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The Management Accountant

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

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IDEALS
THE INSTITUTE STANDS FOR

❑ to develop the Cost and 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.

MISSION STATEMENT

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

VISION STATEMENT

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

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> *In India, the growth of service sector has been phenomenal during the last two decades both in terms of generating employment potential and contribution to national economy. Thanks to the economic reforms ushered post 1991 paving the way for liberalization and globalization which opened the flood gates for foreign investment, transfer of goods, capital and intellectual capital from one country to another.*

The entire economy of a nation can be categorized into three sectors namely, the primary sector (consisting of agriculture, fishing and extraction), the secondary sector (consisting of manufacturing and production related activities) and the service or the tertiary sector (consisting of activities which are service oriented). There are a plethora of activities which fall under 'service sector'—Banking, Consultancy, Education, Entertainment, Hospitality, Health care, Insurance, Retail, Transport, Tourism, Telecom, IT — the list is endless. The basic hall mark of service sector is the offering or rendering of services (intangible products) — the organizations engaged in such services primarily earn their revenue/income through rendering/offering such services.

The service industry today, is one of the largest and fastest growing sectors in the world economy making significant contribution to global output and employment. This sector alone, as on date, contributes more than 50% of GDP of India. **In India, the growth of service sector has been phenomenal during the last two decades both in terms of generating employment potential and contribution to national economy. Thanks to the economic reforms ushered post 1991 paving the way for liberalization and globalization which opened the flood gates for foreign investment, transfer of goods, capital and intellectual capital from one country to another**. Indian economy is the second fastest major growing economy in the world ranking fifteenth in the services output providing employment to about 25% of the total workforce in the country. The share of service sector has grown by leaps and bounds from 42.69% in 1990-91 to almost 67% in 2009-10. I would not, however, like to dwell upon with too much of statistics on the growth of this sector as the same have been detailed elaborately by our esteemed authors in their respective articles which form the 'cover feature' of this issue.

The prospect of the service sector depends to a great extent on how efficiently and economically the providers of service can render service to their customers and on this front the Cost & Management Accountants (CMA's) can play a pivotal role in ensuring cost effective services yet attempting to deliver the best at competitive prices. The rapid expansion of the service sector has opened up wide vista of opportunities for CMA's. They are the ones who identify unnecessary costs and eliminate those which do not add value. By application of such techniques like Activity Based Costing, Backflush Costing, Standard Costing, Kaizen costing, Zero Base Budgeting, Total Cost Management they are able to advise the service providers on how to remain competitive while not compromising on quality. The CMA's have also been found to be extremely useful in management consulting where their analytical skills and application of their financial acumen come into play which can assist the business and industry to improve the use of their resources, increase their efficiency and achieve the objectives. The breadth of management advisory services rendered by CMA does reflect their expertise in diverse areas. Such services hinges upon the domain knowledge that they have acquired on financial management, planning and financial policy determination.

With the advancement of technology and advent of information technology in the field of Finance, service industry (specially Telecom, IT/ITES based companies) are increasingly making use of ERP systems (SAP/BAAN etc) and tools like Cognos, TM 1, etc where the programming is so designed that generate accurate and quality reports in a fraction of time. The CMA's working in such functions can contribute to a great deal in generating accurate MIS reports for the top management and for the end users.

To conclude, it is necessary to sound a word of caution. There is no denying the fact that the growth of service sector in recent years has been more as compared to the industrial sector. The economists are of the view that if the service sector bypasses the industrial sector, economic growth may be distorted. Service sector growth must be supported by proportionate growth of the industrial sector otherwise the service sector growth will not be sustainable. It is true that in India, the contribution of service sector in GDP has sharply risen and that of industry has fallen. But it is equally true that the industrial sector too has grown, and grown quite impressively through the entire nineties (except in 1998-99). Thus, the service sector has grown at a higher rate than industry which too has grown more or less in tandem.

The service sector is here to stay and grow. Never before have the opportunities been so large and the time now seems to be ripe for the CMA's to seize the opportunities with both hands. This will throw up more opportunities for them who now should be geared up fully to take on the challenges in order to deliver the best.

The articles included in this issue will throw light on this important facet and am sure our dear readers would find them quite useful. We wish you a happy reading!

M. Gopalakrishnan, President

> **Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.** **– Albert Einstein**

Dear Professional Colleagues,

Each era introduces new challenges to the humanity and society. Domain experts and Professionals with their skills and knowledge have become the champions of the key socio-economic transformations in today's world. It is however important for them to clearly articulate the issues and present the solutions in a format understandable by the common man. The happenings around us such as the **"cry against corruption"**, **"occupy Wall Street"**, and other economic upheavals in various parts of the world point out that society, environment and governance should not be sacrificed at the altar of wealth creation. Other forms of capital such as manufactured, social, environmental and intellectual also need to be identified in addition to the financial capital, for business sustainability. There is a renewed emphasis on measuring, managing and controlling these new forms of capital, which have a bearing on the enterprises in the long run. As Cost and Management accountants we, as one of the custodians of national resources, have a duty to see that we support the governance structure that encourage judicious and sustainable use by business and industry.

The corporate reporting is also undergoing a serious challenge both from within the accounting fraternity as well as the society in general. There is an increasing pressure to change the perspective of corporate reporting. According to a study by CIMA-UK "The reporting should bear the responsibility of stewardship to create economic, social and environmental capital that should provide a powerful framework for financial, investment and other critical business decisions". The current form discloses the price of everything but value of nothing, with overworked phrase of **"shareholder value"** appearing with remarkable regularity in all the annual reports. While the past is accurately reflected duly certified in complicated words by professionals, there is little guidance on what the future beholds. Unless the future reporting recognises the **"Triple Context"** of environment, socio political, and global economic environment, the enterprise reporting will not be meaningful for key stakeholders. In an era where perceived wealth is created in few nano seconds of stock market operations, business sustainability is a long term process, where multi dimensional reporting tools of management accounting should play a major part. It is very important that the members of the profession, should widen their vision and mark up the importance and need of integrated reporting, which is soon going to be a reality for businesses the world over. I am happy to inform the members that ICWAI has been in the forefront of the movement, thanks to the vision of the Council, in encouraging this as a professional social responsibility. ICWAI has been acknowledged as one of the prime movers in India and for taking the leadership role, by facilitating the connect between the Ministry of Corporate Affairs, Indian Institute of Corporate Affairs, Global Reporting Initiative and the industry on this key development.

Chapter Developments

Myself and Vice President, had the pleasant task of addressing the members and students of Noida Chapter of Cost Accountants on 2nd October 2011, on the occasion of shifting of the chapter to their new premises at Shri Aurobindo Bhavan, Noida. I compliment the Noida Chapter led by Shri Suraj Prakash, Chairman for the excellent service they are rendering to the members and students in that area.

Meetings with Key Officials

Myself and Vice President met Shri S. Dutt Majumdar, the then Chairman-CBEC and other senior officials of Board on 12th October, 2011 and explained to them the role being played by Cost Accounting professionals on various assurance requirements of the Department. We also had the opportunity to meet Shri Karan Sharma, Director

General (Audit), CBEC on 14th October, 2011 to discuss with him the probable content of special training programme that can be conducted by the Institute. Council Members, Shri Harikrishan Goel, Shri Manas Kumar Thakur and I met Shri Sachin Jain, IRS, a team member of the GST initiative of the CBEC Department and discussed with him the areas in which the Institute and profession can play a key role.

India Corporate Week

The Ministry of Corporate Affairs is planning to organise the Investor Week and India Corporate week celebrations in a big way this year as well. ICWAI will be extending support for this major initiative by MCA. As you are aware ICWAI is actively participating in all Public Awareness programmes and Corporate Programmes conducted by the MCA. On 22nd October, 2011, Vice President and I participated in the meeting called by Hon'ble Minister for Corporate Affairs, Dr. M. Veerappa Moily to discuss the organisation of Programmes under MCA. The Corporate Week shall be celebrated during the week starting from either 20th January 2012 or 27th January 2012.

India Investors Meet

Likewise, India Investor Meet to be organized on 24th December, 2011 has been assigned to your Institute. ICWAI and other professional Institutes will be supporting this event.

I am happy to inform that your Institute will play a vital role in the conduct of such a prestigious event. Further, your Institute has been assigned to organise large number of Investors' Awareness programme and I invite all Cost Accountants to play an important role in organising Investors' Awareness programme.

The Institute is continuing its support to the MCA in conducting training programmes on XBRL for members in industry and practice. A Programme was held in Delhi on 14th October, 2011 organised by Northern India Regional Council attended by Vice President, Other Council Members and me, in which senior officials from the Ministry of Corporate Affairs participated. Various Chapters and Western India Regional Council of ICWAI also organised programmes on 'XBRL' in the month of October, 2011.

