorporated in final LC. Exporter will not start making any shipment until the LC terms are finalized and incorporated.

Step 7 : Once LC is finalized, the exporter will arrange for shipment of the goods, prepares and /or obtains the documents specified on LC makes demand under the LC by presenting the documents with in the stipulated period. This is being done with the Advising bank. The Advising Bank checks the documents and send it to Issuing Bank for Payment.

Step 8: The issuing bank examines the documents received from advising Bank to ensure they comply with the LC terms and conditions. The Issuing bank obtains payments from the Importer for the payment made to Advising Bank.

Step 9 : Documents are delivered to Importer to allow them to take possession of the goods from the transport Company.

Step 10: In HSS, the Importer delivers all the documents to HSS buyer for necessary custom clearance. The trade cycle is completed as the HSS buyer received the goods and the Exporter has received the payments.

Conclusion

In this article I have covered the general procedure of a Typical EPC Project for power plant along with the procedure for High Sea Sale. In subsequent articles I will gradually discuss the Accounting and Taxation Procedure High Sea Sale , Sale In Transit and Service Tax Aspects for Service Portions for an EPC projects. It is to be kept in mind that every project is unique and have its own structure and may differ from each other. Purpose is to share a basic idea for EPC projects for power plant in India. MA

Acknowledgment

To all my EPC colleagues and seniors, working with whom my knowledge has enriched to write this article.

subhasish.n.paul@relianceada.com

Discussion on CAS 23 in reference to Coal Industry

CMA Ajay Deep Wadhwa
Former Chairman, EIRC
Institute of Cost Accountants of India

The Cost Accounting Standard- 23 on "OVERBURDEN REMOVAL COST", issued by the Institute of Cost Accountants of India, deals with the principles and methods of measurement and assignment of Overburden Removal Cost and the presentation and disclosure of the same in cost statements. The objective of this standard is to bring uniformity, consistency in the principles, methods of determining and assigning Overburden Removal Cost with reasonable accuracy.

Since OBR Cost and its accounting is a new thing for most of the CMAs, therefore it has been tried in this paper to explain it in lucid manner with the specific example of coal industry.

Back ground

Over burden cost and removal of Overburden (hereinafter referred as OBR) can be well understood with the example of Coal Industry, because this term is not only used frequently in coal mining but OBR accounting is also done in coal industry involving crores and crores of rupees.

Coal mines are broadly categorized in two procedure of extraction of coal. One is Underground and another is Opencast mine. There is no question of OB in underground mines because the miners go inside the UG mine in a lift through horizontal tunnel, cut coal hundred meters under the ground and bring the production out of the mine using same lift.

But, in Opencast mines, OB (over surface), in the form of soil/ stones/ boulders etc, is removed first to reach the real mineral, i.e. coal in our example. It means the coal company has to incur huge cost on removal of OB first, before producing coal. And since cost of removing OB is involved, the concept of its costing and accounting comes in picture.

The concept of accounting of OB takes birth from the idea that cost of raising the OB is not only to be borne by coal (ultimate mineral / ore) but it (cost) is to be spread over the coal evenly in such a manner that the cost of coal does not vary abnormally from one period to another one. Keeping in view the Project Report provisions and the Company's internal policy decisions, accounting of overburden is done. The main problem is that every mine has a life, which may vary from 10 to 25 years, and it whole production of mineral is possible only after removing the overlying OB. But the quantum of overlying OB is not even and it varies from one patch to another patch of same mine, resulting in vast variation in the cost of removing of OB (due to its varying quantum from patch to patch) from one year to another year. Since the cost of OBR has to be borne by the actual mineral (coal), its cost of production may vary significantly on year to year, distorting the cost of production every year.

Therefore, the expenditure on OB removal is to be charged on the coal in such a manner that the cost of coal for a particular period does not vary abnormally from one period to another. The method which will be used to charge coal over life of the mine leads to the concept of OBR accounting. Any illogical OBR accounting may lead to wrong calculation of cost of production of coal. Since, coal is a product which is used as input fuel in several Industries like power, steel, paper, cement etc, and any wrong input price may result in wrong pricing of power, steel etc.

OBR accounting of coal (or any other mineral / ore) is dependent on following terms , some of which have been discussed in CAS 23 also –

Average Stripping Ratio (ASR): It is the ratio of OB and coal produced during the whole life of the mine-project. It is measured by total OB, to be produced during the mine's life, divided by the total coal deposit in the mines. It can be understood with the example of a mine (suppose Mine – A) -

Years	I	II	III	IV	Total
Coal(M.Te)	200	150	300	250	900
OBR(Cum)	400	400	150	400	1350
Average Stripping Ratio = (OBR / Coal)					1.50

Life of Mine-A in the above example has been considered for four years. The total coal and OB production is 900 M.Te and 1350 M. CuM respectively, so the average Striping Ratio (ASR) comes to 1.50.

The term Standard stripping ratio and Average stripping ratio denote the same meaning and are used interchangeably. CAS 23 describes Standard Stripping ratio as "ratio between the total quantity of overburden to be removed (in cubic meters) and the total mineral to be extracted (in tonnes) during the Projected life of the project".

2. Current Striping Ratio (CSR) : It is the ratio of OB and coal measured for a particular working period. It may vary from period to period depending upon the production of OB and Coal respectively. CAS 23 describes it as ratio of excavation of overburden to ore. Generally overburden is measured in cubic meters and ore in tonnes. Therefore, the Stripping ratio is equal to Volume of overburden (m3) / Weight of ore (in tonnes).

3. Direct advance OB: During actual working, it always happens that excess OB has been removed because of continuity of work. For example, a financial year, suppose 2015-16, ends on 31.3.16 but actual measurement take place on 10.4.2016. In this case the OB remove beyond the financial year considered as closing direct advance of OB and which will be the opening of next year.

4. Re-handling of OB: It may happen that OB removed in a particular period is placed in another place where coal is available and need to be removed further. Then these OB is not considered for accounting due to simple reason that the cost incurred initially to raise the OB had been considered during accounting of that period.

5. Exposed Mineable Coal:- It is the coal which has not yet lifted or extracted but the OB has been removed and coal is exposed for production.

6. Indirect advance OB: It is calculated by coal production multiplied by CSR.

7. Ratio Variance Reserve:- Due to difference between ASR and CSR, there is a bearing on P/L account for charging/or withdrawal of amount and so creating a reserve account which will be shown as a balance sheet item.

Now let us try to understand the major points of CAS 23

Definitions

Apart the above discussed terms, CAS 23 has also explained some other terms which have been frequently used in other Cost Accounting Standards like Abnormal cost, Administrative overheads, Amortization, Cost Object, Depreciation, Imputed cost, Finance Charges, Repair & Maintenance cost etc. These are well known to CMAs so needless to discuss these terms here.

But CAS 23 has also defined some new terms (which have not been defined earlier in this article). Let us try to understand them with the given definitions –

Current Ratio - it is the ratio of overburden removed to mineral produced in a particular patch of mine during the year. Quantity of mineral includes production and mineable mineral lying exposed. Quantity of overburden removed is the net quantity after adjustment of opening and closing advance stripping quantities. CAS 23 guides that the Ratio should be reviewed periodically to take into account changes in geological factors such as actual behavior of the soil and the ore body. It also suggests that the ratio should be reviewed immediately if the geological factors alter radically, for example due to earthquake.

Mines overheads – These are the indirect costs involved in the mining process for rendering services. This relates to the activities of both Mineral extraction and Overburden Removal.

Mining Plan – it is the plan expected to provide information required to measure the stripping activity with reasonable consistency. Usually it is mentioned in the relevant Project report of the mining.

Overburden- It is the overlying materials, like stone, soil, bolder etc, generally having no commercial value. The cost incurred to remove the overlying material (OB) from the mine site is known as OBR cost.

Ratio Variance - It is the variance between current ratio and standard /average stripping ratio (already discussed earlier) in terms of quantity of mineral produced during the period.

Stripping Activity - It is the activity of overburden removal that benefits the identified component of an ore to be mined by the entity.

Advance Stripping - Advance Stripping is the excess overburden removed in between the overburden bench and assumed angle of repose drawn from the starting of Mineral bench from the surface of Mineral than what is needed for extraction of Mineral.

Measurement and accounting of OBR cost –

So, it is clear that before producing actual mineral / ore, overburden has to be removed. The cost of OBR has to be added to the cost of production of actual mineral. Therefore, CAS 23 suggests that -

- The mining company will divide its cost between mineral and OB first and then Overburden Removal Cost will be calculated as aggregate of direct and indirect cost relating to overburden removal activity

- Direct cost of above includes the cost of consumable stores, spares like machinery spares, explosives and detonators, manpower, equipment usage, utilities, payment made directly to contractors and other identifiable resources consumed in such activity. Whereas the indirect cost includes the share of the cost of common mining operations activities such as manpower, administrative overheads, loading and unloading equipment usage and other costs allocable to such activities.

- The cost for equipment, which is used for removing OB as well mineral, shall be assigned in the ratio of machine hours actually engaged for mineral and overburden removal or any other appropriate method that apportions the cost in an equitable manner.

- Administrative overheads and other indirect expenses shall be apportioned to mineral and overburden on the basis of ratio of actual mineral produced and overburden removed during the period or on the basis of actual machine hours engaged for mineral extraction, and overburden removal or any other appropriate basis.

- The overburden removal cost attributable to a development phase of a mine area shall be capitalized as non-current asset when it is probable that future economic benefits to the area will flow to the entity and such cost can be identified and measured separately.

- The overburden removal cost attributable to developed area of mine shall be charged to production of ore at the Standard stripping ratio.

-According to the CAS, the cost of advance stripping activity whose economic benefit is likely to flow to the entity during the subsequent period, shall be capitalized and mortised. Suppose in a coal mine, the stripping ratio is 2:1 but company produced 500 M.Cum of OB against the actual production of 200 M.T of coal. If there is no opening balance of OB, the mine produced 100 M.Cum extra during the year which will be capitalized and mortised.

- If the removal of mineral is more than the Standard stripping ratio, then the cost of short removal overburden shall be charged to the cost of production either by creating the reserve or by adjusting the earlier capitalized overburden removal cost. Suppose in the same coal mine, the stripping ratio is 2:1 but company produced 350 M.Cum of OB against the actual production of 200 M.T of coal. If there is no opening balance of OB, the estimated cost of short produced 50 M.Cum of OBR during the year shall be charged to the cost of production either by creating the reserve or by adjusting the earlier capitalized overburden removal cost

- Overburden shall be measured by multiplying the number of trips undertaken by equipment for Overburden removal or by any electronic mode. Measurement at regular intervals may be carried out by volume / physical verification to arrive at fair quantity of overburden removed. Final assessment will be made based on scientific methodology.

- Current ratio is determined by dividing the actual overburden removed (net quantity after due adjustment for opening & closing advance stripping quantity) with the actual production of mineral including adjustment for mineable quantity of mineral lying exposed during the period.

- Cost of overburden removal activity carried out by outsourcing shall be determined at agreed price as per contract price including duties and taxes and other expenditure directly attributable thereto. The cost shall also include the cost of resources provided to the contractor by the company.

- Cost of overburden removal activity of each mine shall be computed and considered separately.

- Subsidy/ grant/ incentive or amount of similar nature received/ receivable with respect to overburden removal activity if any shall be reduced for ascertainment of the cost of the overburden removal for a patch/ plot to which the amounts are related.

- Any overburden removal cost resulting from some abnormal circumstances, if material and quantifiable, shall not form part of the overburden removal cost.

- Fine, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overburden removal cost.

- Interest & Finance charges incurred in connection with the overburden removal shall not form part of the overburden removal cost.

- Any change in the cost accounting principles applied for the determination of the overburden removal cost should be made only if it is required by law or for compliance with the requirements of a cost accounting standard or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise.

Let us try to understand the above with the following example of a coal mine –

Mine – A, Life – 4 years, production in million tones, OBE in million Cum, Rate is in Rs. And Amount is in million rupees.

Sl. No.	Particulars	I			II			III			IV			Total
1	Coal Production	2.00			1.50			3.00			4.50			
	Mineable Exp. Coal	0.00			0.00			0.00			0.00			
	Total	2.00			1.50			3.00			4.50			11.00
2	Solid OBR	4.00			4.00			1.50			4.00			
	Rehandling	0.00			0.00			0.00			0.00			
	Total	4.00			4.00			1.50			4.00			13.50
3	Opening Direct OB	0.00			1.00			0.60			0.90			
4	Add : sold OBR	4.00			4.00			1.50			4.00			
	Total	4.00			5.00			2.10			4.90			
	Less : Cl. Direct OB	1.00			0.60			0.90			0.00			
5	Net OB	3.00			4.40			1.20			4.90			13.50
6	ASR as per Proj.Report	1.50			1.50			1.50			1.50			
7	CSR = (5 / 1)	1.50			2.93			0.40			1.09			
8	Indirect Adv OB	0			0			0			0			
9	Direct advance OB	1.00			0.60			0.90			0.00			
	Cost particulars	**Qnt**	**Amt**	**Rate**	**Qnt**	**Amt**	**Rate**	**Qnt**	**Amt**	**Rate**	**Qnt**	**Amt**	**Rate**	**Total**
A	Op. Adv. OBR	0.00	0.00	0.00	1.00	100.00	100.00	0.60	69.60	116.00	0.90	100.54	111.71	

B	OBR during the year	4.00	400.00	100.00	4.00	480.00	120.00	1.50	165.00	110.00	4.00	520.00	130.00	1565.00
C	Total	4.00	400.00	100.00	5.00	580.00	116.00	2.10	234.60	111.71	4.90	620.54	126.64	
D	Less : Cl. advance OBR	1.00	100.00	100.00	0.60	69.60	116.00	0.90	100.54	111.71	0.00	0.00	0.00	
E	Net OB	3.00	300.00	100.00	4.40	510.40	116.00	1.20	134.06	111.72	4.90	620.54	126.64	
F	Ratio Variance	0.00	0.00	0.00	-2.15	-249.40	116.00	3.30	363.00	110.00	-1.15	-113.60	98.78	
G	Write off (E + F)	3.00	300.00	100.00	2.25	261.00	116.00	4.50	497.06	110.46	3.75	506.94	135.18	1565.00
H	OBR during the year	4.00	400.00	100.00	4.00	480.00	120.00	1.50	165.00	110.00	4.00	520.00	130.00	
I	OBR adjustment (G-H)	-1.00	-100.00	100.00	-1.75	-219.00	125.14	3.00	332.06	110.69	-0.25	-13.06	52.24	
J	Op. Ratio Var. Reserve	0.00	0.00	0.00	0.00	0.00	0.00	-2.15	-249.40	116.00	1.15	113.60	98.78	
K	Ratio Var. for the year	0.00	0.00	0.00	-2.15	-249.40	116.00	3.30	363.00	110.00	-1.15	-113.60	98.78	
L	Cl. Ratio var. reserve	0.00	0.00	0.00	-2.15	-249.40	116.00	1.15	113.60	98.78	0.00	0.00	0.00	
	Accounting entries		**Dr**	**Cr**		**Dr**	**Cr**		**Dr**	**Cr**		**Dr**	**Cr**	
M	Adv work on OBR		100.00	0.00		69.60	100.00		100.54	69.60		0.00	100.54	
N	Ratio variance Reserve *			0.00			-249.40			363.00			-113.60	
O	OBR write off **		300.00			261.00			497.06			506.94		
P	OBR Cost **			400.00			480.00			165.00			520.00	
	Total		400.00	400.00		330.60	330.60		597.60	597.60		506.94	506.94	

* Balance Sheet item ** Profit & Loss Item

Note:- For easy understanding the "Re-handling of OBR" and "Exposed mineable Coal" taken as "Nil".

From the above table it may be seen that the cost incurred over the life of the Mine is Rs.1565.00 lakh which is equal to the amount of write-off on coal i.e Rs. 1565.00 lakh. At the end of life of the mine, the closing balance of Reserve Ratio is "nil".

wadhwa103@yahoo.co.in

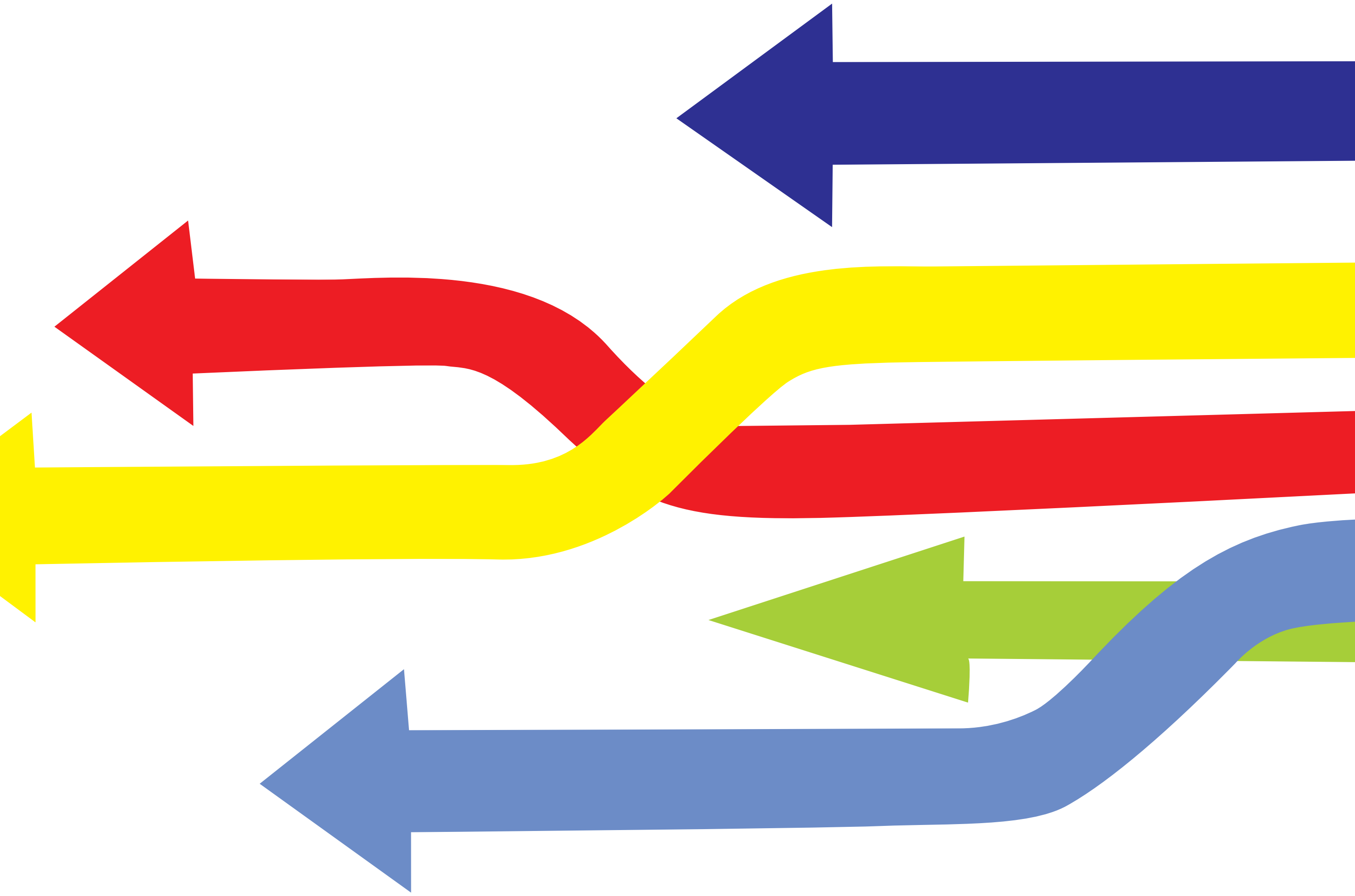
Value creation through OPERATIONAL AUDIT

The metaphoric evolution of mankind essentially scripted the saga of primordial value creation through the overture of earliest exchange of commodities and services. Our existential compulsion is effectively conditioned by transformation of our collective resources to suit our pursuits. The dimension of value in its multiplicity of forms, are a fundamental prerequisite of all universal conducts. Sustainability of all commercial entities is a complex function of balancing stakeholders' expectations and increasingly obligatory social commitment. To understand the value in its true form to a commercial entity is of immense importance for its perpetual sustainability. Our contemporary focus, "operational audit" is in itself a prime value creator, if it is undertaken in its true sense. Using empirical studies, we will endeavour to fathom out the core values that would be distinctly visible to any corporate entity of our time.

CA Chandi Bagchi
Partner
Doshi, Chatterjee, Bagri & Co.
Chartered Accountants

CMA Malay Paul
Consultant
Kolkata

Organizations exist to create value



> *"It is an independent, objective assurance and consulting activity designed to* ***add value and improve an organisation's operations****. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance process."*
>
> **- *Definition of Internal Audit by Institute of Internal Auditors (IIA)***

On critical appraisal of **Internal Audit(IA**) as defined by IIA,for performing the activities two specific goals are clearly emerging viz. 'add value' and 'improve an Organization's operations'. However, IA activity is mostly confined in assessing control effectiveness and overall governance process with very little effort to spare on 'Review of Operations' and suggest improvement (improvement in operations- cost savings- identification of process redundancy- re-alignment of manpower requirement etc.)by way of value-add.

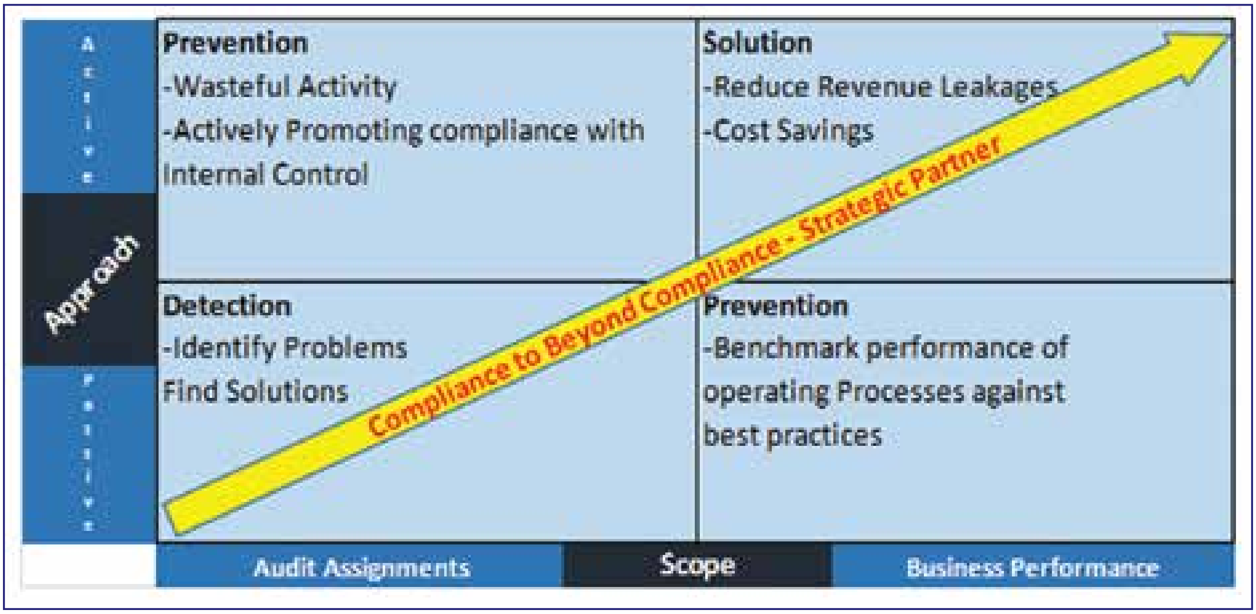
The process of value addition to improve an entity's operations is not established automatically through its habitual cores. To earmark specific micro level processes where there is scope for major cost reduction, is an extremely arduous strategic movement on the part of the management as investment required to earn the savings might not always be a gaining proposition in its maiden effort. An unremitting commitment is elemental to accomplish success and ceaseless application of process specific operational audits is to be undertaken on a proactive basis.

The signs of economic recovery after a major global slow- down is on the horizon. Companies are reshaping their strategies to achieve sustainable business growth in plethora of new ways, and continuing to seek value creation through improved operational performance – including dimensions of quality, speed, agility, efficiency, customer value creation, and cost. In general, the processes a business uses to get a product or service for the market place have to work as intended and be efficient. When they aren't, the company usually can't make as much money and can't be as competitive. Businesses, therefore, need to evaluate 'Operations' to streamline what they're doing, with the ultimate goals being to decrease waste and boost revenue and profits.

The ever increasing stakeholders expectation compels the Management is focusing on initiatives and issues that impact upon the operating models of business activities and processes, such as operational excellence, supply chain optimization, off-shoring, talent mobility, innovation to name a few. Given these dynamics, internal audit is in a unique position to influence value enhancement efforts, which is achievable through **Operational Auditing.**

Evolution of Operational Audit

There is no one single definition of 'Operational Audit'. A simple way of defining is adopting the residuary approach that is **'auditing which goes beyond financial transactions and accounting records and examines into the operating, managerial or administrative performance of the entity'**. In other words it is a future-oriented, systematic, and independent evaluation of the entire gamut of organizational activities, for example, how an organization's management and it's operating procedures are functioning with respect to their efficiency in meeting stated objectives.



Audit assignments (excluding financial engagements) are basically in relation to Compliance as to prevalent legal / statutory framework. Process Audits are also carried out from the perspective of assurance against laid down management guideline, concurrence to organizational policies etc. As a result, detection/identification of 'operating problems' and finding solutions therefor remains a distant reality. The approach hovers around 'promoting/ensuring compliance' against financial and relevant statutes.

The aforesaid diagram indicates 'active' and 'passive' approach in all types of 'audit assignments' and especially for 'operational Audit' for a paradigm shift to 'beyond compliance'.As evident from above, the active zone of 'operational audit' is to prevent "wasteful activities " with a view 'to reduce revenue leakages and cost' .This in turn having a positive impact on business performance.

The contemporary approaches of 'Risk Based Audit' are not in total sync with 'Operational Audit'. Risk pertaining to "Operations" is prioritized for 'Risk Based Audit' and recommended mitigation, fails to provide an holistic coverage for the entire gamut of risk associated with the 'Operation' and improvement in 'value chain' through a set of corrective measures.

With the introduction of 'Operation Audit' the entire activities related to the operation reviewed for achieving the defined objective /s.

Process for Operational Audit

Operational Audit assignment has to follow a defined process to achieve the objective/goals, since it requires much more in-depth review of the business and related processes e.gimprovement in 'cycle time' through identification and deletion of redundant processes, re-alignment of manpower requirement/ usage, 'freedom from failure' – reduction in product /service quality variation, improvement in throughput etc. considered as objective of the assignment. An operational audit process is the series of steps an auditor takes to evaluate the operational activities of a given entity.It usually does not focus on a single department or project, because each department plays a role in the overall operational process and is interconnected.

As we all are aware of the fact that 'a rupee earned is equal to a rupee saved'. Potential saving opportunities and 'cost reduction' are the two sides of the same Coin. Operational Audit is directed towards efficiency and economy with which resources are managed and consumed, hence, reduction of WASTE can be considered as a process for handling the 'Operational Audit' assignments.

Modern internal auditing, to be successful, must be grounded on management support and acceptance and on imaginative service to management . . . . . The auditor must mount continuing campaign to sell his product to executive management and the products he sells must be of the quality that will capture and keep management's interest

Larry Sawyer.

W = What is deficient? Or, What is the problem? A = Ascertain the conditions for logical end. S = Significance of deficiency (in monetary value terms). T = Targeted solution. E = Effective measures to pre-empt deficiencies.

"Operational Audit" Objective:

'Operational Audit 'objective has been coined after the name of connoisseur of TQM (Total Quality Management), W.E. Deming. To define the objective we have used the word 'DEMING', where each of the word stands for a definitive objective accomplishment.

D – Detailed understanding for existing process to suggest improvement

E – Eliminate Waste, Duplication of work

M – Merge Operations/Processes to reduce Turn Around Time

I – Improve /Increase Quality, Volume, Revenue

N – New Methods, Techniques, Devices for better result/ throughput

G- Govern Man, Machine, Methods and Money

To carry out the heightened expectations of 'stakeholders' on their shoulder, Auditors can no longer spend their time looking down at financial controls and compliances rather to spend much more time in operations of the entity in making 'picture perfect'. Gone are days of 'pushing the pencil'; 'brain power' is taking place of 'brawn power'.To support the accomplishment of aforesaid objective, the audit process to lend appropriate support. Process provides a methodology for intelligently and efficiently integrating People, Tools, Procedures and Technology for the best results/ outcome.

Advantages and Disadvantages of 'Operational Audit'

- Going through the operational audit process provides a company with objective opinions. Those opinions often generate quicker production by lowering Turn Around Time (TAT)/ Process inefficiencies, the location of areas of delay/lapses, cost rationalization /reduction, improved control mechanism, and an overall streamlined workflow. Additionally, even though overhauling operations based on audit results may save the business money in the long run;may create disgruntled employees caused by initial confusion on staffing alterations to revamping of process/operational flow.

- Operational auditing plays an important role in today's business environment well beyond the realm of money, compliance, and traditional internal controls, and into the realm of a trusted business partner influencing management's pursuit of operational excellence.

- An operational audit is a formal evaluation of the internal systems and procedures a company uses to produce goods or services. It demystifies how efficient and effective production operations are, which ultimately boosts revenue and profits. It also can reveal ethical issues in the business. This process offers advantages, such as new perspectives and increased risk awareness.

Despite advantages outweigh the disadvantages; 'resistance to change' plays a vital role in full-fledged implementation of the recommendations by the entity. 'Line Managers' often try to defend 'the way it is':

- "We always did it this way, now (of late) only following a different way"
- "This is not the RIGHT time to change, wait till....."
- " Local issues, can't go for manpower displacement"
- " You tell Chairman to decide, when we are not there "
- "We will do it as suggested, but don't put savings on record/Report"
- "We can't do it in prevalent scenario"
- " We know this exercise failed somewhere, will not work here also "

Operational Audit Case Studies

Couple of examples are depicted, with the following premise.