ICWAI in PAIB Committee of IFAC

ICWAI representative in PAIB Committee of IFAC Shri A. N. Raman past CCM and the Technical Advisor Shri A. S. Durga Prasad, Council Member attended the meeting of the committee held at Toronto from October 18 to 20th, 2011. High level technical documents on Implications of Environment, Social and Governance for accountants in business, response to discussion paper on Integrated Reporting, Predictive Analytics etc. have been discussed in the agenda among other things and we have played a very significant role in deliberations. Representatives of Toronto Overseas Centre of ICWAI also met the visiting team and had a very useful discussion on the way forward.

Some major decisions were taken at the Executive Committee meeting held on 23rd October, 2011. The same day the Finance Committee reviewed the provisional financial statements for the half year ending 30th September, 2011.

Indirect Taxation Committee

On 24th October, 2011, at Bengal Club, Kolkata, an interactive discussion was held on "Recent Changes in Indirect Taxation by the Government of India". The discussion centered on Service Tax, Point of Taxation Rules 2011, proposed Negative List of Services and proposed Goods & Services Tax. In my interaction, I upheld the need for application of costing techniques and generally accepted cost accounting principles and the availability of audited cost records to help the process of audit and assessment by the department, to plug revenue leakages. The gracious presence of Ms. Sheila Sangwan, Member, CBE & C, Chief Guest , Shri M. S. Badhan, Chief Commissioner of Central Excise and Service Tax, West Bengal, Guest of Honour, Shri A. K. Das, Chief Commissioner of Customs, West Bengal, Shri Kennedy, Director (Service Tax),enabled me to exchange views on the role the cost and management accounting professionals can play in the indirect taxation area. Shri Manas Kumar Thakur, Chairman Indirect Taxation Committee and Dr.Sanjiban Bandyopadhyaya, Chairman, Direct Taxation Committee, are specially congratulated for making this programme, involving key diginatries, a grand success.

Training & Placement Directorate

I feel delighted to inform the members about the successful completion of the first phase of the Campus Placement Programme organised by the Institute in 4 locations-Mumbai, Chennai, Kolkata and New Delhi during 15-23rd October 2011 for June 2011 final pass outs. 163 candidates out of 450 students who offered themselves for campus placement appeared and received final offer letters. As reported earlier in this communiqué only, Coal India Ltd, a Maharatna PSU recruited 111 candidates. The Campus Placement for June 2011 final pass outs will continue. I am sure that all the students who got placement would add value to the organisations in which they are placed and they would grow as a good Corporate Citizen of this great country.

I feel further happy to announce that Food Corporation of India has shown interest in engaging those candidates who have cleared the Intermediate Examination of ICWAI as Trainees in their various units across the country. The detailed announcement for this programme will be made shortly.

Professional Development Directorate
National Seminar on XBRL at Chennai

As you are aware that Ministry of Corporate Affairs (MCA) has mandated XBRL filing for select class of companies vide "Companies (Filing of Documents and Forms in eXtensible

Business Reporting Language) Rules, 2011" and to enable this e-filing they have issued requisite e-Forms 23AC-XBRL and 23ACA-XBRL. These e-forms can be filed using XBRL Taxonomy, Business rules, and recently issued MCA Validation Tool. Vide notification dated 28th July, 2011, MCA also authorised cost accountants in practice for verification and certification of these financial statements on the e-forms. To equip the members with necessary knowledge, the ICWAI organized series of seminars on XBRL Taxonomy at metro and big cities in association with MCA, TCS, software vendors, Regional Councils and Chapters. Further after release of validation tool by MCA on 30th September 2011 to enable verification of XBRL Instance Document, it is imperative that the members further need knowledge on validation tool apart from other technicality of XBRL filing. Towards these initiatives, the ICWAI along with SIRC of ICWAI is organizing a National Seminar on XBRL on 10th November, 2011 at Hotel Deccan Plaza, Chennai. The detail in this regard is hosted in the Institute website. I am sure members in employment and practice will attend the National Seminar in good number.

Seminar on XBRL at other place

Also after release of validation tool by MCA on 30th September 2011 to enable verification of XBRL Instance Document and give further training to members in practice and employment, ICWAI in association with MCA, software vendors, Regional Councils and Chapters also organizing seminars on XBRL at various places.

National Seminar on Cost and Risk Management at Chennai

ICWAI in association with the Institute of Public Enterprises Hyderabad is organizing a National Seminar on Cost and Risk Management at Hotel Ambassador Pallava, Chennai on 19th November 2011. The National Seminar will deliberate issues relating to Risk Management particularly, Enterprise Risk Management, Risk Management in Financial sector, Integrated Reporting, Statutory Compliances relating to Cost Accounting Records & Reports Rules etc. I request members in employment and practice to attend the National Seminar and take the advantage of deliberations by eminent speakers.

CEP Directorate

The CEP committee held its first meeting of the year on 17th October, 2011 at Goa and discussed the programmes that have to be conducted in the ensuing year. In the same meeting, the CEP Committee decided to formulate new guidelines for the CEP Hours for those members staying in remote areas and those staying abroad. The new guidelines will be issued after ratification by the Council. The CEP Committee revised the fee structure and also the honorarium for faculty members.

During the month of October, 2011 following programmes were organized:

1. In-house programme for National Highways Authority of India on 'Finance and Accounting during 17-21 October, 2011 at Chandigarh
2. Two Programmes on 'Contract Management' and 'Corporate Tax –Planning, Compliance and Management' were simultaneously organized during 18-21 October, 2011 at Goa.
3. The CEP Directorate also took the initiative to organize XBRL programmes at following locations which were well received by the participants.
   (i) At Mumbai on 8th October, 2011
   (ii) At New Delhi on 14th October, 2011
   (iii) At Bhubaneshwar on 23rd October, 2011

Membership Directorate

During the month of October, 2011, 250 members were admitted as AICWA and 40 were advanced to Fellowship.

It has been decided that henceforth the list of newly admitted AICWA & FICWA shall be uploaded on the website of the Institute immediately after the Executive Committee Meeting for information of all concerned.

To facilitate all concerned, a module containing the status of practising members has been created on the website for making available the updated information of practising members as well as to enable downloading the updated status from the website.

With best wishes for the festivals of Eid, Guru Purab and Karthik Poornima being celebrated in the month of November 2011,

With regards,

(M Gopalakrishnan)
President, ICWAI
1st November, 2011

Dear Professional Colleagues,

It gives me great pleasure to address you through our Management Accountant Journal and share some thoughts. I am thankful to my colleagues in the council who reposed confidence and entrusted me with the responsibility of the Cost & Management Accounting Committee. The role of CMA committee under the present scenario is very important and the committee is drawing up plans to live up to the expectations of the members and other stake holders. I would like to share with the members one of the recent publications of IFAC Competent and Versatile: "How Professional Accountants in Business Drive Sustainable Organization Success". The publication aims to support global accountancy profession in responding to the changing expectations of the business organisations and society at large. The publication highlights the importance of professional accountant's mindset that needs to embrace: professionalism and ethical behaviour, professional judgement, organizational and environmental awareness etc. The publication is available on IFAC website and worth the reading. From the CMA committee, we have begun with three webcast last month on different topics including, Sustainability Reporting, Derivatives and Recent Notifications from Cost Audit Branch. We propose to webcast the following topics during the next six months :

- Activity Based Costing/Time-based Activity Based Costing
- Balanced Scorecard
- Performance Pyramid
- Intellectual Capital
- Customer Valuation/Profitability
- Supply Chain Costing
- Target Costing
- Kaizen
- Lean Accounting
- Throughput Accounting
- Project Accounting
- Life Cycle Costing
- Value Engineering
- Quality Costing
- Risk Management
- Strategic Cost Management
- Contract Costing

We also propose to conduct Training programs on Systems Audit based on the standards of ISACA with whom the Institute has license agreement. We are also pursuing to sign up with Institutes of repute for Risk management certification program which will give an edge to our members in service and also in practice. We propose to have workshops on topics related to Risk management such as Organizations Uncertainty and Risk, Managing Organization Risk and Measuring Organization risk, Performance Management and Measurement, Managing Intellectual Capital, Managing Organisation Change, Supply Change Management etc which will give hands on experience to the participants.

We are planning for a knowledge bank/e -library on our website where in different segments of articles and case studies would be available for members to download. Our institute organises different programs at different constituent levels such as chapter, regional councils and headquarters. On an average, there are more than 200 programs organised across the country which results in atleast 200 presentations. Apart from these, we have four Regional Conventions and one National Convention which results in atleast more than 50 presentations. These all can be part of the Knowledge Bank which we propose to capture and make available for members who could not participate in the respective programs. Important articles related to Cost & Management Accounting in our Journal would be a part of the Knowledge Bank.