- Audits are based on People , Process and Technology, unique goals and objectives and are cost effective

- Audit methodology uncovers low cost, low risk , high benefit operational improvements

- Identify opportunities to add value , reduce cost, improve quality and reduce process times within the operations

- Ensure human resources are aligned with your overall strategy

- Identify current best practices and gaps to meet desired state.

Case Study: 1

- A 'bulk packing' centre operates with two Packing Machines on three shift basis. Daily deployment schedule is of 18 Operators (3/Shift/Packer) in three Shifts (Shift I : 6 a.m to 2 p.m and so on) for the two Packing Machines. Job descriptions and work content of Operators are given hereunder.

  - Bag feeding in nozzles - one operator each at each discharge end of double discharge facility.
  - Rotation-wise off is taken by the workmen to ensure continuity of discharge operation.
  - The aforesaid modus of on and off/rest is mutually settled by the gang.

- Our proposition indicates uninterrupted production with 5workmendenoted as 1,2,3,4,5(instead of 6 per shift) by maintaining the prevalent off/rest time mutually agreed upon amongstworkmen. It is pertinent to mention here that recesses not being planned/ projected at the start and last lap of the eight hour shift as per prevalent system.

- Considering continuity of effective working time span, that is, half an hour, one hour and so on; many such propositions can be build. Based on wage rate, savings can be achieved through modified matrix.

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<tr><td rowspan="3">Time</td><td colspan="4">Proposition : I</td><td></td></tr>
<tr><td colspan="4">Discharge Facility</td><td></td></tr>
<tr><td>A</td><td>B</td><td>C</td><td>D</td><td>Rest</td></tr>
<tr><td>6.00</td><td rowspan="4">1</td><td rowspan="3">2</td><td rowspan="2">3</td><td>4</td><td>5</td></tr>
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<table>
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Operational Audit demystifies how efficient and effective production operations are, which ultimately boosts revenue and profits. It also can reveal ethical issues in the business.

Case Study: 2

Post bagging operation, next step is to despatch the finished goods to Warehouse. The distance between 'packing centre' and each of the Warehouses are 150 Km. and 400 Km. respectively on the same route. Due to locational advantage of being near the 'truck hub', vehicle availability of desired 'load capacity' is also certain. The 'Entry' and 'Exit' Gate is on the same direction of the Unit and 'weighbridges' on each side of entry and exit are divided through railings. For ease of vehicular movement road dividers are in place and automated weighbridges are resorted to for 'tare' and 'loaded' Vehicles.

The 'base freight (Mt. per Kilometre) ' for the truckers for 'load' is fixed and every consignment open for instant quote and rate finalization within a tolerance limit. The control for rate revision is adequate. The Turn Around Time (TAT) for 'Gate In' to 'Gate Out' was found to be very high. This implicates strain on logistic for arranging Vehicles for evacuation of material from 'Packing Centre' as well as timely availability for end Customer through Warehouses. On the other hand 'truckers' are also looser due to high TAT, as number of trips is reduced impacting capping of revenue.

Time between " Reporting " to " Loading Call "		
Time (Hours)	**No. of Trips**	**p. c**
Upto 1	23788	76.0
1 – 5	6417	20.5
>5	1052	3.5
Total	**31257**	**100**

Time between " Loading In " to " Loading Out "			
(Hours)	**No. of Trips**	**p. c**	**Cum. %**
Upto 1	4917	15.7	15.7
1 – 2	12143	38.8	54.5
2 – 3	7859	25.2	79.7
> 3	6338	20.3	100.0
Total	**31257**	**100**	

● As evident from below, loading operation of about 70% Vehicles were completed within 2 Hours of 'Loading In'. 'Time and Motion Study' conducted for actual time taken in loading; a maximum of 45 minutes for the highest capacity of Vehicle, that is,60 Mt. was noted. In view of the same, scope for further time reductionin loading operation exists.

The prevalent average rate of Rs. 200 per MT/Kilometre, TAT (Turn Around Time) improvement of at least 20% of vehicles through proper monitoring in each of the stages, that is, between 'Reporting' to 'Loading Out' will result in a savings* of Rs. 4.2 Crores (on 50 % sharing basis with Transporter).

*Rs. 200 x20%x50% x300 Km. average for 7000 trips (approx.)

The 'Value Add Expected', that is, Expected Value (EV) is a combined function of value-added audit (VA), pragmatic assurance (PA) and pro-active engagement (PE). We can mathematically replicate the symbolic expression EV = f [VA*(PA*PE)] as under:

1) VA as savings made through cost reduction over previous base (say 1% of cost of operation)
2) PA as multiplicity of review in the said operational area
3) PE as post reviews newer engagements (say 1 for each self-inflicted review)

EV = f [VA*(PA*PE)]

By this symbolic representation, we are reinforcing the importance of VA in any existing business entity which needs to be ably supported by regular occurrence of PA by frequent intervention through PE. Thus heightened expectations from Internal Audit necessitated fundamental modifications in audit's approach. The aforesaid proposition was earlier published in this Journal (February 2015) and herein we tried to appropriately replicate the 'value at stake' achievable through 'operational improvement'.

The 'Packing Centre' is a single point, wherefrom the bulk products are packed and despatched to market. Accordingly, the "Operating Cycle/Area" divided in two (viz. packing and despatch) areas to arrive at PE (pro-active engagement) on completion of PA (multiplicity of review),that is, first operation of packing.

Conversion of expectations into values is an extremely complex process where equilibrium is a necessity for apparently incompatible needs. To earn this symmetry, persistent efforts are to be applied on a systematic manner over a prolonged period of time. Continuity of operational audit with an eye on reduction of process costs is an obligation to be instilled by contemporary line managers. To entertain the affirmative outcome with ingenuous engagement of the mathematical model explained in the foregone paragraph, auditors need to re-engage themselves in the arduous task of proactive engagement (PE) and pragmatic assurance (PA). MA

chandi.bagchi@yahoo.in

PREPAREDNESS TOWARDS GST..

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

No sooner political hurdles were out and consensus amongst the political party reach in the Rajya Sabha, 122nd Constitutional Amendment Bill,16 states have immediately ratified 122nd Constitutional Amendment Bill and thereafter subsequent steps and actions, which has been taken by the Central Govt. really shows the seriousness and commitments to implement GST on the committed day, which can be seen from the following sequence of events:

- ✤ Assent by Hon. President of India
- ✤ Constitution (101st) Amendment Act, 2016 (incorporating provisions of 122nd Constitution amendment Bill) already notified on 8th September 2016
- ✤ GST Council already notified w.e.f. 12th September 2016
- ✤ Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, 16, 17, 18, 19 and 20 of the Constitution (101st) Amendment Act, 2016 has come into the force w.e.f. 16.09.2016
- ✤ First meeting of GST Council on 21st& 22nd Sept 2016, wherein threshold limit & issues of dual control has been finalised
- ✤ Second Meeting scheduled on 30th September 2016 and subsequent meeting is scheduled on 16th& 17th October 2016.
- ✤ Draft Rules for registration, invoicing, payment, refund and Returns put on public domain
- ✤ Draft provisions for Tax Return Preparer put on the public domain

The sequence is on the legal framework and Central Govt., Department of Revenue and Empowered Committee of Finance Ministers have already completed their rounds of their discussions with all the stake holders from 16th August to 30th Sept. 2016 and all states are also following the same foot-steps. Further Department of Revenue have trained 350 master trainers and such 350 mastertrainers are continuously giving the training to Central Govt. and State Govt. officers.

As far as infrastructure is concerned, there is a continuous monitoring from Hon. Finance Minister Arun Jaitelyand PMO for creating the infrastructure through GSTN and Infosys. Further, Hon. Minister Nitin Gadkari have already announced to invest Rs. 4000/- Cr for revamping the check post for installation of scanners to avoid the transit delay and checking.

The commitment and schedule given by GSTN is as follows:

- ● Development of GST Frontend and Backend for 17 States by GSTN: **End December 2016**
- ● CBEC's Backend systems: **End November 2016**
- ● Backend systems of 14 States: **End November 2016**
- ● Backend systems of Pr. CCA, Banks, RBI & State accounting authorities: **End November 2016**
- ● Testing and integration of GST Front end and backend of all stakeholders:**Jan – March 2017**

In other words, as far as preparedness in concerned from the Central Govt. and State Govt., they are committed to implement GST w.e.f. **1st April 2017.** Now,time has come to introspect whether Trade and Industries are getting ready / prepared to implement most awaited Tax reforms after freedom.However, it seems that now trade & industries will have to make up the speed and get prepared for welcoming new tax reform, which is called as "Game Changer".

Why "Game Changer"?

Single Tax with the same provisions as against Multiple Acts &Compliances and Returns

- ✔ Different Valuation basis
- ✔ Different Adjudications
- ✔ No ambiguity under GST as against prevailing Service Tax & VATin case of
  - ❇ Restaurant Services
  - ❇ Works Contract

❇ Right to use of Movable goods
❇ Software
❇ IPR

✔ No ambiguity under GST as against prevailing Excise& Service tax for
❇ Drawings and Designs
❇ Software
❇ Commissioning & Installation

✔ Change in Taxable Event in case of Excise:Taxable Event is Manufacture/ Deemed Manufacture now will be **"SUPPLY"**

✔ Different Valuation Mechanism:Production Capacity/ Transaction Value/ MRPin Excise and now same Valuation for CGST & SGST or IGST

✔ Same Exemptionsfor CGST & SGST or IGST as against different exemptions in Absolute &Conditional in VAT and Excise

✔ No Duty Exemption Zone - Uttaranchal/ Himachal Pradesh / J&K/ N&E

✔ Change in definition of services, place of supply, time of supply and valuation

✔ One Nation, One Tax.

In the GST regime, there will be no tax on tax or cascading effect and hence following taxes were part of the cost of production and cost of services and thereby there was increase in pricing level, whereas prices will go down in the GST regime for the following reasons:

Cascading effect of taxes:

✔ Tax on Tax
✔ SAD to Service Provider
✔ VAT Credit to Service Provider
✔ VAT Retention for Stock Transfer and less credit for capital goods
✔ Cenvat Credit on Input Services to Trader
✔ Central Sales Tax
✔ Entry Tax
✔ Purchase Tax

In view of the above, the prices will come down and there will be less inflation provided all the stake holders pass the benefits which will reach to the ultimate consumer and that will be a real contribution for the nation building.

Steps to Implement GST by Trade and Industries:

A. Understanding of Business Transactions in the changed scenario to find out the impact of GST:

B. Classification of the transactions into specified w.r.t. Goods & Service & Place of provisions.

C. Understanding of Flow Chart for enabling the change in business strategies with GST perspective:
i. Organization
ii. Material Movement – Prior manufacturing
iii. Material Movement – During manufacturing or for other purpose.
iv. Distribution Pattern – Post manufacturing

D. Understanding functions of each Department at Macro & Micro level to assess the GST impact on their transactions and mapping them with existing Business Model.

E. Understanding of warehousing & logistic model including depot, branches, stock level thereof for GST impact and restructuring thereof with the perspective of GST.

F. Understanding distribution patterns till ultimate sale to consumer for GST impact and restructuring thereof.

G. Understanding of suppliers - nature of goods, place of supply & present contractual terms for GST impact and restructuring thereof and benchmark the new rates in GST.

H. Understanding service providers including contractors & contractual terms and place of supply for GST impact and restructuring thereofand benchmark the new rates in GST.

I. Understanding of sales policy including schemes, discounts, return of goods for GST impact and restructuring thereof for changing the sales promotion and marketing strategies.

J. Crafting Business Strategies
i. Analyzing function wise GST leakages & liabilities form the existing business strategy.
ii. Finalizing new business strategies and continuous consultation with GST Core Group of the company (multifunction team).

K. Contract Review
i. Finalizingrevised terms & conditions in GST regime
ii. Finalizingamendment to the present POs during transition period
iii. Probable reduction in purchase price: A-Class vendors

L Transaction Restructuring w.r.t. existing ERP & proposed ERP with interface through GSTN

M. Developing SOPs in each function of the Department including GST compliance
i. Finalizing Accounting Control for Tax Compliance and Tax Management.
ii. Mapping Transactions to ERP System.

N. Preparedness for Transitional Period so as to avail transitional credit and not to lose any ITC (Cenvat Credit)

O. Continuous Training at all levels.
i. Senior Level Team for decision making
ii. Middle Management for implementation
iii. Lower Management & Operating Team for documentation and compliances.

It is advisable to do all activities as mentioned above then only it can be stated Trade and Industry is also prepared not only to implement GST but reap the benefits of GST, which will enhance 1.5% growth of GDP and contribute to the nation building MA

nawal@bizsolindia.com

Is NOT a PANACEA

CMA Ashutosh Kumar Gupta
Hindustan Media Ventures Ltd,
Unit Finance Controller, AGM-Finance
Allahabad

Undoubtedly GST would prove to be the greatest reform in the field of INDIRECT TAXATION post-independent INDIA but certainly not a PANACEA-a solution or remedy for all difficulties. Critics do cite various queries, concerns and raise question marks on the successful rollout and implementation of the GST on one or other plea, a few noteworthy of them are as enumerated below:

- GSTN (GST Network)-Gigantic/controversy
- Multiple Legislations- a practical burden
- GSTC (GST Council)-Toothless
- Dispute Solution Mechanism-Imperfect
- Not purely a 'one nation, one tax'
- Inflation, GDP growth rate, RNR, Standard Rates, Exemptions, etc.-bundles of conflicts
- Tax evasion and corruption-would remain stay
- A threat to federalism

GST Network

To develop, design and rollout an appropriate GST Network in itself is a gigantic task full of technical and operational issues and complexities on a PAN India map. Keeping in view such facts in mind GSTN SPV (Special Purpose Vehicle) was incorporated on March 28, 2013 as a Non-Government, not for Profit (Section 25), private limited company registered under the Companies Act. The authorized capital of this company is Rs.10 Crores and shareholding composition is @24.5% of Central Government, 24.5% of all State Governments/UTs and 51% is of Institutions (like HDFC Bank, ICICI Bank, HDFC Ltd., LIC, etc.) and here lies the bone of contention from the critics point of view who held the view that larger chunk of 51% is entrusted with Private sector and minor partner is Government which is neither rational nor justified specially per views expressed by Mr. Subramanian Swamy, IRS Association. However, it is worth to mention that under GSTN, strategic control to remain with the Government hence concerns may not stand substantiated. Infosys has been appointed as MSP (Managed Service Provider) and GSTN to interalia to function as a Common Pass-through portal for tax payers towards (a) Registration processing (b) Returns file processing and (c) tax payments. Task is not easy on PAN India basis to keep aligned and harmonized operational IT structure in view of Transitional Provisions, Tracking and Retrieving of existing data-base (about 80Lakhs existing taxpayers of VAT, Service Tax and Excise Duty), Inserting of new data-base and their linking, Multiple Legislations (around 38), Circulars, Notifications, Banking arrangements, etc... task is undoubtedly gigantic, tremendous and therefore, concerns are being raised in the various corners. In a recent interaction with the media, Mr. Navin Kumar, Chairman, GSTN seems confident that the GST network will be ready in time, by April 2017 as far as hardware and software needs are concerned.