I thank all the committee members and members of the council for extending their continued support in the growth of our profession.

With Warm Regards,

A. S. Durga Prasad

Chairman,

Cost & Management Accounting Committee.

7th November, 2011

CMAs in Advertising Industry

N. Shastry Tata

Managing Director—Chennai Operations
IRSM Astute Consulting (Chennai) Pvt.Ltd.

Role of "Cost" in Advertising

The most important factor "Cost" of making the advertisement, personnel cost involved in making, servicing and releasing the advertisement in various media, media negotiation, discounts from media, if any, specific negotiated rate from various media for a particular campaign say for launch or re-launch of a new product/product(s) has become the new factor in determining the remuneration/fee (not commission) to the advertising agencies.

Hence the costs are segregated as :

(a) Direct Personnel Cost (collected and collated as per time sheets of the personnel involved in making the advertisement).

(b) Direct Material (third party) Cost viz., say for advertisement film making, payment of hire charges for hoarding contractors,preparation of artwork etc.

(c) Indirect Costs relatable and allocable to a particular advertisement.

(d) Overhead Costs apportionable to a particular campaign/product.

Fee-based structure in advertising agency—Role of CMA

The traditional commission structure slowly started giving way to retainer fee or fee structure.

The fee is evaluated by the advertising agencies considering the following costs :

1. Direct Personnel Cost involved in the production of a particular advertisement. It generally includes direct cost of creative personnel, client servicing personnel and studio time, if any, in preparation of artwork/production of a film etc. Time sheets need to be maintained by each person working on a particular product campaign/assignment.

2. Direct material cost—especially which is very high in advertisement—is film making which includes model cost, shooting costs,travel,lodging boarding and all other incidentals connected thereto.

3. Indirect cost of all other personnel involved viz., Secretarial staff, Accounts, Admn., IT etc.

4. Overhead costs allocable i.e. rent, electricity and other costs incurred as a whole and allocated on a percentage basis.

5. Agreed margin with the client.

Thus this type of fixing the fee necessitates collection of costs as detailed above and then preparation of the cost sheet (as in manufacturing companies) and submitting it to the client for his confirmation. This being a highly transparent system minimizes back and forth discussion in finalization of contract with the client.

The best person who is knowledgeable and equipped to do this job is none other than a CMA whose vast knowledge helps in collecting, collating and presenting the data in the agreed format with the client. The role of CMA is not only limited to Accounts department but can become a important organ of the Agency itself by instituting various costing methods in all the departments —

(a) Production/Film department—Preparation of detailed cost sheet based on the brief/script. This involves travel, boarding, lodging and incidental expenses of the crew members for shooting, models (film stars/cricketers etc.), evaluating the cost estimates given by film production houses and thus arriving at a consolidated cost sheet for presentation to the client for his approval.

(b) Studio—Studio personnel gives shape to the ideas generated by the creative department. If effective costing principles are put in the system each campaign/product/job wise cost can be collected and presented to the management for effective control by the management. This needs robust costing system, effecient techniques of control and periodical MIS presentation to the Management for effective control.

(c) Others – While advertising agencies present their understanding of the clients' brief, various concepts are presented in order to get a final confirmation/plan approval. During this process advertising agencies incur huge expenses which needs constant monitoring and putting in place effective cost control measures in order to evaluate the business earned during a particular period versus expenses incurred. Comparison with budgeted expenses, variance analysis with periodical MIS to the management will act an effective tool in the hands of the management and possible recovery from the client.

The above fee based methodology leads to the following advantages to both client (advertiser) and the advertising agency.

Advantages to the Client (Advertiser)

1. Highly transparent
2. Ease of finalization of contract
3. Client is fully aware of the resources allocated by the Agency
4. Client can control his budgets based on the agreed contractual terms
5. Client can estimate and forecast the advertising budgets with greater control.

Advantages for Advertising Agency

1. Revenue stream—being fixed—leads to better management of resources
2. Better planning of available resources
3. Estimates and budget preparation process becomes easy
4. Following costing principles in a service sector where human resource cost is the highest leads to better utilization of human capital
5. Having a dedicated team as presented to the client, leads to efficient and effective utilization of manpower.

Conclusion

Proliferation of media and medium in the present day has opened up vistas for CMAs in the new areas hitherto untouched sectors. Thus the CMA in advertising service sector—though not present in large numbers—can look at this highly dynamic industry to further his/her prospects, being part of it, and helping the organization in the process to prosper with his/her valuable contribution. ❒

Notification

Invitation for Empanelment of Resource Persons for Conducting Investors Awareness Programme

Institute feels proud to announce that Government of India, Ministry of Corporate Affairs as part of its Investors' Protection initiatives, has allocated 4000 Investors Awareness Programme to be conducted through its vast network of Regional Councils/Chapters during the year 2011-12.

ICWAI invites Expression of Interest from Cost Accountants, Financial Market Experts, Academicians having domain expertise in Financial Markets to act as Resource Persons for conducting Investors Awareness Programme across the country. The Resource Persons so retained by the Institute will have to plan and organise such programmes of two hours duration in towns (other than District Head Quarters and State Capitals). Arranging venue, organizing at least 50 participants and delivering the financial literacy to the participants are some of the initiatives expected from the Resource Persons. For this initiative, Ministry of Corporate Affairs will pay an amount of Rs.5000 (all inclusive) per programme.

Interested Persons are requested to send their detailed profile with a proposal indicating the towns where they could conduct the programme to the following address :

The Director (CAT)
The Institute of Cost and Works Accountants of India
ICWAI Bhawan
4th Floor
3- Institutional Area
Lodi Road
New Delhi 110003
Email: cat.gurumurthy@icwai.org

Service Sector in India & Role of Foreign Direct Investment

Dr. Anirban Ghosh

Assistant Professor of Commerce
Netaji Subhas Open University

Introduction

Indian economy was in deep crisis in 1991 when foreign currency reserves had dwindled to almost $1 billion; inflation had roared to an annual rate of 17 percent; fiscal deficit was very high, foreign investors and NRIs had lost confidence in Indian Economy. With the introduction of economic reforms in 1991, the era of liberalization and globalization of the economy began. Controls began to give way to the policy of deregulation and decontrol. The new economic reform, popularly known as Liberalization, Privatization and Globalization (LPG model) aimed at making the Indian economy a faster growing economy, globally competitive. The series of reforms undertaken with respect to industrial sector, and trade as well as financial sector aimed at making the economy more efficient and competitive. Liberalization and globalization of world economies has opened the doors for foreign investment, transfer of goods, capital and human resources from one country to another country. As a result, the planned economy has been transformed into a market driven economy.

The activities under the purview of the service sector are diverse in nature. The important sub-sectors are trading, transportation, and telecommunication, financial, real estate, IT and IT-enabled services and business services; community, social and personal services come within the ambit of the service industry. Now service sector is the largest and fastest growing sector in India. Following the economic liberalization in India, the service sector has gained prominence in the economy as it accounts for the largest share of GDP, and, also, that the share of this sector in GDP has been growing very rapidly. After recording a growth rate of 5.40 per cent per annum during 1981-1991, there was further acceleration in GDP growth to 7.70 per cent per annum during 2001-11.

Service Sector and the Indian Economy

The contribution of the Service Sector in India GDP has increased a lot in the last few years. The Service Sector contributed only 4.20 percent to the Indian GDP in 1951-61. Further, the Indian Service Sector's share in the country's GDP has increased from 7.3 percent in 1991-2001 to around 9.5% in 2001-11. It implies that increase in GDP growth rate was possible because of increase in contribution of service sector growth over the periods. The rapid economic growth has entailed a significant structural changes in the Indian economy such that the share of agriculture in the GDP has declined from 10 per cent in 2003-04 to about 5.4 per cent in 2010-11. There has been a sharp increase in the share of services in the GDP from 8.5 per cent to 9.6 per cent in the same period. If the structural composition is examined it can be said that decline in the agriculture has been gained by the service sector.

Table 1 : GDP growth rate at constant price (Sectoral Growth)

Year	Agriculture	Industry	Services	GDP
2003-04	10.0	6.0	8.5	8.5
2004-05	0.0	8.5	9.1	7.5
2005-06	5.8	8.1	10.6	9.5
2006-07	4.0	10.7	11.2	9.7
2007-08	4.9	7.4	10.9	9.0
2008-09	1.6	2.6	9.7	6.7
2009-10	0.4	8.3	10.1	8.0
2010-11	5.4	8.2	9.6	8.6

Source : CSO

As per classification of Central Statistical Organization, the services sector includes four broad categories, namely (a) trade, hotels, and restaurants; (b) transport, storage, and communication; (c) financing, insurance, real estate, and business services; and (d) community, social, and personal services. Among these, financing, insurance, real estate and business services; and trade, hotels and restaurants are the largest groups accounting for 16.7 per cent and 16.3 per cent, respectively, of the national GDP at factor cost at current price in 2009-10. The community, social, and personal services category accounts for a 14.4 per cent share, while transport, storage, and communication accounts for a 7.8 per cent share. Construction (which may also be treated as service sector) has a share of 8.2 per cent. In developed countries, majority of GDP is contributed by service sector. In developing countries like India, the share of services has been increasing in terms of GDP. Presently about 55% of the GDP is contributed by services sector in India and if the construction is considered, the contribution of services sector in India GDP will be more than 60%.

Table 2 : Share of different services in GDP at factor cost (current prices)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
(a) Trade, hotels & restaurants	16.1	16.7	17.1	17.1	16.9	16.3
(b) Transport, storage & communication	8.4	8.2	8.2	8.0	7.8	7.8
(c) Financing, insurance, real estate & business services	14.7	14.5	14.8	15.1	16.1	16.7
(d) Community, social & personal services	13.8	13.5	12.8	12.5	13.3	14.4
Construction	7.7	7.9	8.2	8.5	8.5	8.2
Total Services (excluding Construction)	53.0	52.9	52.9	52.7	54.1	55.2
Total Services (including Construction)	60.7	60.8	61.1	61.2	62.6	63.4

Source : Economic Survey, 2010-11

India's emergence as one of the fastest growing economies in the 1990s is largely attributed to the rapid growth of its services sector. The sector grew in this decade at an average of 7.9 percent per annum (Table 1). Consequently, the contribution of services to gross domestic product (GDP) has been more than 60 percent per annum since 2000. The Indian economy has moved from agriculture-based economy to a knowledge-based economy which is primarily represented by the service sector. This growth of the service sector is accompanied by increasing foreign direct investment (FDI) approvals in the services sector.

FDI and its role

According to the definition of IMF, Foreign Direct Investment (FDI) includes equity capital, inter-company debt transactions, short-term and long-term loans, reinvested earnings of foreign companies, financial leasing, trade credits, grants, non-cash acquisition of equity, venture capital by foreign investors, control premium, non-competition fee etc. Foreign Investment through Global Depository Receipts(GDR)/American Deposit Receipts (ADR), Foreign Currency Convertible Bonds (FCCBs) are also treated as Foreign Direct Investment. At the macro-level, FDI is a non-debt-creating source of additional external finances and, at the micro-level, FDI is expected to boost output, technology, skill levels, employment and linkages with other sectors and regions of the host economy. The aim of FDI is to supplement the domestic capital and technology. The FDI is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor. The exchange of such investment flows benefits both the home country (the country from which the investment is coming) and the host country (the destination of the investment or receiving country). FDI facilitates international trade and transfer of knowledge, skills and technology. The FDI can play catalytic role in a growing economy like India. The role of Foreign Direct Investment is becoming increasingly significant in the Indian economy. The Foreign Direct Investment is now a part of future of Indian economy. Indian companies are allowed to raise equity capital in the international market through the issue of GDR/ ADRs/FCCBs.

There is a significant change in the sectoral composition of FDI in India since the beginning of the liberalization period. It is revealed that the majority of FDI inflow in the pre-liberalization era were directed to the manufacturing sector and it was quite high—nearly 85 percent of total FDI in 1990. However, with liberalization, the FDI inflows received by services and infrastructure sector have risen amazingly. This has brought the share of manufacturing sector down to 21percent in 2009. Since 1990, the service sector has emerged as a major sector receiving FDI with the share of more than 60 percent of total FDI in 2011.

The growing Indian market, regulatory reforms and availability of skilled work force and democratic government have been important factors in boosting FDI inflows to this sector in India. The inflow of FDI to Service Sector has helped the development of several industries in the service sector of the Indian Economy, such as Financial and Non-financial, Telecommunication, Hotel & Tourism, and so on. FDI Inflows to Service Sector has been phenomenal in the past few years. Since the liberalization of the Indian economy in 1991, the country has experienced a huge increase in the inflow of foreign investments. The flow of FDI in service sector (financial & non-financial only) has increased enormously from Rs.1235 crore in 2003-04 to Rs.15,539 crore in 2010-11. However, the inflow of FDI across sub-sectors has not been uniform and it can be evidenced that there is a bias towards few sectors as compared to others. The service sector in India has tremendous growth potential and, as a result, it attracts huge Foreign Direct Investments. The top five sub-sectors attracting FDI inflows are Services Sector (financial & non-financial), Telecommunication, Computer Software & Hardware, Construction (roads & highways), Housing & Real Estate. Telecommunication sector has massive FDI inflows during 1990-1991 to 2010-11. According to the United Nations Conference on Trade and Development (UNCTAD), the foreign direct investment (FDI) flows into India dropped by over 31 per cent in 2010-11.

under automatic route but FDI in the licensee company/Indian promoters/investment companies including their holding companies shall require approval of Foreign Investment Promotion Board (FIPB), if it has a bearing on the overall ceiling of 74 percent, i.e., the latter case will be through Government route. For the period 1991-99 it added 7 percent, and for the period 2000-11 it added 8 percent to the respective FDI cumulative inflows.

Table 3 : FDI inflows in major service sectors

(Amount in crore Rs.)

Sector	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Services Sector (financial & non-financial)	1,235	2,106	1,460	21,047	26,589	28,411	20,776	15,539
Telecommunication	532	588	168	2,155	5,103	11,727	12,338	7,546
Computer Software & Hardware	NA	NA	NA	11,786	5,623	7,329	4,351	3,571
Construction (roads & highways)	NA	NA	NA	4,424	6,989	8,792	13,516	5,077
Housing & Real Estate	NA	NA	NA	2,121	8,749	12,621	13,586	5,149

NA—Not available. Source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, GOI

Service sector has ranked among the top ten sectors attracting FDI since 1991. During 2010-11, the highest FDI equity inflows were received by the services sector (financial & non-financial), amounting to 18 per cent of the total FDI inflows, followed by telecommunications (8 per cent), power sectors, housing & real estate, metallurgical industries, construction activities (6% each), computer software & hardware(4%).

During the last two decades i.e. during the post-liberalization period, the sector-wise inflows of FDI have undergone a sea change. Figure 1 and 2 show the variation in the sector ranks based on their share in total FDI inflows during 1991-99 and 2000-2011. During 2000-2011, some new sub-sectors like computer software & hardware, construction activities and housing & real estate, power have attracted significant FDIs. Computer software and hardware sectors were not taken independently till the year 2003 and till then it was merged under the head electrical. It was taken separately since 2004. It accounted for major share of 9 percent in the cumulative FDI inflows for the period 2000-11 and ranked the second highest to attract FDI. The e-commerce activities which come under the computer software & hardware also enjoy the permission of 100% FDI under automatic route. FDI in sectors/activities under automatic route does not require any prior approval either by the Government or the Reserve Bank of India. FDI, under the automatic route, does not require any approval, it only involves intimation to the Reserve Bank. In 2005, the limit of FDI in telecom services was increased from 49 percent to 74 percent. FDI up to 49 percent is permissible

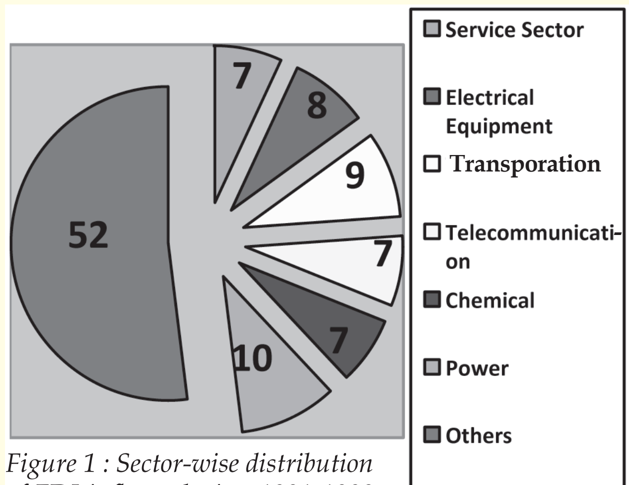

Figure 1 : Sector-wise distribution of FDI inflows during 1991-1999 (in percent)

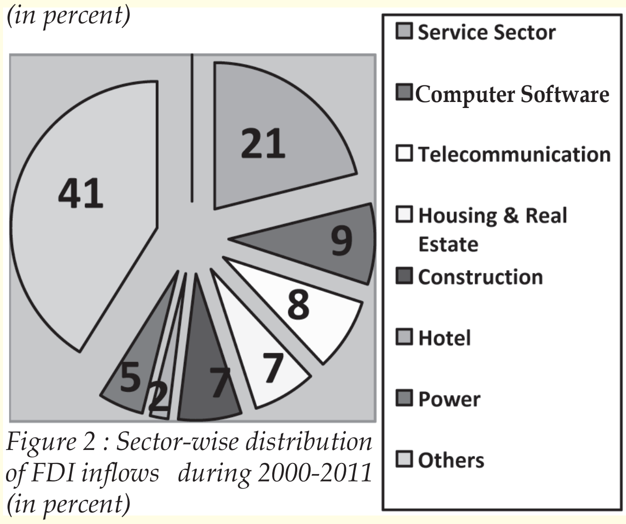

Figure 2 : Sector-wise distribution of FDI inflows during 2000-2011 (in percent)

There is a significant increase in the telecom sector in India during the two periods primarily due to the growing demand and participation of private players in this sector.