Multiple Legislations

To keep a proper harmonization, synchronization, alignment and efficacy of technical, legal, operational and administrative issues arising out of multiple legislations-somewhere not less than 38 in numbers , as well as of various notifications, circulars and orders, etc. is not an easy wayoutbut an extreme cause of concern. GST regime would flow into 1 CGST Law and 1 IGST Law at central level, 29 SGST Laws(one for each state) and 7 of Union Territories; around 38 in numbers and they should be approximated or synchronized with the Model GST Law (MGL) as has already been released, lots of interpretations, contents mis-match, clumsy drafting, etc. issues may emerge out apart from difference of opinions and difference of interests amongst the various States, UTs due to one reason or other whether political or otherwise. Therefore, all of them would mean directly or indirectly 'road-blocks' or 'hurdles' in successfully rolling out the GST-nation-wise within the defined timeline and with the questionable efficiency and effectiveness of government machineries and bureaucracy. We also can't rule out the role of legitimacy and litigation, controversy and conflicts in the process in practice.

GST Council

One of the important constituent of the Constitution Amendment Bill (122nd), CAB, is GSTC (Goods & Services Tax Council- Article 279A) and the Central Government has accordingly notified the Goods & Services Tax Council provisions with effect from 12th September 2016. GST Council in itself is a powerful body under GST regime and composition of GST Council consists of Union FM & Union MOS (Revenue) & Ministers in charge of Finance/Taxation of each State, Chairperson-Union FM and Vice Chairperson-to be chosen amongst the Ministers of State Government. Quorum for a meeting is 50% of total members and Decisions by majority of 75% of weighted votes of members present and voting (the weightage in voting allocated to Central Government is 1/3rd of total votes cast and 2/3rd is of State Governments, all taken together, of total votes cast). Council is to be guided by need for a harmonized structure of GST and a harmonized national market for goods and services. Council is to make recommendations on-Taxes, etc. to be subsumed in GST, Exemptions & Thresholds, GST Rates, Band of GST Rates, Model GST Law & Procedures. GST Council will have its own GST Secretariat.

Just now: In its first meeting held on Sept.22-23, GSTC decided the threshold limit at Rs.20Lakhs for all States but Rs.10 Lakhs for North-Eastern States and hill states.

Queries, concerns and criticisms are off and when emerging on all such major aspects and doubts have been cast on its operational effectiveness during and after the rolling out of GST.

❋ A few opposed the weightage allocation of 1/3rd in favour of the Central Government claiming that CG has a veto power, however UFM well clarified that any decision in GST would not be possible in a standalone way either by CG or SG, both of them need to have concurrence to form 75% of weighted votes for a decision.

❋ GST Council is recommendatory in nature and not binding hence lots of disputes, conflicts would still prevail and thereby making the scenario under GST regime as 'non-perfect' and need would arise to refer them to the Dispute Resolution mechanism as may be determined and decided. Critics do question the sanctity of GSTC whether 'recommendatory' or 'binding' not very clear by way of statute.

❋ GST Council would itself decide the structure of Dispute Resolution mechanism i.e. to challenge its own decisions, critics claim as illogical.

❋ GSTC to perform various challenging tasks such as tax rate slabs, standard rates, floor rates, exemptions, Laws, Dispute solution mechanism, conflict management, registration mechanism, threshold decision and application impact, RNR, Inflation, Tax base, tax allocation, distribution, etc., etc. and therefore, various concerns, conflicts, opinion differences, etc. would emerge out in the process and much depend upon the capacity and capability of GSTC to resolve them amicably and in a seamless way to operationalize them hence criticism can't be ruled out.

❋ GSTC Secretariat is another area where lots of execution and operationalization modules need to take place in terms of defining, designing, shaping, guiding, directing, setting up the procedures, processes, rules, etc. The structure, status and synchronization of GSTCS will also mean to combat with lots of critics and concerns which are not difficult to understand and assess.

Dispute Solution Mechanism:

Clause 12 of CAB prescribes that the GST Council shall establish a mechanism to adjudicate any dispute arising out of its recommendations. Disputes can be between:

✤ Centre vs. one or more States

✤ The Centre and State vs. one or more States, and

✤ State vs. State

Therefore, a simple implication goes to suggest that there will be a Standing mechanism to resolve disputes. However, to determine, design and structuring of such a mechanism is neither an easy task nor free from conflicts and a question immediately comes into picture of referring them to Courts of Law. Therefore, complications, time lag and implementation exercise may not be as smooth and as seamless as we initially think of. GST regime is to offer in fact multifarious and multidimensional challenges in the course of initiation and implementation both to sustain the same in long run.

Not purely 'a one nation, one tax':

One nation, one tax, one market, the aim of India's Goods and Services Tax. The World Bank's 2016 "Doing Business" report ranks India at 157th of 189 countries in the ease of paying taxes, and the GST could transform that. Ideally 'one nation, one tax' means that there would not be multiple taxes as well as rates but only a Single Tax and Rate replacing all, but as we know India consists of various taxes in terms of Direct and Indirect segments of taxation and even GST would not mean a SINGLE RATE & TAX for all commodities and services we cant' perfectly nominate GST as 'one nation, one tax' though we would witness a paramount reform and shift in the Indirect Taxation in terms of GST in the Indian history of taxation so far.

Tax evasion and corruption is more of 'mind-set' issue with which our bureaucracy, traders, industrialists and other economic actors need to get rid-off as to promote and prioritize the national interest else any system, reform or strategy cannot combat solely at its own merits, we know it well, GST reform is not an exclusion.

Bundles of Conflicts:

Under GST regime we would witness and address lots of conflicts not only on political, administrative and legal grounds but in designing, defining and operationalizing as well , such as RNR, Standard Rate, Slab Rate, Floor Rate, Inflation impact, Exemptions, Tax Sharing, Tax Harmonization, Process and Procedure synchronization, Defining of 'Goods' and 'Services', Event of taxation, Place of Taxation Rules, Input Tax Credit Rules, Adjustments, etc. Such conflicts are not unascertained or unidentified to any 'system of economic reform, so is the case of GST and not uncommon therefore. India is a big country and full of complexities and to predetermine the solutions at each and every stage will therefore, not be a logical view. Conflicts are likely to be there and to be addressed as well but to be ready with a 'magic pill' in terms of GST would be something exaggeratory.

Tax Evasion and Corruption:

Though GST would simplify, rationalize , transparentize, transform, synchronize and align the various indirect taxes, rates and imbalances as well as removal of cascading effects apart from an economic boost and enhancing the tax base but it would not mitigate inter-alia all sorts of economic risks and imperfections completely as prevailing in the country, particularly tax evasions and corruptions may remain stay-the extent may however deteriorate in view IT driven and IT enabled taxation processes and procedures in place and enhancement of tax-base. We all are aware of the rampant corruption in the administration of sales tax , excise and customs; means that there will be many vested interests keen to keep their share of illegal side incomes, critics do claim that the officers have actually paid huge sums for some kinds of lucrative postings-in the octroi department, or in customs or excise and they will need to recover their such investments and will not make the transition to GST easier. The tax evasion and corruption is more of 'mind-set' issue with which our bureaucracy, traders, industrialists and other economic actors need to get rid-off as to promote and prioritize the national interest else any system, reform or strategy cannot combat solely at its own merits, we know it well, GST reform is not an exclusion.

A Threat to Federalism:

At the initial stage of CAB rounds of discussions and views were focussed on this aspect and that lasted for years together but once the GST bill has gone through, 'a threat to federalism' appears to have taken a setback and no more in the row. However a few critics including AIDMK do still believe that the GST structure, legislature as passed, would not completely eradicate and remove their apprehensions in long run thereby undermining the successful journey of GST. AIDMK claims that it violates the Article 21 of the constitution-that deals with personal liberty and is not a fairly enacted law; it violates thus the federal structure of the constitution. Under the given constitutional background, the Union Government and the States have each been given exclusive powers to impose taxes on a wide variety of subjects in order to be able to run a government and accordingly the Constitution vide Article 246 has prescribed three Lists under the Schedule Seventh to the Constitution named as List I, List II and List III also known as Union List, State List and Concurrent List respectively as to provide a clarity on the laws for taxation matter. Critics claim that the Constitution framers clearly did not want the Union and the State to be fighting over the same tax base or the Union controlling the state in matters of taxation and therefore, the GST is a radical departure from this constitutional vision.

CAB therefore, inserts Article 246A as enabling GST provisions and to maintain the constitutional sanctity as well as to avoid any threat to federal structure but to maintain harmony in the operationalization of GST with the imposition of Dual GST structure where we would have GST Law-Central, GST Laws-each State +each UT and IGST Law and an execution, dispute resolution mechanism by way of GSTC, GSTCS and Dispute Solution mechanism as recommended by the GSTC.

Conclusively it is reiterated that GST is not a 'magic pill' or 'panacea' which can completely and perfectly pass through all kinds of clinical tests, trials, surgeries and x-rays to an ill-fated economy or make super healthy a mal-nutritional economic child but definitely it can transform economic affairs and transit us into a healthy economic environment where we can live healthy and enjoy the fruits of reform provided we're free from all ill-senses and deficiencies in our mind-sets. Clearly a successful GST in India will be a minor miracle. 'No country of comparable size and complexity has attempted a tax reform of this scale,' says Harishankar Subramanian, of Ernst and Young. Revenue Secretary HasmukhAdhia and economic adviser Arvind Subramanian say, no country has claimed a flawless GST since inception, and further and better change in complex systems is incremental. Agrees economist Vivek Dehejia: " The perfect ought not become the enemy of the good, especially as a less-than-perfect GST which can be improved down the road will be better than our current patchwork quilt of taxes, which prevents India from being stitched into a single market." MA

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ashutoshgupta@hindustantimes.com,
cmaashutoshkumargupta@gmail.com

Capital structure and its impact on percentage of earnings

A study on select steel and infrastructure companies

Manish Guha
Faculty, Dept. of Commerce
S.A.Jaipuria College
Kolkata

The capital structure pattern is of vital importance in financial decision for the well being of the companies. The mixture of appropriate source of fund for capital structure is one of the major requisitions of the company. The combination of debt equity is known as capital structure of the firm. In this paper an attempt has been made to compare the pattern of the capital structure or debt equity ratio and its impact on percentage of earnings per share on steel and infrastructure industry by choosing five popular and established company for last five years from 2010-11 to 2014-15 from the annual reports of the company.

The combination of debt and equity is known as capital structure of the firm. The term capital structure is generally used as the proportion of debt and equity employed by a company to finance its assets. The proper capital structure rather debt equity mix will help to generate sound earnings for the equity shareholders. The percentage of earnings will show the performance of the company and which will ultimately help to generate goodwill.

Firms can use either debt or equity capital to finance their assets. . In practice it is difficult to specify an optimal capital structure. Overall, financial decision means primarily the capital structure decisions which are more important compare to operating and the strategic decisions of the firm.

Capital structure decision is one of the most critical areas of financial decision because of its inter connection with other financial decision parameters .Poor capital structure decision leads to high cost of capital , thereby lowering the NPV of the project decreasing the acceptability and the value of the firm. Thus, the character of the capital draws attention for analyzing its effectiveness. The component of capital leads to a separate kind of organization policy. The role of debt, either inland or foreign, over

equity participation has reduced the period of paying returns which affects a heavy capital intensive industry like iron and steel. Basically private investors are too sensitive to invest in an industry which provides input to infrastructure development of an emerging economy for its huge lock period. Another point of consideration is always on for a resource based industry where return on capital invites more risk than to produce a consumer based goods and services. Today 100% FDI investment is possible in iron and steel industry still government control is justified in management as it addresses lots of social and environmental issues.

Iron and steel industry is considered as the backbone of an emerging economy. One of the measures of developments is counted by the per capita consumption of steel. The holistic effect of steel industry is positively felt on the other industries like coal, infrastructure, railway etc. India is always ahead of time in production and innovation of steel. The first modern steel industry was established in Kulty by Bengal Iron Works which later on stands as Indian Iron And Steel Company. The large scale steel production started when Tata Steel Plant was established in 1907 in Jamshedpur. In 1918 IISCO was set up and in 1973 SAIL is created as a holding company to oversee the public sector steel production. After liberalisation in 1991, large scale steel production was privatised and huge investment of foreign capital was witnessed.

The return on capital employed signifies the profitability of the organization. The investment in heavy industry always dependent on the profitability of the companies which ensures the turnover and the performance of the corporation. The expected percentage of earnings per share as a measure of long term investment is always a tool to regulate the choice of capital (debt or equity)as a trade off with the cost of acquiring it.

The period from 1950 to mid 60"s witnessed the government playing an active role in development of construction activities carried out by state owned enterprises and supported by government departments. In the first five year plan nearly 50% of the total capital outlay deployed for construction and infrastructure development purpose. The first professional construction company was National Industrial Development Corporation was set up in 1954 ,and there after many architectural, design engineering and construction companies were set up like Hindusthan Construction Company (HCC), Larsen and Tubro Limited(LT), Reliance Industrial Infrastructure Limited (RIIL),etc. Infrastructure and construction is the second largest economic activity in India and has been growing rapidly. The production of industrial machinery has also been on the rise which will lead to increase in rail road and port traffic ,necessitating further infrastructure improvements and cannot be ultimately completed without the help of iron and steel industry. These industries are dependent on each other which justifies comparing the capital

structure and percentage of earnings per share of these two industries .

Components of capital structure and earnings

Capital structure represents loan able fund (which includes non- current liabilities and current liabilities) and shareholders fund. Shareholders fund includes equity share capital and reserves and surplus, where noncurrent liabilities and current liabilities includes all other components as per schedule excluding deferred tax liability. The pattern of debt equity structure is a continuous process which changes from inception as compared to expanding the business. The decision is normally concerned with proportion of debt equity mix to the extent the internal as well as external fund can be used. In India capital structure differ from industry to industry but exhibits a homogeneous pattern in similar type of industry. On the other side earnings per share will also very dependent as well as co-related with capital structure. The ideal capital structure will generate highest percentage of earnings.

Literature review

Some basic books are consulted at the outset to understand the condition of steel industry in India. A very useful and comprehensive book is written by Jayanta Bagchi(2005)which covers the refactory industry, cold rolling industry and sponge iron industry. Special attention was given on export, global competitiveness and R&D of steel industry. It also discusses the antidumping measures as it was discussed in Uruguay Rome agreement. Lastly it highlighted the role of government to shape the future of steel industry in India M.K.Singh (1989) discussed the labour productivity in the steel industry, Bokaro Steel Ltd, as a case statistically. He tried to consider the factors like technical and human in the way to measure the productivity. He also tried to find the profit, wage and productivity relationship. But the most interesting and important book for the purpose have written by S.Boobalan and S.Aravanan (2012) which covers the financial strength and weakness of steel industry. He collected the sample from CMIE Prowess Data bank and statistically tested the effectiveness and conditions of finance in steel sector.

Pratheepkanth (2011) examined some companies in Colombo stock exchange. His hypothesis stands there is a negative relations between the financial performance and capital structure of the companies. In the republic of Macedonia, Ferati and Ejupi (2012) has concluded by examining the small and medium enterprises that larger the debt, the lower the profitability, participations of equity in capital structure has the positive relationship with profitability. In case of some Jordon based companies, Shubita and Alsawalhah (2012) again established that increase in debt in capital structure has decreased the profitability; where as in Iran Mohammadzadeh and others (2013) concluded that inside financing shows a greater positive impact on profitability.