The Electrical equipment industry, transportation and chemicals managed to be among the top rankers during 1991-99 but these sectors have lost their importance during 2000-2011. 100 percent FDI is allowed under automatic route in the power sector except the atomic energy. The power sector has attracted considerable FDI during the period 1991-99 and accounted for 10 percent share of total FDI inflows during this period. During the period 2000-2011 there is a considerable decrease in FDI inflows in the power sector to the extent of 5 percent of the total inflow of FDI.

The Housing & real estate and construction industry are among the new sectors attracting large FDI inflows that came under top five sectors in attracting maximum inflows of foreign investment. Housing and real estate sector was opened to FDI in 2005.This sector includes development of township, housing, built-up infrastructure and construction development projects. The government allows FDI up to 100% in this sector under automatic route subject to fulfilment of certain conditions as laid down by the FDI policy of Government of India. Over the last few years the construction industry too attracted considerable FDI. For the period 2000- 2011, both the housing and real estate sector and construction activities received 7 percent (each) of the total FDI inflows.

Contributing Countries of FDI

The present study shows that Mauritius has been the largest investor in India during 1991-2005 and 2000-2011. Out of total FDI inflow in India, Mauritius based firms invested 35.55 percent in 1991-2005 and 41.90 percent in 2000-2011. Though USA was in 2nd position with 16.49 percent of total foreign investment in 1991-2005, its investment came down to 7.36 percent in 2000-2011. Whereas FDI from Singapur has increased from 3.06 percent (1991-2005) to 9.18 percent during 2000-2011. Out of total FDI, investment from Cyprus has been increased remarkably from 0.30 percent in 1991-2005 to 3.65 percent in 2005-2011. Again, the investment from South Korea has declined from 2.28 percent in 1991-2005 to 0.59 percent in 2000-2011. Table 4 shows how the foreign investments are coming to India from different countries. It is important to mention that most of the foreign investments from Mauritius, USA, UK, Germany are coming for service sectors like power, telecommunication, infrastructure etc. The Double Taxation Avoidance Agreement (DTAA) between India and Mauritius facilitates more foreign investment in India from Mauritius than any other countries. India ranked 4th position in terms of FDI inflows in 2009 (World Investment Report 2011, UNCTAD) after USA, China and UK.

Table 4 : Share of top investing countries of FDI in India (% of total inflows)

Country	1991-2005	2000-2011
Mauritius	35.55	41.90
Singapur	3.06	9.18
USA	16.49	7.36
UK	6.60	5.01
Netherlands	6.90	4.35
Japan	6.93	3.99
Cyprus	0.30	3.65
Germany	4.43	2.29
France	2.68	1.74
UAE	0.44	1.47
Switzerland	1.96	1.43
South Korea	2.28	0.59
Italy	1.60	0.72
All other countries	10.78	16.32

Source : CSO

Conclusion

The present study concludes that FDI inflows have shown significant growth in the post-liberalization period, specially in service sector. The service sectors like telecommunication, IT & ITeS, insurance and finance are becoming more prominent to attract FDI in India. The government has lifted sectoral caps for FDI since the introduction of LPG model in 1991 in a phased manner. Removal of restrictions on FDI inflows in the service sector like hospital and health, education may also be considered. There is a huge scope of foreign investment in these sectors which in turn, will help the growth of the Indian economy. ❐

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CMAs Quantum leap Role in Service Sector Industry in an Agile Competitive Economic Environment —Tourism as a Service Sector Industry Open Doors forWomen and linking with Cultures—An Empirical Study

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Introduction

With the advent of globalization on and from 24th July 1991 the service sector—both locally, internally and internationally—have come up as the most expanding facet of the world economy in the last two decades of 1990s to 2011.The trade in service sector has a great potential and opportunities to grow and it is believed that the 21st century would be the most productive century for global trade in services.

The State of West Bengal, considered by many as the Cultural and Heritage Center of India, is a land of varied charms and scenic beauty with snow-capped glittering mountains in Darjeeling in the north Bengal followed by vast expanse of green forest covering approximately **13.98 percent** of total geographic area of the state and **11,879 sq km** of the state, tea plantation and wild life in Dooars region in the foothills. There are heritage sites in the middle in Malda, Murshidabad and Nadia districts and forest tracts in the western districts. The largest delta of Sunderbans forms its southern coast. West Bengal, in fact, offers all components of tourism as a service industry, have great contribution in women employment, income generation, cultural exchange, mutual understanding, international co-operation, Linking with cultures across the globe viz., holidaying, beach, pilgrimage, heritage, sea tourism, coastal tourism, Eco-education tourism, nature based tourism, and mountaineering/adventure and convention tourism as a service sector.

The present study attempts to evaluate the divergent social implications and responsibility in women empower-ment and cultural linkages across the globe. The study further analyses the extent of social and economic implications among women entrepreneurs and their living standards. The study also consists of a number of exhibits and appendices to strengthen the findings of the research.

Significance

The onset of economic slowdown in 2008-09 had a greater impact on performance of service sector visualizes the **"magnifying role"** of **CMAs** in planning, organizing and controlling in the "sacrifice cutting age" of nimble economic environment to augur **55% service sector** average growth in general and **8.8% Travel & Tourism** average growth in particular. The Indian Travel and Tourism industry is recovering from the blows it suffered first in 2001 9/11 terrorist attack in America, secondly due to financial meltdown in September 2008 and then augmenting mince in travel and tourism due to terrorist attack on two 5-star hotels Taj and Oberoi in Mumbai.

The **CMAs** can serve the service sector with their expertise in quality improvement, independent knowledge in control process, strong background in analytical skill and strategic vision in visitant-host relation in general and Tourism sector in particular employing skilled and unskilled labour-mix of 11 million jobs, with 34 million job potentials and creating 120 millions jobs for 2020 vision. The study further analyses the extent of social and economic implica-tions among women entrepreneurs, job creations and their living standards.

Domain of Service Sector

Global Context : Countries with primarily service-based economies are considered to be more advanced than countries with primarily industrial or agricultural economies. Examples of countries with a heavy emphasis on the service sector include the United States, Australia, Japan and the United Kingdom. In the U.S., the Institute for Supply Management's (ISM) monthly index provides a measure of the general state of business in the non-manufacturing sector. Because approximately twothirds of U.S. economic activity resides in the service sector, the index is considered a measure of the country's overall economic health.

The portion of the economy that produces intangible goods and provides service to the visitors in earning revenue in a continuous process is called service sector. According to the U.S. Census Bureau, the composition of service sector primarily consists of truck transportation, messenger services and warehousing; information sector services; securities, commodities and other financial investment services; rental and leasing services; professional, scientific and technical services; administrative and support services; waste management and remediation; health care and social assistance; and arts, entertainment and recreation services.

Individuals employed in this sector produce services both tangible and intangible rather than products. Examples of service sector jobs include Holiday tours and package tours, housekeeping, psychotherapy, tax preparation, nursing and teaching. By contrast or opposite to service sector, individuals employed in the industrial/manufacturing sector might produce goods such as shops, toothpastes, computers, Books, wheat, rice, cars, clothing and toys.

In Indian context : India ranks fifteenth in the services output and it provides employment to around 23% of the total workforce in the country. The various sectors under the Services Sector in India are tourism, construction, trade, hotels, transport, restaurant, communication and storage, social and personal services, community, insurance, financing, business services, and real estate. India's gross domestic product (GDP) means the total value of all the services and goods that are manufactured within the territory of the nation during the specified period of time. The Indian economy is the second fastest major growing economy in the whole world with the growing rate of the GDP at 9.4% in 2006- 2007. The economy of India is the twelfth biggest in the world for it has the GDP of US$ 1.09 trillion in 2007.