Poddar and Mittal(2014)examined the capital structure and steel industry to find out the determinants and concluded that the size of companies does impact the leverage of the firm and they can attract the debt easily from the market at the same time the profitability is bears the impact from leverage.Singh and Luthra(2013)revisited the capital structure puzzle and concluded that the optimal capital structure which maximize the shareholders return.

Objectives

1. Primary objective of the study is to analyse the Debt Equity structural impact on percentage of earnings per share.

2. Secondary objective is to establish a comparable relationship between debt equity ratio and percentage of earnings of steel industry and infrastructure industry through linear regression analysis.

Methodology

The data Source is secondary, the steel industry analysis is based on TATA STEEL LTD and infrastructure industry is based on Reliance Industrial Infrastructure Limited as a case, comparing the Debt Equity proportion and its impact on percentage of earning per share of two sector.

Step 1: from the annual report of different steel and infrastructure companies the data were arranged for five years in a tabular form.

Step 2: with the help of SPSS software the data are analysed and the simple linear regression equations are framed for the different industries.

Analysis of the study

Trend in Debt Equity pattern of some select steel and infrastructure companies.

To study the trend in debt equity proportion of five steel and infrastructure companies from 2010-11 to 2014-15. The table given below shows the debt equity ratio from the annual reports of the companies.

Debt Equity ratio of five steel companies

Companies	2010-11	2011-12	2012-13	2013-14	2014-15
JSW Steel	1.28	1.57	1.57	1.74	1.80
SAIL	0.54	0.40	0.50	0.59	0.69
TATA Steel	0.83	0.74	0.74	0.72	0.65
BHUSHAN Steel	3.17	3.33	3.63	4.43	5.54
WELSPUN Corp.	1.60	1.45	1.27	1.83	2.18

Debt Equity ratio of 5infrastructure companies

Companies	2010-11	2011-12	2012-13	2013-14	2014-15
LT	0.33	0.39	0.29	0.34	0.35
HCC	4.41	5.75	6.32	6.05	5.90
NCC	1.87	2.32	2.28	2.62	1.94
RIIL	1.00	1.32	1.16	1.29	1.33
IRB Infra	1.33	1.96	2.00	2.43	2.32

Trend in percentage of earnings per share of some select steel and infrastructure companies

To study the trend in percentage of earnings per share of some select steel and infrastructure companies for last 5 years from the annual reports and by virtue of these data we analyse how far debt-equity ratio will affect the percentage of earnings per share of these two industry and which industry is more sensitive by the help of simple linear regression analysis.

Percentage of earnings per share of 5 steel companies

Companies	2010-11	2011-12	2012-13	2013-14	2014-15
JSW Steel	971.7	714.2	792.8	538.6	882.4
SAIL	119	86	53	63	51
TATA Steel	756.3	678.4	502.8	642.1	644.9
BHUSHAN Steel	2356.5	2389	2083.5	111.5	(2792)
WELSPUN Corp	356.4	59.2	45.8	55.8	52.6

Percentage of earnings per share of 5 infrastructure companies:

Companies	2010-11	2011-12	2012-13	2013-14	2014-15
LT	2177.5	2430.5	2666.5	2968	2723
HCC	117	(366)	(277)	133	127
NCC	318.5	70	122	79	128
RIIL	432.3	757	760.3	603.8	583.1
IRB Infra	27.1	49.9	56.4	86.7	41.6

From the above table we have to construct an average of last 5years data for simple regression analysis

Steel companies average of debt equity ratio and percentage of earnings per share

Companies	EPS (%)	Debt Equity
JSW Steel	779.94	1.592
SAIL	74.40	0.544
TATA Steel	644.90	0.736
BHUSHAN Steel	829.70	4.02
WELSPUN Corp	113.96	1.667

Companies	EPS (%)	Debt equity
LT	2593.1	0.34
HCC	- 43.2	5.686
NCC	143.5	2.206
RIIL	627.3	1.22
IRB Infra	52.34	2.008

Putting the above value in spss software package we will get the following results.

Regression analysis of steel industry:

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	DE[b]	.	Enter

a. Dependent Variable: EARNING

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.542[a]	.294	.059	355.66838

a. Predictors: (Constant), DE

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	158074.673	1	158074.673	1.250	.345[b]
	Residual	379499.990	3	126499.997		
	Total	537574.663	4			

a. Dependent Variable: EARNING

b. Predictors: (Constant), DE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	242.675	271.460		.894	.437
	DE	143.653	128.507	.542	1.118	.345

a. Dependent Variable: EARNING

Regression analysis of infrastructure industry:

variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	DE[b]	.	Enter

a. Dependent Variable: EARNING

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.658[a]	.433	.244	959.24957

a. Predictors: (Constant), DE

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2106911.910	1	2106911.910	2.290	.227[b]
	Residual	2760479.188	3	920159.729		
	Total	4867391.097	4			

a. Dependent Variable: EARNING

b. Predictors: (Constant), DE

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	1491.978	689.791		2.163
	DE	-356.619	235.675	-.658	-1.513

a. Dependent Variable: EARNING

From the above analysis the following regression equation formed

y=a+bx where y= percentage of earnings per share (dependent variable)

x= debt equity ratio (independent variable)

y=242.675+143.653x..................(1) steel industry

y=1491.978+(356.619)x~~~~(2) infrastructure industry

now putting the values of debt equity ratio 0.65 and 0.74 of Tata steel ltd for 2014-15 and2012-13 respectively

value of y for 2014-15

y=242.675+143.653*0.65

=336.0495

Value of y for 2012-13

y=242.675+143.653*0.74

=348.97822

Using regression analysis it is possible to predict eps for a given debt equity proportion. Fitting yearly data of Tata Steel Limited in the steel industries regression equation we are getting percentage of earnings per share, in 2014-15 actual results from companies annual reports 644.9% but as per our calculation it was 336.0495% which shows that percentage of earnings is positively dependent on debt equity ratio. In 2012-13 putting debt equity value in the above regression equation further, we are getting calculated value 348.97822% but actual results from annual reports shows that it was 502.8% which again established that percentage of earnings is dependent on debt equity ratio.

Putting the value of debt equity ratio 1.33 and 1.16 of infrastructure industry of RIIL for 2014-15 and 2012-13 respectively we will get the following values.

Value of y for 2014-15

y=1491.978+(356.619)x

=1491.978+(356.619)1.33

=1017.67473

Value of y for 2012-13

y=1491.978+(356.619)1.16

=1078.29996

Putting yearly data of Reliance Industrial Infrastructure Limited(RIIL) in infrastructure industries regression equation we are getting percentage of earnings per share 1017.67473 but in actual reports it was 583.1% in 2014-15,and at the same time fitting the data of 2013-13 in our equation it comes to 1078.29996% but as per annual reports it comes to 760.3% which implies that percentage of earnings of infrastructure industry is not only dependent on debt equity ratio but it will depends on some other variable also.

Conclusions

So from the above regression analysis we can conclude that steel industries earnings percentage is very much positively dependent on debt equity proportion rather than infrastructure industry. Hence from the above regression analysis, steel industries capital structure is much more influential on percentage of earnings compare to infrastructure industry.

The present study had certain limitations which provide scope for further studies. The sample size is not large enough to make generalised conclusions. The data collected for the study was limited to 5 years which again posses a question mark to the authenticity of results. Apart from this panel of data which is considered- better for predicting the capital structure and its impact on percentage of earnings. There is a clearly scope for more research that can inform and understanding of how that capital is structure, how it connects with the percentage of earnings per share and what elements of debt equity ratio make a difference. MA

It has been observed from the study by the help of simple linear regression analysis that the percentage of earnings per share is positively dependent on debt equity in steel industry but not so positively dependent in infrastructure due to some other possible reasons.

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emmjee@rediffmail.com

CASE STUDY

Business Ethics & Corporate Governance at Wells Fargo Company

CMA Hanseswar Ghosh
Joint Director & Secretary
Committee for Professional Accountants in Business & Industry
The Institute of Chartered Accountants of India
New Delhi

Executive Summary-

The foundation and future of Corporate Governance, in this VUCA world, largely lies in business ethics. The recent fraud that broke out at Wells Fargo (Fargo) undoubtedly affirms so. The way facts and findings of Fargo fiasco unfolds, it apparently identifies that besides other factors, business ethics therein was either breached or somehow compromised. Ironically, Fargo arranged frequent lectures on 'Business Ethics' for its workforce but reality reveals a reverse picture. A proclaimed value-based organization- 'Fargo' got involved in the cross-selling scandal.

Unfitting focus on ethics, as Fargo fared, can land other organizations in trouble, cause financial instability and render reputational risk thereby making it difficult to bring operation back on track. Examples of such failures are far and wide, from Enron in the U.S. to Satyam in India. The true role that ethics (a set of principles of right conduct or a system of moral principles) can play in ensuring good corporate governance, could be summed up as – *'it lays the foundation, provides the direction and carries forward the vision towards building a world class organization'*. Wells Fargo's weak leadership seems to have somehow failed to follow that saying. Smoke pre-signals outbreak of fire and in case of Fargo, 'there's something wrong with the internal system if this went on for five years and involved at least 5300 employees'. Fargo had fired 5300 employees over a period of five years while the executives who ran the community banking unit has amassed compensation in vested stock, options and retirement benefits that was roughly valued around $90 million. Getting an apparent answer to how this was executed, can decide the depth and width of probe into the affairs of Fargo fraud. This article analyzes how Fargo's governance mechanism failed.

Can ethics be thoroughly taught-

In academic parlance, 'there are two major topics in the ethics curriculum: relativism and stakeholder analysis. Relativism examines why we often ignore ethics in our decision making, while stakeholder analysis provides a structure with which to confront ethical decisions. Relativism proposes that ethics are "relative" to the personal, social, and cultural circumstance in which one finds oneself. Stakeholder analysis provides with the tools for weighing various elements and reaching a decision. As a first step a list should be made of all potentially affected parties, and then there should be an evaluation of all the harms and benefits that a particular action will have on those involved. The next level of analysis ought to determine each of the affected parties' rights and responsibilities. Employees, for instance, have the right to a fair wage and safe working conditions, but they also have the responsibility to be productive for the company'. The next paragraphs of this article reveal the real picture on ethics deteriorations over a period of time at Fargo.

Where things went wrong at Fargo-

Over a period of twenty five years or so, the then Norwest Corporation and now Wells Fargo& Co, has grown many fold 'from a small regional bank into a national company with a global presence, serving 70 million customers in more than 130 countries around the world.Culture influences conduct. Too much pressure on employees to achieve unrealistic sales target forced them to practice unethical behavior. And, the end result could be besides inviting regulators' ire, legal (class action) litigation, and employees' rage of taking revenge it impacted brand reputation, customers' trust and market's respect.Exactly, that's what has happened at Fargo. 'In an effort to meet targets and receive the accompanying incentives, Fargo employees created over two million

"If you need an example of how the financial system has failed the test of public trust, look no further than Wells Fargo. But it is vital to go deeper than the headline story about fraudulent cross-selling into systemic miscarriages of governance and shareholder oversight."

Stephen Davis,a senior fellow in corporate governance at Harvard Law School fake bank and credit card accounts from which it charged various fees. While the fees were real, the fraudulent accounts were never authorized by the owners'. Yes, the San Francisco- based bank is now accused of opening phonyaccounts without customers' knowledge,racking up fees or other charges, having aggressive sales goals, duping investors for years, continuing its fraudulent practice of cross-selling financial products and misrepresenting the success of its profit model thereby causing 9 percent drop in the bank's stock price when details became public in September, 2016.

What Charges brought against Fargo-

Fargo now faces a suit filed by its shareholders. The Chief Executive Officer, John Stumpf, Carrie Tolstedt, the head of the company's community banking unit, who retired in July, 2016 and its Chief Financial Officer, John Shrewsberry are all named as defendant in the complaint filed by shareholders seeking class action. The U.S Consumer Financial Protection Bureau fined Fargo $185 million on September 8, 2016. The Senate Banking Committee of the U.S. urged Stumpf to return compensation and resign.Investors sued the bank's board claiming directors breached their fiduciary duty by failing to claw back Tolstedt's retirement benefits. Customers have also filed suits for the accounts created without their authorization. A sizeable number of its former employees also lodged complaints of coercing them to be involved in wrongdoing of opening unwitting accounts and refusal of which cost them losing their job and other harassments as well. Many more complaints are in-the-offing.

Who lodged complaint against Fargo-

The shareholders' case (Hefler v. Wells Fargo & Co.) seeking class action status, reads as- "Stumpf concealed the fact that the company had made substantial findings of the unlawful activity and actual fraud in its community banking segment as part of its investigation, which not only exposed millions of customers to unlawful fees and potential identity theft, but put the company in the crosshairs of Federal investigations". Again, former bank employees sued Fargo, in Los Angeles state court, over claims that they were fired after refusing to participate in bank's misconduct. A similar complaint by the same lawyers was brought in Federal Court as well.

Which stand taken by Fargo-

"Forbes magazine ranks us among the top 10 publicly traded companies in the world based on composite of sales, assets, profits, and market value. And we are consistently ranked as one of the world's most respected banks by Barron's magazine and one of the world's most admired companies by Fortune magazine. The reason for this is simple. We've never lost sight of putting our customers first and helping them succeed financially." Though the Fargo CEO, Stumpf, after initially dumping the entire blame on its employees, owned responsibility and accountability of this cross-selling scandal, the Fargo management appears to consider it as an act of aberration. It vowed of taking all possible steps to keep customers' interest intact. But question remains, how could a so called values-based organization allow this to happen? Time ahead can only tell the truth.

When whistle blew at Fargo-

'Wells Fargo employees have a history of suing the Bank' reports Reuters. Angered by the removal of staff at successive intervals without showing justifiable reasons, some employees blew the bugle about the predatory practices being followed since long at Fargo. Five senators requested a committee investigation into the bank's pressure-cooker sales practices that forced thousands of Fargo employees to open as many as 2 million unsolicited customer accounts. The Committee for Better Banks (CBB), a coalition of bank employees, advocacy groups, and labor organizations formed in 2013 has time and again protested against the Fargo's anomalies at bank lobbies, press conferences. The group's members have briefed elected officials and federal regulators, about the high-pressure sales quotas, inequitable services, and unsustainable conditions for many of the people who work for banks. This has made Fargo come under the scanner and face the consequences.

How four pillars of corporate governance fractured

Accountability-

The management of Fargo was nottruly accountable to the Board nor was so the Board to its shareholders.'The scandal appears to have been enabled by a board that offered anemic supervision of top management'.In reality, Stumpf has served not only as the CEO of Fargo, but also as chair of its board of directors. The fusion of the two posts supposedly short-circuited the chair's supreme governance responsibility of leading board oversight of senior management. Even, in an independent assessment of risk at the bank conducted well before the scandal erupted, found that Fargo "directors may not be serving as an effective counterbalance to management."'With weak leadership, 'the Fargo board took little action in the immediate wake of the scandal to impose accountability; that is, to fire (and claw back pay from) senior-most executives'.

Fairness-

Stephen Davis of Harvard Law School observed- "Shareholders, of course, have the authority to spot those risks and change those equations. They can command powerful research tools and wield ownership clout to compel more effective checks and balances at public companies where they are most needed. But here is where the Wells Fargo case illustrates a deeper failure. For each of the years that John Stumpf has been CEO, investors have voted on a resolution at Wells Fargo's annual meeting to introduce such checks and balances. The proposal has been to install a separate, non-executive chair of the board. And each year the resolution has gone down to defeat by substantial margins, thanks to the collective votes of Warren Buffett, the bank's largest investor, and the decisions of mutual funds such as Blackrock and Vanguard, the second and third largest shareholders".

Transparency-

"Both the mutual fund investors, Blackrock and Vanguard may have had good reasons to oppose an independent chair. Indeed, they each have respected teams of governance analysts and may have raised concerns about excessive leadership risk in private conversations with company officials. But the way mutual funds typically disclose their perspectives leaves ordinary investors who entrust their capital to such agents with little insight on the matter".

Independence-

Stephen Davis again observed-"Current SEC rules require most funds to release voting records just once a year, and they do so in forms that are sometimes difficult to access and compare. Funds need not explain why they come down one way or another on resolutions such as independent chairmanship at a particular company on behalf of their grassroots investors. So it is difficult to determine what information funds used, what factors they weighed, or indeed whether any conflicts of interest might have swayed the outcome. The last is a real concern; some academic research has suggested that commercial interests have sometimes been associated with mutual fund voting and investment choices".

Conclusion

What Fargo can do to change the unhealthy culture and prevent the unethical behavior, like this, from occurring in the future remains a real challenge. Incentives act as powerful motivators so its complete removal can't alone cure the disease or this sort of disorder. Fargo can think of "implementing a two-pronged incentive program that focuses not only on meeting financial targets but also on meeting value based targets. The airlines have done this by incentivizing pilots not only for on-time departures and arrivals but also for their safety record. Now, it is no doubt easier to monitor and measure a quantitative bottom line than it is to monitor and measure a more 'soft-target' like behavior in support of the company's values or customer safety. But without this broader approach, unethical behavior is likely to flourish"- suggests Jennifer Jordon, a Professor of Leadership, IMD Business School, Switzerland. The impact of Fargo episode is likely to go far beyond the company in general and financial sectors in particular. It is hard to estimate and difficult to quantify the amount of penalty that the company may be required to pay or kind of other punishment that its executives may have to face. Desirably, to prevent such predatory practices the regulators need to be more vigilant and ensure that besides mere compliance to legal code of conduct, companies should also put focus on internal ethical codes and restrain their employeesfrom immoral acts.The focus of TATA GROUP lies more on ethical conduct than framing policies that will find place only on paper. This is what Fargo did in theory but hardly put to practice. MA

ghosh@icai.in

Obituary

The Institute and its members deeply mourn the demise of CMA Vijay Johri, member of the Institute who left for heavenly abode on August 10, 2016. He was a Practicing Cost Accountant and an active member of Bhopal Chapter of the Institute. May his family have the courage and strength to overcome the loss.

Customs

Notifications:

Tariff:

- Makes further amendments to Notification no. 157/90-Customs dated 28th March, 1990 regarding temporary admission under the ATA Carnet
  [Notification No. 58/2016-Cus,dt. 05-10-2016]

- Amendment to Notification No.94/96-Customs, dated the 16th December, 1996
  [Notification No. 57/2016-Cus,dt. 03-10-2016]

- Amendment to Notification No. 57/2000-Cus dated 08.05.2000
  [Notification No. 56/2016-Cus,dt. 03-10-2016]

- Seeks to further amend notification No.12/2012-Customs, dated 17.03.2012
  [Notification No. 55/2016-Cus,dt. 03-10-2016]

- Includes two ICDs in list of Customs stations from where Export/Import under EP schemes can take place
  [Notification No. 54/2016-Cus,dt. 03-10-2016]

- Seeks to further amend notification No.12/2012-Customs dated the 17th March, 2012, so as to retain the basic customs duty on ghee, butter and butter oil at 40% beyond 30.09.2016, for a further period up to 31.03.2017
  [Notification No. 53/2016-Cus,dt. 29-09-2016]

Non-Tariff:

- Rescinding the notification No. 66/1996
  [Notification No. 130/2016-Cus (NT), dt. 25-10-2016]

- Regarding appointment of Common Adjudicating Authority
  [Notification No. 129/2016-Cus (NT), dt. 25-10-2016]

- Regarding appointment of Common Adjudicating Authority
  [Notification No. 128/2016-Cus (NT), dt. 25-10-2016]

- Rate of exchange of conversion of the foreign currency with effect from 21st October, 2016
  [Notification No. 127/2016-Cus (NT), dt. 20-10-2016]

- Tariff Notification in respect of Fixation of Tariff Value of Edible Oils, Brass Scrap, Poppy Seeds, Areca Nut, Gold and Sliver- Reg
  [Notification No. 126/2016-Cus (NT),dt. 14-10-2016]

- Foreign Post office at Vijayawada, Leh and Hyderabad
  [Notification No. 125/2016-Cus (NT),dt. 13-10-2016]

- Rate of exchange of conversion of the foreign currency with effect from 7th October, 2016
  [Notification No. 124/2016-Cus (NT), dt. 06-10-2016]

- Tariff Notification in respect of Fixation of Tariff Value of Edible Oils, Brass Scrap, Poppy Seeds, Areca Nut, Gold and Sliver- Reg
  [Notification No. 123/2016-Cus (NT), dt. 30-09-2016]

Central Excise

Notifications:

Tariff:

No new Notification

Non Tariff:

- Seeks to amend Notification No. 27/2014-Central Excise(NT), dated 16.09.2014
  [Notification No. 48/2016-CENT dt. 07-10-2016]

- Seeks to amend Notification No. 30/2014-CE (NT) dated 14th October, 2014
  [Notification No. 47/2016-CENT dt. 28-09-2016]

Service Tax

Notifications:

- Service of transportation, by educational institutions to students, faculty and staff
  [Notification No. 45/2016-Service Tax dt. 30-09-2016]

- Seeks to amend Notification No. 20/2005-Service Tax dated 10th August, 2005
  [Notification No. 44/2016-Service Tax dt. 28-09-2016]

- Service Tax (Third amendment) Rules, 2016
  [Notification No. 43/2016-Service Tax dt. 28-09-2016]

Income Tax

Notification:

- In exercise of the powers conferred under sub-section (2) of section 28 read with section 59 of the Prohibition of Benami Property Transactions Act, 1988 (45 of 1988), the Central Government hereby directs that, with effect from the 1st day of November, 2016, the Income-tax authorities as specified under section 116 of the Income-tax Act, 1961(43 of 1961) as specified in column (2) of the Schedule below, having headquarters at the places specified in the corresponding entries in column (3), to exercise the powers and perform the functions of the 'Authority' under the Prohibition of Benami Property Transactions Act, 1988 (45 of 1988) as specified in the corresponding entries in column (4) in respect of the territorial areas specified in the corresponding entries in column (5) of the said Schedule having jurisdiction vested in them.

[Notification No. 100/2016/ F. No. 173/429/2016-ITA-I]

● In exercise of the powers conferred by section 68 of the Prohibition of Benami Property Transactions Act, 1988 (45 of 1988), the Central Government hereby makes the following rules, namely:- 1. Short title and commencement.—(1) These rules may be called the Prohibition of Benami Property Transactions Rules, 2016. (2) They shall come into force on the 1st day of November, 2016.

[Notification No. 99/2016/ F. No. 149/144/2015-TPL (Part-II)]

● In exercise of the powers conferred by sub-section (2) of section 1 of the Benami Transaction (Prohibition) Amendment Act, 2016 (43 of 2016), the Central Government hereby appoints the 1st day of November, 2016 as the date on which provisions of the said Act shall come into force.

[Notification [Notification No. No. 98/2016/ F. No. 149/144/2015-TPL (Part-II)]

● In exercise of powers conferred under section 71 of the Prohibition of Benami Property Transactions Act, 1988 (45 of 1988), the Central Government hereby notifies that, with effect from the 1st day of November, 2016, the Adjudicating Authority appointed under sub-section (1) of section 6 of the Prevention of Money-Laundering Act, 2002 (15 of 2003) and the Appellate Tribunal established under section 25 of that Act shall discharge the functions of the Adjudicating Authority and Appellate Tribunal, respectively, under the Prohibition of Benami Property Transactions Act, 1988 (45 of 1988) until the Adjudicating Authorities are appointed and the Appellate Tribunal is established under the Prohibition of Benami Property Transactions Act, 1988 (45 of 1988).

[Notification No. 97/2016/ F. No. 149/144/2015-TPL (Part-II)]

● In exercise of the powers conferred by section 115QA read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely: - 1. (1) These rules may be called the Income-tax (28th Amendment), Rules, 2016. (2) They shall come into force from the 1st June, 2016. 2. In the Income-tax Rules, 1962, after PART-VII B, the following part shall be inserted, namely.

[Notification No. 94 /2016 [F. No. 370133/30/2016-TPL]

● In exercise of the powers conferred by Explanation 5 to clause (19AA) of section 2 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby specifies that the reconstruction or splitting up of a company which ceased to be a public sector company as a result of transfer of its shares by the Central Government, into separate companies, shall be deemed to be a demerger if the following conditions are fulfilled, namely:—

i) that such reconstruction or splitting up has been made to transfer any assets of the demerged company to the resulting company to give effect to the conditions mentioned in the Share Holders' Agreement and Share Purchase Agreement; and

ii) that the resulting company is a public sector company.

[Notification No. 93/2016, No.149/251/2015-TPL]

● In exercise of the powers conferred by clause (b) of section 13B, read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:- 1. (1) These rules may be called the Income-tax (27thAmendment) Rules, 2016. (2) They shall come into force on the date of their publication in the Official Gazette.

[Notification No. 92/2016/F. No. 142/20/2012-TPL]

● In exercise of the powers conferred by section 139A and section 285BA, read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:— 1. (1) These rules may be called the Income–tax (26th Amendment) Rules, 2016. (2) These rules shall come into force from the date of their publication in the Official Gazette.

[Notification No. 91 /2016/F. No. 370142/27/2016-TPL]

● In exercise of the powers conferred by section 295 read with sub-section (2) of section 270AA of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. (1) These rules may be called the Income–tax (25th Amendment) Rules, 2016. (2) They shall come into force on the

1st day of April, 2017.

2. In the Income-tax Rules, 1962 (hereinafter referred to as the said rules), after rule 128, following rule shall be inserted, namely:-

"129. Form of application under section 270AA.- An application to the Assessing Officer to grant immunity from imposition of penalty under section 270A and from initiation of proceedings under section 276C or section 276CC shall be made in Form No.68.".

3. In the said rules, in Appendix-II, after Form No.67, the following form shall be inserted, namely.

[Notification No. 90 /2016/F.No.370142/26/2016-TPL]

● In exercise of the powers conferred by section 44AB, read with section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely:- 1. (1) These rule may be called the Income-tax (23rd Amendment) Rules, 2016. (2) They shall come into force with effect from 1st April, 2017.

[Notification No. 88 /2016, F.No.133/23/2015-TPL]

● In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961 (43 of 1961, the Central Government hereby notifies the income computation and disclosure standards as specified in the Annexure to this notification to be followed by all assessees (other than an individual or a Hindu undivided family who is not required to get his accounts of the previous year audited in accordance with the provisions of section 44AB of the said Act) following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profits and gains of business or profession" or "Income from other sources".

2. This notification shall apply to the assessment year 2017-18 and subsequent assessment years.

[Notification No.87/2016, F.No.133/23/2015-TPL]

● In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961(43 of 1961), the Central Government hereby rescinds the notification of the Government of India in the Ministry of Finance, Department of Revenue, published in the Gazette of India, Part-II, Section 3, Sub-section (ii), vide notification number S.O. 892(E) dated the 31st March, 2015, except as respects things done or omitted to be done before such rescission.

[Notification No. 86/2016/F.No.133/23/2015-TPL]

● In exercise of the powers conferred by section 32 and section 32AD of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies the following districts of the State of Andhra Pradesh as backward areas under the first proviso to clause (iia) of sub-section (1) of section 32 and sub-section (1) of section 32AD of the said Act.

[Notification No. 85 /2016/F.No.142/13/2015-TPL]

Contributed by
Taxation Committee
Institute of Cost Accountants of India

Eastern India Regional Council

The Institute of Cost Accountants of India-South Odisha Chapter

On September 25, 2016 the Chapter organized the annual students and members meet – 2016 of the Chapter. CMA Manas Kumar Thakur, President of the Institute, the chief guest and CMA Bibekananda Mukhopadhyay, Chairman, EIRC elaborated on the importance of Cost Audit and consequently the importance of cost accountants in corporate world. The Chapter also released the 'Annual News Letter – 2016' during the meet. In the technical session on 'Goods & Service Tax – the road ahead', CMA N.C. Kar, treasurer of the chapter spoke briefly about GST and later CMA Niranjan Swain, G.M. Finance, OPGC – the resource person, spoke in detail incessantly on the subject. Soft Skill Development programme was conducted by Dr. RKS Mangesh Dash.

The Institute of Cost Accountants of India-Ranchi Chapter

On August 7, 2016 the Chapter organized annual seminar on the theme 'GST'. CMA Manas Thakur, President of the Institute was the Chief Guest, CS Mamta Binani, President ICSI and CMA Vivekananda Mukherjee, Chairman, EIRC were the guests of honour. CMA Timir Baran Bhattacharya and CA Vevek Jalan from Kolkata and CMA Sanjay Kumar Singh, chairman of the chapter were the key note speakers. CMA Ajay Deep Wadhwa took a session on self development.

Northern India Regional Council

On August 23, 2016 the Region conducted workshop on stock audit of banks. CA Aditya Aggawal was the key note speaker for the same and his talk was on scope and objective of stock audit and covered in-depth details analysis of key issues related to stock so as to arrive at true value of it in relation of security provision against loan and how to calculate drawing power. On August 24, 2016 NIRC conducted workshop on concurrent audit of banks. CA Aditya Aggawal was the key note speaker. His coverage on the subject was scope, objective and steps for a meaningful and systematic audit. On August 14, 21 and 28, 2016 the Region conducted Workshops on GST as a capacity building endeavour to enhance the technical knowledge in the newly rejuvenated professional field where CMA professionals have been given great challenging opportunities in indirect taxation field. The speakers were Mr Pawan Pawa of Panacea Legal Services, CMA Anil Sharma, Secretary, NIRC, and both the speakers explained the provisions in the Draft GST Act and challenges involved in the implementation of reform Goods and Services Tax in India and explained that the biggest advantage would be in terms of a reduction in the overall tax burden on goods and the consumers will gain out of the same. On September 5, 2016 NIRC observed Teachers' Day with warm felicitation of the faculty members by CMA Ravi Kr Sahni, Chairman, NIRC and CMA Navneet Kr Jain, Regional Council Member.