Contribution of Service Sector

In Indian Context : India stands out in auguring in pick for size—both asset and volume—and dynamism of its service sector. The contribution of service sector to Indian economy has been manifold with 30.5 per cent in 1950-51 to 55.20 percent in 2009-2010 at factor cost (at current price) share in GDP, auguring 10 percent annually, employing 25 percent rebound in total employment, registering a pick inflow in foreign direct Investment (FDI) of USD 2.35 billion from April 2000 to February 2011 and over one-third of total exports recording a very fast export growth of 27.40 percent through the first half of 2010-2011. Trend of Growth Rate of India's GDP are 1960-1980—3.5%, 1980-1990—5.4%, 1990-2000—4.4%, 2000-2009—6.4%. The trend of growth rate of India's economy demonstrates an upward trend. During the period 1960–1980 the economy saw a growth rate of 3.5% due to the roles of major industries in India GDP. In the years from 1980 to 1990 the growth rate showed a marked improvement of 5.4%, while it was slightly lower in the period from 1990 to 2000, which was at 4.4%. The phase 2000 to 2009 saw a huge improvement and the growth rate of GDP were marked at 6.4%

In Global Context : In the international context the contribution of service sector is emerging since it contributes more than 50 percent of world GDP in a continuous manner. The Global GDP positions of different countries as per International Bank for Reconstruction and Development (IBRD) estimates (2010) are United States USD 14,526,550 millions with first rank, China USD 5,878,257 millions with second rank, Japan USD 5,458,797 millions with third rank, Germany USD 3,286,451 millions with fourth rank, France USD 2,562,742 millions with fifth rank, United Kingdom USD 2,250,209 millions with sixth rank, Brazil USD 2,090,314 millions with seventh rank, Italy USD 2,055,114 millions with eighth rank, India USD 1,631,970 millions with ninth rank and Canada USD 1,577,040 millions with tenth rank.

The Global GDP positions of different countries as per International Monetary Fund (IMF) estimates (2010) are United States USD 14,582,400 millions with first rank, China USD 5,878,629 millions with second rank, Japan USD 5,497,813 millions with third rank, Germany USD 3,309,669 millions with fourth rank, France USD 2,560,002 millions with fifth rank, United Kingdom USD 2,246,079 millions with sixth rank, Brazil USD 2,087,890 millions with seventh rank, Italy USD 2,051,412 millions with eighth rank, India USD 1,729,010 millions with Ninth rank and Canada USD 1,574,052 millions With tenth rank.

Objectives of the study

The following key points are predominant for the success of service sector in tourism. The objectives of the present study are :

- To know the service sector's contribution in global and national economy in general.
- To percolate the role of propagating association of tourism-service in women's empowerment process and hardworking situation adoptive role of CMAs in service sector empowering.
- To assess and analyze the degree of correlation of service-tourism linking with cultural aspects

and professional expertise role of CMAs on service sector booming.

CMAs Shared Vision 2020

1. Qualitative Role of CMAs : The **CMAs** can serve the service sector with their expertise in quality improvement, independent knowledge in control process, strong background in analytical skill and strategic vision in visitant-host relation in general and Tourism sector in particular employing skilled and unskilled labour-mix of 11 million jobs, with 34 million job potentials and creating 120 millions jobs for 2020 vision. The study further analyses the extent of social and economic implications among women entrepreneurs, job creations and their living standards.

2. Prerogative role of CMAs : With the percolated knowledge of new technology and skill **CMAs can play a great rol**e and serves as a catalyst in improving and safeguarding the institutional value added culture in service sector in increasing women's participation and women's engagement in the organizational process augmenting and realizing nation's slogan **(W-W-W)** of look for west, look for women and look for work-culture of women in the nation building process and reducing the gap of **1000 : 940 (2001 census), 1000 : 923 (2011 census), 1000 : 947 in rural and 1000 : 926 in urban (2011 census)**.

3. Situation Adoptive Role : With the flexible Quality cultured contemporary economic environment, holding with fifteenth rank in service output, agile service supply networks will require service sector firms or companies to percolate, explore and employ more advanced CMTs (Cost Management Tools and Techniques) to adjust new technologies, to enhance operations, to locate risk areas, to reduce risks, to optimize sacrifice and to achieve financial and tax planning objectives. From this service culture slogan we can visualize the situation adoptive role of CMAs that will play in near future for the betterment of our CMAs profession.

4.Quality Cultured Percolative Role : With the passage of time, the domain of CMAs are increasing and ever-changing, as a highly multi-disciplinary profession, dealing with all aspects of sacrifice pertaining to human as well as inanimate resources like capital and revenue generating assets and, above all, the management of **"time"** as an auto-vanishing, non-replenishable and non-commodity managing twin canons of performance of Quality and Cost in DDV (Demand-Driven Vision) environment of sacrifice consciousness and quality cultured customer satisfaction regime. The CMAs can play a percolative role in a quality-cultured environment of TQM (ISO-9000) with matching sacrifice-revenue at every stage of operation in a service industry of 55.20 percent of GDP contribution in 2009-2010.

Employment Elasticity in India using the data from the NSSO Table 1

Employment In	2004-2005 (million)	Elasticity 1999-00 To 2004-05
Manufacturing	53.5	0.34
Trade, hotel and restaurant	47.1	0.59
Transport, storage and communication	17.4	0.27
Financing, insurance, real estate and business services	06.9	0.94
Community social and personal services	35.7	0.28

Source : Employment Elasticity in India data from the NSSO

Women Empowerment: Conceptual Framework

Concept of Bharat Nirman, Shining India, Feel Good, Rainbow, Socio-economic Development, Mainstream, National Building process, Grassroot Administration and good Governance is not possible without participation and empowerment of rural downtrodden women. As per UNDP Report, majority of works (of 67%) done by women, only 10 % of global income is earned by women and a mere women-own 1% of global property. There is no chance for the welfare of society unless the condition of women is improved. Empowerment of women involves many things, economic opportunity, right to resources and property, social equality, political equality, personal right and so on. The political equality is crucial not only for development of women themselves but the availability of their creative potential is socially important and without it the country cannot hope for any sustainable development. Despite several committees of 1952 community development, and the committee on Status of Women in India in 1977 the position of women is still daydream except certain areas. The present study examines the participation of women in income generation process of tourism and service related activities during tourism season and non-tourism season.

Field Study : A field study was conducted on few tourist spots among 15 women retail shoppers randomly about their income pattern during pick service season {P (H)} and non-service hours {S (H)} and the results of the study is given in**Table 2.**

I ($X_{1,2}$)	1,000-1,500	1,500-2,000	2,000-2,500	2,500-3,000	3,000-3,500	3,500-4,000	4,000-4,500
f(X) P(H)	1	2	3	5	2	1	1
f(X) S(H)	1	3	4	3	2	1	1

Source : Field Study 2009, December. P (H) = Pick Hours, S (H) = Slack Hours

Proposition : Tourism activities, being a service sector, boosting for women empowerment process.

Null Hypothesis (H_0) : Mean income of pick service season {P (H)} and non-service hours {S (H)} are independent.

Alternative Hypothesis (H_1) : Mean income of pick service season {P (H)} and non-service hours {S (H)} are dependent.

The Test Statistic is t-test for (n-1) degree of freedom under null hypothesis.

Result and Conclusion : The income of women respondent during pick hours of tourism is Rs. 2,650 with a standard deviation of income Rs. 995 in the same period whereas the average income of women respondent is Rs. 2550 with standard deviation of income Rs. 790.57. Comparing this two periods' mean income it is observed that mean income is lower by Rs. 100 in slack period of tourism season which is usual and normal but the riskiness of income patterns of women respondents vary significantly with a spread pattern in {P (H)} period of 37.55% whereas in {S (H)} period is 31.01% auguring a greater spread of 6.54%. The spread pattern of women respondents' income distribution is more volatile in {P (H)} period than in {S (H)} period. **Here, t**he calculated value of Test Statistic t is 0.2944 and is less than the critical value of t at 2.048 at 5% level of significant with **(n_1+n_2-2)** degree of freedom. So, we accept the null hypothesis (H_0) and reject the alternative hypothesis (H_1) and conclude that there is no significance difference between mean income before tourism season and after tourism season of women respondent in few tourist spots under study.

Table 3

Parameters	I (X_1) P(H)	I (X_2) S(H)	I (X_3) P(H)	I (X_4) S(H)	I (X_1+ X_2)	I (X_3+ X_2)
Average Income (Rs.)	2,650	2,550	3,280	3,100	4,784	3,190
Standard Deviation (Rs.)	995	790.57	457	743.86	475.62	478.21
Coefficient of variation (%)	37.55%	31.01%	13.93%	24.00%	9.94%	14.99%

Source : Field Study and calculation of results

Cultural linkages of Tourism : The UNWTO was celebrated on 27th September 2011, Tuesday, as Tourism Linking Cultures (Host— Egypt) and on Saturday, 27th September 1980 Tourism's contribution to the preservation of cultural heritage and to peace and mutual understanding focusing on the theme of cultural linkages of tourism as a service sector.