The Institute of Cost Accountants of India-Patiala Chapter

On August 14, 2016 the Chapter held a programme to celebrate the occasion of Best Chapter Award to the chapter by Northern India Regional Council of the Institute. CMA S. C. Arora, Director/Finance, PSPCL, Patiala , the chief guest expressed concern about the issues of open access, and surplus power generation capacity available in states particularly in the northern region. He requested the Cost and Management Accountants fraternity to increase its role in these areas to help the power utilities particularly in the state sector. Guests of honour, CMA Balwinder Singh, council member of the Institute elaborated the steps that has been initiated to increase intake of students to profession particularly by organising career counselling programmes, CMA Rakesh Bhalla, past chairman, NIRC explained the concepts relating goods and service tax, and CMA Anil Sharma, secretary, NIRC suggested the team to organise investors' awareness programme for which the mandate has been given by Ministry of Corporate Affairs to the Institute.

The Institute of Cost Accountants of India- Jaipur chapter

The Chapter organized twelve days pre-placement orientation program for students of Rajasthan who passed CMA Final Course in June 2016 exam and will appear for campus placement in the month of October 2016. The program was inaugurated on September 8, 2016 by Dr. J.K. Sharma, Director in Vardhman Mahaveer Open University, Kota. During the training program, experienced faculties and dignitaries from various organizations were invited who shared their practical experiences and gave useful tips for facing the interviews. On September 17, 2016 the Chapter organized full day seminar on 'GST - Time to Gear UP' in B.S. Mehta Auditorium of Harish Chandra Mathur Institute of Public Administration (OTS). Chief Guest CMA Ravi Kumar Sahni, chairman, NIRC deliberated that implementation of GST will help in controlling black money to great extent. In the first technical session, key speaker CMA Rakesh Bhalla, past chairman, NIRC explained in detail the salient features of GST and its effect on general public and the businessmen. In the second technical session, key speaker CMA Anil Kumar Sharma, secretary, NIRC detailed on the various issues related to GST. CMA R.S. Bhati, treasurer, NIRC also spoke on the effect of GST in agriculture sector.

The Institute of Cost Accountants of India-Lucknow Chapter

On July 16, 2016 the Chapter launched 'Digital CMA', a new step towards learning through IT based techniques in the presence of chief guest, Shri Sanjeev K. Sharma, Deputy Commissioner of Income Tax and CMA Pawan Kumar Tiwary, Chairman along with CMA Dharmendra Singh Saluja, Vice Chairman, CMA Amit Yadav, Secretary. CMA Amit Yadav explained the key features of Digital CMA and his deliberation had been highly appreciated by the students. On the same day the chapter organized an 'inaugural function' for the new session, June –December 2016. Chief Guest, Shri Sanjeev K. Sharma, Deputy Commissioner of Income Tax discussed about the key features of the professional degree provided by the Institute. CMA Pawan Kumar Tiwary, Chairman of the chapter detailed about the recent changes made in examination pattern by the Institute. The Chapter organized various career counselling programmes at different colleges of Lucknow on different dates of July 2016. On July 31, 2016 the chapter organized an interactive session on 'Personality Development -Attitude and Behavior' and CMA Sahil Dargan gave a presentation on the concerned theme.

Southern India Regional Council

The Institute of Cost Accountants of India-Mettur Salem Chapter

The Chapter in association with Sona School of Management conducted a seminar on October 15, 2016 on the theme 'Costing Profession – Future of India'. Director, Sona School of Management, Prof Swarup K Mohanty welcomed the participants and CMA V Murali, chairman, SIRC addressed that emotional quotient and sustainable ideas are needed for commercial success. He focused on costing over the significance of understanding the fixed costs, variable costs and semi-variables in costing.

The Institute of Cost Accountants of India-Visakhapatnam Chapter

On September 17, 2016 the chapter organized a professional development programme on 'Income Declaration Scheme 2016' at the chapter's premises. Sri B.G. Reddy, IRS Principal Commissioner of Income Tax-1 was the chief guest for the session and he explained the salient features of the Income declaration Scheme and its procedures. On October 2, 2016 the Chapter observed the Swachhta Diwas at its premises and in the said campaign, many students, members of the managing committee, CMA members and staff of the chapter actively participated.

The Institute of Cost Accountants of India-Coimbatore Chapter

On September 3, 2016 a student's meeting had been arranged to recognize the successful students in June 2016 term examination. On September 28, 2016, the Chapter conducted a PDP meeting on 'Income Declaration Scheme- 2016'. CMA R. Sathish, treasurer of the chapter was the speaker of the programme.

The Institute of Cost Accountants of India-Cochin Chapter

On October 1, 2016 the chapter organized a seminar on 'Funding Options from Banks - Opportunities and Challenges' and CMA Jiz P Kottukappally, a senior banker, was the speaker of the programme.

The Institute of Cost Accountants of India-Trivandrum Chapter

The Chapter organised a professional development programme on September 24, 2016 on the theme 'Internal Audit-a tool for Internal Control' led by CMA M.K Isac Kutty, IA & AS, Senior Deputy Accountant General, O/o principal Accountant General (GSSA) , Kerala. CMA Isac Kutty M K explained in details about the necessity of internal audit, various provisions in the Companies Act, 2013 related to internal audit, scope of professionals in this area etc. CMA Manoharan Nair G S, chairman of the chapter presided over the programme and stated that the theme for discussion was highly relevant since nowadays all managements are convinced about the necessity of Internal Audit for getting proper idea about functioning of different sectors of their organisations.

The Institute of Cost Accountants of India-Hyderabad Chapter

On September 9, 2016 the Chapter celebrated Teachers' Day held at CMA Bhawan where Sri M. Gopala Krishna, IAS (Retd), Governing Council and Executive Committee, Member of National Board of Accreditation was the chief guest of the programme. The Chief Guest emphasized the importance of 'work', home work, hard work, smart work and network and how students should be prepared for it. On September 17, 2016 the Chapter conducted a session on 'Income Disclosure Scheme' held at CMA Bhawan. Sri P.V. Rao, IRS, Principal Commissioner of Income Tax delivered the key note address and explained how CMAs are responsible in educating their clients for fair disclosure of income. CMA K. Ch. A.V.S.N. Murthy, Practicing Chartered Accountant, the speaker of the session detailed the key concepts of the Income Disclosure Scheme. On October 1, 2016 students programme was held in association with Department of Commerce, Osmania University on CMA UTSAV-Telangana State Commerce Students Confluence for professional and career orientation held at The Institute of Engineers,

Vivesvaraya Bhavan, Khairtabad, Hyderabad. Motivational speaker Sri Gampa Nageshwar Rao addressed the students and the Chief Guest of the inaugural function was the first Finance Minister of Telangana State, Shri Etela Rajender. He talked about how systems in education have changed since 1970s and emphasized students to follow ethical practices while pursuing education. The Guest of Honour, Sri Chukka Ramaih addressed the students and also suggested the government to enhance its spending on education. MLA of Pedda Palli, Shri Manohar Reddy addressed the students and explained the importance of pursuing the commerce courses. CMA D. Surya Prakasam, chairman of the chapter, CMA D. Zitendra Rao, member, SIRC, Council Members, CMA Dr. P.V.S. Jagan Mohan Rao, CMA S. Papa Rao, CMA Atulkumar, CFO – MedPlus, CMA R. Subba Raju, CFO – NCCL also addressed the students on this occasion. Sri M. Gopala Krishna, IAS (retd.) was the chief guest for the valedictory session. He addressed the students asking them to pursue education with passion for a successful career.

Western India Regional Council

On September 12, 2016 the Region organized inaugural session of twelve days pre placement orientation programme of WIRC. CMA Debasish Mitra, Chairman Students, Members and Chapter Co-ordination Committee, WIRC welcomed the fresh CMAs and CMA L Prakash, Vice President-Strategy, Reliance Industries Ltd, was the chief guest on the occasion. On September 24, 2016 the Region arranged a felicitation programme of successful qualified students of June 2016 ICAI Examination. CMA AK Mukhopadhyay, Vice President, Business Planning, Tata Motors, was the chief guest

and Mr. Indranil Sarkar, CFO of Mumbai Metro Rail Corporation Limited was the guest of honour of the programme. CMA Harshad Deshpande, Regional Council Member, WIRC, CMA Pradip H Desai, Chairman, WIRC, CMA Debasish Mitra, Chairman, Students, Members & Chapter Co-ordination Committee, WIRC, CMA L D Pawar, Secretary, WIRC were also present in the programme.

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

The Taxation Committee of the Institute jointly with WIRC and the Chapter organized two days Programme on 'Model GST Law in India - Train the Trainers' on October 1 and 2, 2016. Shri Rajesh Pandey, Commissioner of Central Excise, Pune, the chief guest in his inaugural address analysed the major issues faced by the business community including octal. CMA V S Datey, renowned author, in his key note address gave brief on Goods & Services Tax. CMA Ashok Nawal, Chairman, Taxation Committee of the Institute stated that in this age of transformation, Institute desired to enrich the professionals, who would in turn would represent the Institute for knowledge dissemination across the country on GST Law and also participate in developing relations with the revenue officials across the country. In the technical session, CMA A.B. Nawal spoke on 'Meaning & Scope of Supply, Time, Place and Valuation of Supply, Miscellaneous Provisions, & Transitional Provisions', CMA B.M. Sharma, Past President of the Institute, on 'Returns, Payments, Refunds, Input Tax Credit, Transfer of Input Tax Credit', CMA L D Pawar, RCM and Secretary WIRC, on 'Draft GST Rules on Registration, Invoice and Payment', CMA Rahul Renavikar, 'Accounts and Records, Audit, Assessment, Demands and Recovery, Offences and Penalties, Inspection, Search, Seizure and Arrest, Appeals and Revisions, Advance Rulings, Settlement of Cases, Liability in Special Cases', CMA Dr. Waman Parkhi, 'How

to calculate Impact of GST'? Valedictory session was chaired by Mr. R K Paldiwal, Asst. Commissioner, and Excise. Participation certificates were distributed to all the participants at the hands of Mr. R K Paldiwal, Jt. Commissioner, Excise, CMA A.B. Nawal, CMA L D Pawar, CMA Harshad Deshpande and CMA Ashish Deshmukh, Chairman of the Chapter. The Chapter observed Swachhta Diwas from October 2, 2016 till October 8, 2016 since Ministry of Corporate Affairs, Government of India decided to observe Swachhta Diwas coinciding with the Gandhi Jayanti on October 2, 2016 as 'Jagrukta Week'- Awareness and Capacity Building regarding Swachha Bharat Mission. The staffs and students of the chapter conducted a campaign with the mission of cleaning the nearby public place during the period.

The Institute of Cost Accountants of India-Kolhapur-Sangli Chapter

On September 27, 2016 the Chapter conducted a CEP on 'Goods & Services Tax' and CMA Harshad Deshpande of Pune, a practicing Cost Accountant was the faculty for the CEP. CMA Deshpande explained the background of GST, the main provisions thereof and procedural aspects like registration, forms etc.

The Institute of Cost Accountants of India-Ahmedabad Chapter

A press meet was organized on August 27, 2016 in connection with Institute's result declaration of June 16 examination. On September 13, 2016 the Chapter organized felicitation function for meritorious students of June 2016 examination. CMA P H Desai, Chairman, WIRC briefed about the opportunities in corporate world for CMAs. CMA P D Modh, chairman of oral coaching committee provided tips to the students for getting success in examination. A twelve days pre-campus orientation program was organized by the chapter during September 13, 2016 till September 24, 2016. CMA Hiranand Savlani was the chief guest of the program and he was felicitated

by CMA R B Kothari, chairman of Training & Placement Committee. On September 21, 2016 the chapter organized a full day seminar on 'Gearing up GST Regime' at Ahmedabad Management Association, ATIRA, Ahmedabad. The seminar was inaugurated by chief guest Dr. P D Vaghela (IAS) - Additional Commissioner (Commercial Tax). Eminent speakers CMA V S Datey, Shri Nayan Sheth, Shri Sreeram Kaza and Shri Nitesh Jain deliberated on the concerned theme of the seminar.

The Institute of Cost Accountants of India-Navi Mumbai Chapter

The Chapter organized a Swachh Bharat Abhiyaan as part of the 'Jagrukta Week' on October 2, 2016 and the speaker of this event was CMA Vaidyanathan Iyer. The speaker emphasized the importance of cleanliness in day to day activities at home and in society.

The Institute of Cost Accountants of India-Bhopal Chapter

The Chapter organized felicitation of the students qualified in the CMA examination. The management committee members and coaching administrator CMA Ritesh Sharma were present on the occasion. The Chapter on October 2, 2016 organized 'Jagrukta Week' relating to Swachh Bharat mission. CMA Yogesh Chourasia, secretary, CMA Ritesh Sharma, coaching administrator, other members, staffs and students of the chapter took swachh Bharat pledge and under took cleaning activities.

The Changing Role of Management Accountants

✤ ***Enterprise Resource Planning (ERP):***

ERP Systems are among the most topical subjects in the current business environment. Organizations implement these systems to become more efficient as well as integrate and modernize the whole business. A systems audit involves a detailed analysis and evaluation of complete system - accounts payable or accounts receivable system. There would be a sea-change required in the ERP or Accounting systems established. Those systems are to be made GST-compliant. CMAs would be the facilitator to conduct the systems audit rigorously and guide in systems development.

✤ ***Corporate Governance and Ethics:***

The Corporate Governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. Good corporate governance is all about the trust that is established over time between companies and their different stakeholders. The role of the professionals like CMAs in this setting can be to maintain proper balance between the components of the system, ensure that the audit and accounting tools are playing proper governance roles, and that the pillars of good governance procedures are well in place. It is also his duty to aid the setting up of proper controls, efficient and effective audit system and good fraud risk management as well as fair and adequate disclosure that satisfies existing international standards and best practices.

✤ ***Sustainability Reporting:***

A Sustainability report provides information on the economic, environment, social impact caused by the business activities, organization's values and governance model and exhibits the link amid its strategy and commitment to a sustainable global economy. The sustainability report can also supplement the integrated report with details from the perspective of sustainability. The CMAs, in this situation, can support with professional advice to address the sustainability of the enterprises within which they can operate by understanding the implications of non-traditionally measured assets, liabilities, and income that form the basis of an organization's worth and wealth. They can recognize the factors contributing to the sustainability of the organization with a full picture of both the organization's value and the risks that need to be addressed in maintaining and enhancing that value.

- ***Corporate Social Responsibility (CSR) Audit:***

As per Section 135 of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee to assist Board to frame and monitor the CSR Policy of the company from time to time and recommend the amount of expenditure to be incurred on the activities referred. Thus CMAs can work as an Internal Auditor to perform CSR Audit for identifying environmental, social or governance risks faced by the organization and suggest appropriate remedies accordingly. They can assist the CSR Committee and the management board in decision making and for strategic management. Effective CSR Audit helps to formulate sound operating framework for CSR implementation.

- ***Goods & Services Tax (GST):***

Goods & Services Tax (GST) is a momentous reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system. The professionals like CMAs have immense role to play in this arena as a consultant and a catalyst for due compliances of law relating to goods and services tax to the general business community and spread tax-literacy and GST awareness. CMAs are recognized to make representations before the Appellate Tribunals under the Indirect Taxation statutes in India. They would continue to represent even in post-implementation of GST for Dispute Resolution.