A Field Survey : A field survey at a tourist spot was conducted randomly among 70 tourists, the following numbers of tourists were observed preferring their tourist products among five different brands and the results are given below. The product A is packaged tour for seaside, B for plain land, C for Hill area, D for other side and E for heritage site.

Table 4 Cultural Linkages of Service Sector as Tourism service

Product Brands	A	B	C	D	E
Frequency	10	08	17	6	29

Source : Field Study on Cultural Linkage

Proposition : Tourism activities, being under service sector, boosting for cultural cooperation process.

Null Hypothesis (H_0) : Observed Cultural Frequency and Expected Cultural Frequencies are independent.

Alternative Hypothesis (H_1) : Observed Cultural Frequency and Expected Cultural Frequencies are dependent.

The Test Statistic is X^2 test with (n-I) degree of freedom under null hypothesis

Result and Conclusion : The observed value of **X^2 is 25** which is more than the critical value of **X^2 9.488** at 5% level of significance with 4 degree of freedom falls under critical region. So we reject the Null Hypothesis and accept the alternative hypothesis and conclude that tourists or visitors not equally preferred the tourism products or brands. The interesting observation is that out of 70 respondents 41.43 percent respondents preferred heritage sites (Product E) for their travel and pleasure.

Proposition : Observed and Expected **GDP of ten fast-growing countries**

Null Hypothesis (H_0) : Observed GDPs and Expected GDPs are independent.

Alternative Hypothesis (H_1) : Observed GDPs and Expected GDPs are dependent.

The Test Statistic is X^2 test with (n-I) degree of freedom under Null Hypothesis.

Result and Conclusion : The observed value of **X^2 is 2.5258** calculated from table 5 which is less than the critical value of **$X^2$16.919** at 5% level of significance with 9 degree of freedom beyond the critical region. So we accept the Null Hypothesis and reject the alternative hypothesis and conclude that there is no significant difference between Actual GDP and Expected GDP of ten fast-growing countries.

Proposition : Coefficient of Correlation between **GDP of ten faster growing countries**

Null Hypothesis (H_0) : There is no significant correlation (r=0.669) between Observed GDPs and Expected GDPs of ten faster growing countries.

Alternative Hypothesis (H_1) : There is significant correlation (r=0.669) between Observed GDPs and Expected GDPs of ten faster growing countries.

The Test Statistic is student t test with (n-2) degree of freedom under Null Hypothesis.

Result and Conclusion : The observed value of test statistic t **is 2.546** calculated from Table 5 which is more than the critical value of t **2.306** at 5% level of significance with 8 degree of freedom falls under the critical region. So we reject the Null Hypothesis and accept the Alternative Hypothesis and conclude that there is significant difference of correlation coefficient between actual GDP and Expected GDP of ten faster growing countries.

Strength : The Reasons for the growth of the Services Sector contribution to the India GDP :

1. Service sector Leadership : The contribution of the Services Sector has increased very rapidly in India's GDP for many foreign consumers as foreign tourists have shown interest in the country's service exports and heritage tourism, Medical tourism (latest trend), Sports tourism and Cultural tourism too. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India—especially in the area of business services, which includes business process outsourcing, and information technology services. This has given a major boost to the Services Sector in India, which, in its turn, has made the sector contribute more to the Indian GDP.

Services Sector Growth Rate in Indian GDP registered a significant growth over the past few years. The Indian government must take steps in order to ensure that Services Sector Growth Rate in Indian GDP continues to rise. For this will ensure the growth and prosperity of the country's economy in general and women's empowerment in particular.

2. Strong Population Base : The sheer number of population base of 122 crores is enough to send shivers to competitors.

3. Service Coverage: The service sector has covered so many activities spread over 640 districts, 5,924 sub-districts, 7,935 towns and 6,40,867 villages. There was an average increase of 2,279 villages in 2011—augurs 0.35688% over the previous census year 2001.

Weakness

1. Urban Concentration : In the present economic situation 70 percent of the total service sector and work-force are spread over in the urban area which needs to rethink and reorient mission to diversify service sector in rural areas of national importance.

2. Government Control : Excessive governemnt control due to dependency on government policies and existence of bureaucracies in the service sectors.

Opporutnities

1. Resource base population : The wide customer base with agile network of 122 crore population in India could be put to better use in distribution, diversification and exploring and creating new markets and avenues in the rural areas in the form of social tourism or rural tourism. The Indian federal system gives them a cohesive picture. The mammoth structure they have at national level gives them leverage over many other private service sector organizations. This unique feature should be utilized to its fullest advantage for the development of service sector in general and tourism sector in particular..

2.Propagation of Labour-intensive : More opportunities are to be opened before the host communities and stakeholders of rural skilled and unskilled labour force where 70 percent of Indian population are based on agriculture and, hence, more priority sector service facilities are to be provided at an innovative cost not only for rural upliftment but also for rural women's empowerment.

Thtreats

1. Excessive Government Litigation : Excessive government control and complicated operating process leads to tourism exclusion of services sectors even after 64 years of independence and also special efforts for boosting tourism activities by UNWTO celebrating 27th September every year as United Nations Day focusing on a special theme like Tourism Linking Cultures in 2011.

2. Tourism Exclusion : Excessive official regimentations, permissions, sanctions and restrictions leads to non-inclusion in the service sector work environment for national importance.

3. Loss of Respect : The terrorist attack in the American Twin World Trade Centers on 11th September 2001 turn decrease in outbound tourist arrivals, loss of 1000 live in a horrific hour, across the globe and also India too.

4. Loss of Culture : The Global Economic slowdown in September 2008 and also terrorist attack in two 5 star hotels at Mumbai resulted in reduction in tourist arrival and also loss of jobs and loss of foreign exchanges too.

5. Loss of Heritage : The big terrorist attack and blast at Delhi High Court on 7th September 2011 (21.05.1418) resulting in loss of service as well as loss of tourist arrivals in India and the globe too.

6. Natural Disaster : The great natural disaster, Aila, on 25th May 2009 (10.02.1416) happening and resulting loss of natural as well as other resources.

7. Loss of resources and lives : The natural disaster Tsunami happened in 26th December 2004 resulting in loss of jobs and loss of tourism environment and in turn gross loss of national economy in general and loss of foreign exchange in particular.

Conclusion

The Indian economy is headed in a new direction— striving to touch double digit annual growth rates and a sustainable, equitable and inclusive service growth, taking into account the needs of sections of society. India's economic growth has passed through major phases over the past 64 years and is emerging as a new phase with broad objectives of "Service inclusive growth". The inclusiveness involves four attributes **OCAS**. They are Opportunity (O) attribute focuses on generating more and more opportunities to the people and focusing on increasing their disposable income, Capability (O) attribute concentrates on providing the means and avenues for people to create or enhance their capabilities in order to exploit available opportunities, Access (A) attributes focuses on providing the means and resources before the beneficiaries available at an affordable cost and time to bring opportunities and capabilities together; and Security **(S)** attribute provides the means for people to protect themselves against a temporary or permanent loss of livelihood. With this backdrop of pro-poor growth, growth with equity the service sector can play a catalytic role through CMAs hardworking and scientific effort with sacrificing cutting service in general and minimum cost back flushing tourism products in particular. The rising incomes and resultant creation of an affluent middle class with more disposable income and more leisure time at their disposal, coupled with declining transportation costs has fueled the demand for leisure travel and we hope our **efficient and effective cost cutting CMAs,** with professional expertise, will provide and propagate the most sensitive service product as more lucrative but less prerogative linking cultures with tourism-service and augmenting and agile ling women's engagement in the nation building process in the form of raising quality of life, creating employment, increasing asset size, generating revenue of off setting balance of payment involving rural stakeholders towards re-establishing traditional cultural practices and encouraging socio-cultural regeneration in rural areas.

Table 5 World's ten faster-growing economies*, Annual average GDP growth in percentages

SL No.	Country	2001-2010	Country	❖ 2011-2015
1.	Angola	11.10%	China	9.50%
2.	China	10.50%	India	8.20%
3.	Myanmar	10.30%	Ethiopia	8.10%
4.	Nigeria	08.90%	Mozambique	7.70%
5.	Ethiopia	08.40%	Tanzania	7.20%
6.	Kazakhstan	08.20%	Vietnam	7.20%
7.	Chad	07.90%	Congo	7.0%
8.	Mozambique	07.90%	Ghana	7.0%
9.	Cambodia	07.70%	Zambia	6.90%
10.	Rwanda	07.60%	Nigeria	6.80%

Source : The Economist, IMF.
*Excluding Countries less than 10m population
1. Estimates
❖ IMF estimates

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Service Sector in India : Role of CMAs

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Meaning of Services Sector

The sectoral division of an economy into primary (agriculture), secondary (industry i.e. manufacturing, mining & quarrying, electricity, gas & water supply etc.) & tertiary (services) was first put forward by economists Colin Clark (1940, 1951, 1957) and Jean Fourastie (1949) for interpreting economic progress. Later on, two more sectors have been identified i.e. quaternary and quinary sectors. Quaternary sector includes finance, insurance, real estate services and public administration. Quinary sector includes any additional or previously undifferentiated economic activities i.e. the decision-making by the heads of business houses and the government and also includes services by home-makers etc. However, considering the similarity of the characteristics of the constituents of the tertiary, quaternary and quinary sectors i.e. intangibility, simultaneous production and consumption etc. the discussion in this paper, includes the quaternary and the quinary sectors within the ambit of the services sector.