- ***Initiatives for Startups:***

Startup India is a flagship initiative of the Government of India, intended to build a strong ecosystem for nurturing innovation and Startups in the country. This will drive sustainable economic growth and generate large scale employment opportunities. The Government, through this initiative aims to empower Startups to grow through innovation and design. The movement must aim at reducing cost. The CMA professionals can apply Cost management techniques like Resource Mapping, Lean Manufacturing, Total Quality Management, Supply Chain Management, etc. to carry out in-depth review of a company's expenditures and make recommendations about where costs can be better controlled or reduced in order to boost innovation and sustainability.

- ***Performance Measurement and Management:***

Effective performance measurement is a key to ensure that an organization's strategy is successfully implemented. It is about monitoring an organization's effectiveness in fulfilling its own predetermined goals or stakeholder requirements. A company must perform well in terms of cost, quality, flexibility, value and other dimensions. Here, the professionals like CMAs can frame effective performance measurement system that enables a company to meet these demands successfully and ensure better informed and better decision making at both strategic and operational levels.

CMA 2016-17
CAREER AWARENESS PROGRAMME

CAREER AWARENESS PROGRAMMES HELD DURING OCTOBER 2016 *

Date	HQ/Region/Chapter	Venue
1/10/2016	Bhubaneswar	SAI International School
1/10/2016	Bhubaneswar	BJEM Public School
1/10/2016	Navi Mumbai	CKT (Changu Kana Thakur) Arts, Commerce and Science College, New Panvel
1/10/2016	Udaipur	Pacific College of Management, Udaipur
3/10/2016	HQ	Taradevi Harakh Chand Kankaria Jain College, Kolkata
3/10/2016	Rajpur	D.V.A.S School, P.O - Harinavi
4/10/2016	Vijayawada	Syed Appalaswamy Degree College
6/10/2016	Bhubaneswar	DAV Public School, Pokhariput
6/10/2016	Bhubaneswar	DAV Public School, Chandrasekhar Pur
8/10/2016	Udaipur	Kenderiya Vidhiyala Pratap Nager, No 2, Udaipur
17/10/2016	Udaipur	Alok Se, Secondary School Sector- 11 Udaipur
18/10/2016	Vijayawada	VJP &DLB Degree College
18/10/2016	Vijayawada	Nirmala Junior College
18/10/2016	Vijayawada	VJP & DLB Degree College

18/10/2016	Trivandrum	Institute of Accounting and Taxation
18/10/2016	Kalyan Ambernath	Swami Hansmuni Maharaji Degree College of Commerce
19/10/2016	Bhubaneswar	DAV Public School, Chandrasekhar Pur
21/10/2016	Bhubaneswar	Delhi Public School, Phulnakhara
22/10/2016	Trivandrum	Govt. Girls Higher Secondary School, Adoor
22/10/2016	Udaipur	Govt. Sr. Secondary School, Suralpole, Udaipur
24/10/2016	HQ	Loreto Day School, Elliot Road, Kolkata
26/10/2016	Jalandhar	Kanya Maha Vidyalaya (KMV College)

PROGRAMMES HELD IN SEPTEMBER 2016 BUT REPORTED IN OCTOBER 2016 *

Date	HQ/Region/Chapter	Venue
1/9/2016	Vijayawada	SRR & CVR Junior College (MEC)
2/9/2016	Vijayawada	BSNR College
7/9/2016	Vijayawada	SRR & CVR Junior College (CEC)
9/9/2016	Vijayawada	SRR & CVR Junior College (CEC II) Telugu Medium
9/9/2016	Vijayawada	Gowtham Degree College
11/9/2016	Vijayawada	SRR & CVR Junior College
12/9/2016	Vijayawada	Sarada Junior College
12/9/2016	Vijayawada	Abhyudaya Junior College
14/9/2016	Vijayawada	Sapthagiri Junior College
15/9/2016	Vijayawada	Triveni Junior College
19/9/2016	Vijayawada	SRR & CVR PG College
20/9/2016	Trivandrum	TEDS Academy
21/9/2016	Vijayawada	SRR & CVR Degree College
23/9/2016	Bhubaneswar	Ramadevi Women University
26/9/2016	EIRC	Hiralal Pal College, Nabagram, Konnagar, Hooghly
26/9/2016	EIRC	M C Kejriwal Vidyapith, Liluah, Howrah
27/9/2016	Vijayawada	Sarada Degree College
27/9/2016	Vijayawada	Sri Satyasai Junior College
28/9/2016	Rajpur	Gobindapur Ratneswar High School, Baruipur
29/9/2016	Bhubaneswar	KIIT International School
30/9/2016	Trivandrum	Gregorian College of Advanced Studies
30/9/2016	Vijayawada	Lakkireddy Hanimireddy High School

PROGRAMMES HELD IN AUGUST 2016 BUT REPORTED IN OCTOBER 2016 *

Date	HQ/Region/Chapter	Venue
25/8/2016	Trivandrum	Sanghavi Kesaii Commerce College
31/8/2016	Vijayawada	Gowtham Degree College

PROGRAMMES HELD IN JULY 2016 BUT REPORTED IN OCTOBER 2016 *

Date	HQ/Region/Chapter	Venue
17/7/2016	South Orissa	Sree Kanta's Commerce Special

* *As reported till 02-11-2016*

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

MANAGEMENT ACCOUNTANCY

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2016

Saturday 10th December, 2016 09.30 A.M to 12.30 P.M	Saturday 10th December, 2016 02.00 P.M to 05.00 P.M	Sunday 11th December, 2016 09.30 A.M to 12.30 P.M	Sunday 11th December, 2016 02.00 P.M to 05.00 P.M	Monday 12th December, 2016 09.30 A.M to 12.30 P.M
Management Accountancy	Advanced Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

EXAMINATION FEES

Per Group	Rs 2500/-

1. (a) Application Form for Management Accountancy Examination is available from Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad on payment of Rs 50/- per form.

   (b) Students can also download the Examination Form from ICAI Website at www.icmai.in.

2. **Last date for receipt of Examination Application Form without late fees is 30th September, 2016 and with late fees of Rs 300/- is 10th October,2016.**

3. Examination fees to be paid through **Demand Draft** of requisite amount drawn in favour of **"The Institute of Cost Accountants of India"** and payable at Kolkata.

4. Students may submit their Examination Application Form along with the requisite amount at the Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad. Any query in this regard may be addressed to Directorate of Advanced Studies, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad.

5. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bewar City(Rajasthan), Bhubaneswar, Bilaspur, Bokaro,Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam,Erode, Faridabad, Ghaziabad, Guwahati, Hardwar,Hazaribagh, 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, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry,PortBlair, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.

6. **A candidate who is fulfilling all the conditions only will be allowed to appear for the examination.**

CMA M P S Arun Kumar
Dy.Director (Advanced Studies)

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

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER- 2016

FOUNDATION COURSE EXAMINATION

Day & Date	Foundation Course Examination Syllabus-2012 Time 2.00 p.m. to 5.00 p.m.
14th December, 2016 Wednesday	Fundamentals of Economics & Management
15th December, 2016 Thursday	Fundamentals of Accounting
16th December, 2016 Friday	Fundamentals of Laws & Ethics
17th December, 2016 Saturday	Fundamentals of Business Mathematics & Statistics

Examination Fees

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

1. **The last term of Foundation examination in 2012 syllabus will be December, 2016.**
2. **The Foundation Examination will be conducted in Offline, descriptive (Pen & Paper) mode only**. E**ach paper will be of 100 marks and for 3 hours duration.**

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

4. The examination application form can also be downloaded from the Institute website www.icmai.in and the student may apply in offline mode by attaching demand draft of requisite examination fees. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of $ 10 per form.

5. (a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card or Net banking

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(b) Students can also pay their requisite fee through pay-fee module of IDBI Bank

6. Last date for receipt of Offline Examination Application Forms without late fees is 30th September, 2016 and with late fees of Rs. 300/ is 10th October, 2016. In case of online Examination Application with payment gateway by using Credit/Debit Card or Net banking, the late fees of Rs.300/-will be waived and the last date for application is 10th October, 2016.

7. Examination Centres: Adipur -Kachchh(Gujarat), Agartala, Agra, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bewar City(Rajasthan), Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad , Durgapur, Ernakulam,Erode, Faridabad, Ghaziabad,Guntur,Guwahati, Haridwar,Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Palakkad, Panaji (Goa), Patiala, Patna, Pondicherry,Port Blair, Pune, Raipur ,Rajahmundry, Ranchi,Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.

7. A candidate who is completing all conditions for appearing the examination as per Regulation will only be allowed to appear for examination.
8. Probable date of publication of result: **21st February, 2017. D**

Dr. D. P. Nandy
Director
(Examination)

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

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

INTERMEDIATE AND FINAL COURSE EXAMINATION TIME TABLE & PROGRAMME –DECEMBER 2016

	PROGRAMME FOR SYLLABUS 2012	
Day & Date	**Intermediate Time: 9.30 A.M. to 12.30 P.M.**	**Final Time: 2.00 P.M. to 5.00 P.M.**
Saturday, 10th December, 2016	Financial Accounting	Corporate Laws and Compliance
Sunday, 11th December, 2016	Laws, Ethics and Governance	Advanced Financial Management
Monday, 12th December, 2016	Direct Taxation	Business Strategy & Strategic Cost Management
Tuesday 13th December, 2016	Cost Accounting & Financial Management	Tax Management & Practice
Wednesday, 14th December, 2016	Operation Management and Information Systems	Strategic Performance Management
Thursday, 15th December, 2016	Cost & Management Accountancy	Corporate Financial Reporting
Friday, 16th December, 2016	Indirect Taxation	Cost & Management Audit
Saturday, 17th December, 2016	Company Accounts and Audit	Financial Analysis & Business Valuation

EXAMINATION FEES

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

1. **Application Forms for Intermediate and Final Examination has to be filled up either through online or in offline modes. The examination application form can also be downloaded from the Institute website www.icmai.in and the student may apply in offline mode by attaching demand draft of requisite examination fees. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of $ 10 per form. Online fees will be accepted through online mode (including Pay-fee Module of IDBI Bank).**
2. **STUDENTS OPTING FOR OVERSEAS CENTRES HAVE TO APPLY OFFLINE AND SEND DD ALONGWITH THE FORM.**
3. **(a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card or Net banking.**
   (b) Students can also pay their requisite fee through pay-fee module of IDBI Bank.
4. **Last date for receipt of Examination Application Forms without late fees is 30th September, 2016 and with late fees of Rs. 300/- is 10th October, 2016. In case of online Examination Application with payment gateway by using Credit/Debit Card or Net banking, the late fees of Rs.300/- will be waived and the last date for application is 10th October, 2016.**
5. **THE LAST TERM FOR EXAMINATION IN 2012 SYLLABUS FOR INTERMEDIATE & FINAL EXAMINATION WILL BE DECEMBER, 2016**
6. **The Finance Act 2015 will be applicable for the Subjects Direct Taxation, Indirect Taxation and Tax Management & Practice under Syllabus 2012 for the purpose of December 2016 term of Examination.**
7. **The Companies (Cost Records & Audit) Rules 2014 will be applicable for Paper 10 - Cost & Management Accountancy (Intermediate) and Paper 19 - Cost and Management Audit (Final) for December 2016 term.**
8. **The provisions of the Companies Act 2013 will be applicable for Paper 6 - Law, ethics and Governance (Intermediate) and Paper 13 - Corporate Laws and Compliance (Final) to the extent notified by the Government at least six months prior to the date of the examination.**
9. **If a student obtains at least 60 per cent marks in any paper, the benefit of carry forward/exemption is allowed for the immediately successive three terms of Examination only.**
10. **Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Agra, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bewar City(Rajasthan), Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam,Erode, Faridabad, Ghaziabad,Guntur, Guwahati, Haridwar,Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Palakkad, Panaji (Goa), Patiala, Patna, Pondicherry,Port Blair, Pune, Raipur ,Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.**
11. **A candidate who is fulfilling all conditions specified for appearing in examination will only be allowed to appear for examination.**
12. **Probable date of publication of result: Inter & Final – 21th February, 2017.**

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

Dr. D. P. Nandy
Director (Examination)

Registered KOL RMS/139/2016-18
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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

HQ: CMA Bhawan, 12 Sudder Street, Kolkata - 700016 / Ph: 091-33-2252 1031/34/35/1602/1492
Delhi Office: CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110003 / Ph: 091-11-24666100
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FEES STRUCTURE

Course	Mode of Coaching
	Oral/Postal
Foundation	₹ 4000/-
Intermediate	₹ 20000/-
Final	₹ 17000/-

**Installment Facility Available, refer www.icmai.in for details*

ELIGIBILITY CRITERION FOR PURSUING COURSES

(I) Admission in Foundation Course

- Passed Class 10
- Pursuing Graduation/Undergraduates

(II) Registration to Intermediate Course

- Passed CMA Foundation Examination; or
- Qualified Competency Level of Certified Accounting Technicians (CAT) Course of the Institute; or
- Graduates of any discipline (other than music, fine arts and performing arts); or
- Qualified Engineers or Engineering Graduates (after qualifying 2nd Year studies)
- Passed ICSI Foundation; or
- Intermediate qualified students of The Institute of Chartered Accountants of India
- CIMA, UK (eligible for exemptions)
- ACCA, UK (eligible for exemptions)

EXEMPTION FOR WORKING EXECUTIVES OR PERSONS WITH RELEVANT QUALIFICATION AND EXPERIENCE

- Computer Training
- Orientation Programme
- Practical Training

OPPORTUNITIES TO AVAIL MORE GLOBALLY RECOGNIZED QUALIFICATION

- **CIMA (UK)** - Exempted from All PAPERS upto STRATEGIC LEVEL. Appear in Strategic Case Study - Exam
- **ACCA, UK** - to appear at the Professional Level only (exempted from Fundamentals consisting of 9 papers)
- **IMA, USA** - reciprocal membership

SYLLABUS - 2016

WORLD CLASS COURSE CURRICULUM UNDER SYLLABUS 2016

FOUNDATION COURSE
P1 - Fundamentals of Economics & Management (FEM)
P2 - Fundamentals of Accounting (FOA)
P3 - Fundamentals of Laws and Ethics (FLE)
P4 - Fundamentals of Business Mathematics & Statistics (FBMS)

INTERMEDIATE COURSE
Group I
P5 - Financial Accounting (FAC)
P6 - Laws & Ethics (LNE)
P7 - Direct Taxation (DTX)
P8 - Cost Accounting (CAC)
Group II
P9 - Operations Management & Strategic Management (OMSM)
P10 - Cost & Management Accounting and Financial Management (CMFM)
P11 - Indirect Taxation (ITX)
P12 - Company Accounts & Audit (CAA)

FINAL COURSE
Group III
P13 - Corporate Laws & Compliance (CLC)
P14 - Strategic Financial Management (SFM)
P15 - Strategic Cost Management - Decision Making (SCMD)
P16 - Direct Tax Laws and International Taxation (DTI)
Group IV
P17 - Corporate Financial Reporting (CFR)
P18 - Indirect Tax Laws & Practice (ITP)
P19 - Cost & Management Audit (CMAD)
P20 - Strategic Performance Management and Business valuation (SPBV)

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