Generally the services sector encompasses a wide range of activities like from sophisticated fields of information and communication technology, telecommunication, banking and financial services, insurance, healthcare, business management to simple services provided by the informal and unorganized sector workers i.e. hawkers and street vendors, rickshaw pullers etc. In between the said extremities are included activities like trade, hotels and restaurants, railways and other transport, real estate, public administration, defense, personal services and community services. Thus services, broadly, are businesses or economic activities that exist to facilitate others. While some services are independent activities, others are facilitators for other sectors of the economy.

Services Sector in International Economies

Various nations have initiated processes to reinforce the foundation of the services sector in their respective economies. To name a few, Canada has shown that a strong and efficient service sector can make manufacturing and commodity producers more competitive. The global competitiveness of the Canadian mining sector can be attributed to the emergence of a wide variety of mining service providers. Kenya has successfully strengthened its hospitality sector which has turned out to be a major contributor to the development of the national economy. British Columbia has successfully developed a strategy to strengthen its service sector to augment its oil and gas production. Yet another developing economy of Uganda has since embarked on a strategy to develop its service sector and boost its service sector export earnings.

Service sector has proved itself to be comparatively less vulnerable to recessionary forces. If the percent annual changes in world exports in merchandise vis-à-vis that in commercial services for the years 2008, 2009 & 2010 i.e. the years before, during and after the recent recession, are compared, as has been done in Table 1 below, the fact gets corroborated.

Table 1

% Annual Changes in World Exports in Merchandise & Commercial Services

Particulars	2008	2009	2010	2005-10
Merchandise (includes significant re-exports or imports for re-exports)	15	–22	22	8
Commercial Services	13	–12	8	8

Source : World Trade Organization (2011). World Trade Report 2011, p. 24

In the US economy, many service industries were less affected by the recession as compared to manufacturing industries. Even the post-recession growth rate is significantly higher in service industries indicating a comparatively higher turn-around potential than manufacturing sector. Thus a strong service sector is a powerful deterrent against recessionary forces.

Importance of Services Sector in Indian Economy

In developed economies, services sector contribute the most to the national GDP. Thus when an economy experiences growing share of services sector in GDP, its fundamentals moves closer to those of developed economies. A comparison of the sector-wise composition of GDP of G8 and BRICS nations are given below in Table 2.

Table 2

GDP – Composition by Sector (%) of G8 & BRICS Nations

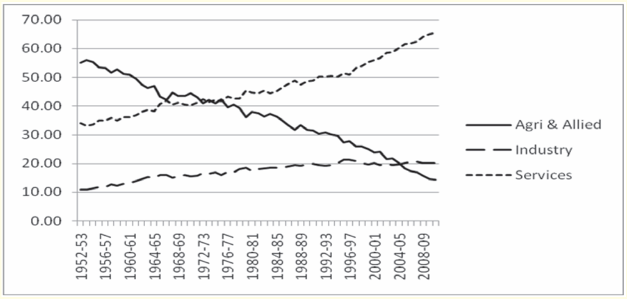
Countries	Share of Agricultural Sector in GDP	Share of Industry Sector in GDP	Sector of Service Sector in GDP
France	2%	18.5%	79.5%
Japan	1.4%	24.9%	73.8%
Germany	0.9%	27.8%	71.3%
Italy	1.9%	25.3%	72.8%
United Kingdom	0.7%	21.8%	77.5%
United States of America	1.1%	22.1%	76.8%
Canada	2.2%	26.3%	71.5%
Russia	4%	36.8%	59.1%
India	18.5%	26.3%	55.2%
China	10.2%	46.9%	43%
Brazil	5.8%	26.8%	67.4%
South Africa	2.5%	30.8%	66.7%

Source : https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html 2010 (est.)

The growing share of the services sector in the Indian economy has been a gradual and steady affair since 1952-53.

Figures 1 & 2 show how the share of the services sector in the GDP (at factor cost) of India has increased steadily from 1952-53 till date. Figure 1 depicts the situation when the GDPs are taken at constant prices.

Figure 1 : % Composition (sector-wise) of GDP (at factor Cost) of India from 1952-53 to 2010-11 [at Constant Prices]



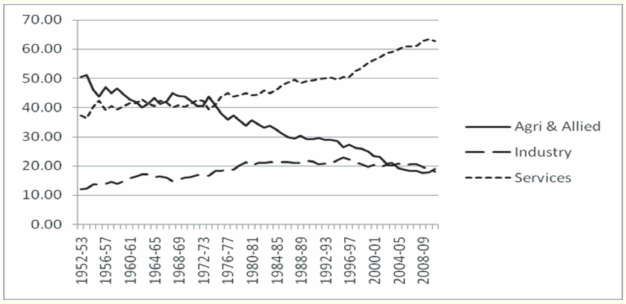
Source : Own calculations on data from Handbook of Statistics on the Indian Economy, September 2011, Reserve Bank of India, Table 3, p. 11

Even if the GDPs are taken at current prices, the trend remains unaltered. This is depicted in Figure 2.

It is evident from both the figures that though the proportion of agriculture sector in the Indian GDP has declined steadily, the same for industry and services sectors have increased steadily.

However, the rate of growth in services sector is higher than that of the industry sector.

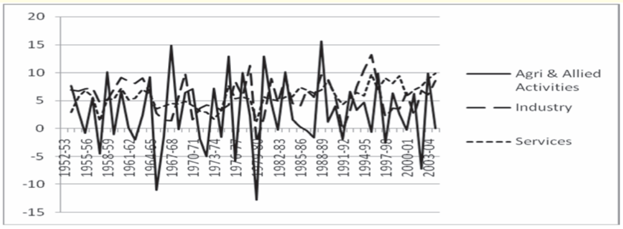
Figure 2 : % Composition (sector-wise) of GDP (at factor Cost) of India from 1952-53 to 2010-11 [At Current Prices]



Source : Own calculations on data from Handbook of Statistics on the Indian Economy, September 2011, Reserve Bank of India, Table 3, p. 11

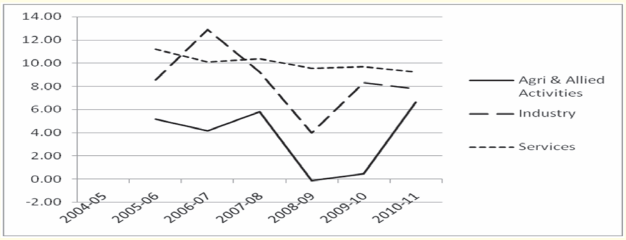
If the YOY % sectoral growth of the Indian GDP is plotted, we get another revealing picture. Figures 3 & 4 below show the YOY % sectoral growth of GDP of India from 1952-53 to 2010-11.

Figure 3 : YOY % Sectoral Growth Performance of Indian Economy (at Factor Cost) from 1952-53 to 2004-05 [at Constant Prices] Base Year 1999-2000



Source : Own calculations on data from Handbook of Statistics on the Indian Economy, September 2011, Reserve Bank of India, Table 3, p. 11

Figure 4 : YOY % Sectoral Growth Performance of Indian Economy (at Factor Cost) from 2005-06 to 2010-11 [at Constant Prices] Base Year 2004-05

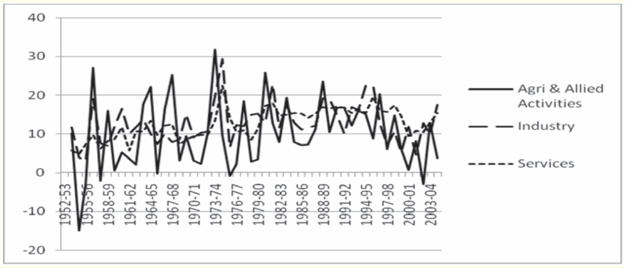


Source : Own calculations on data from Handbook of Statistics on the Indian Economy, September 2011, Reserve Bank of India, Table 3, p. 11

It is seen from the above figures (based on GDP figures at constant prices) that the YOY change exhibits wide variations in case of agriculture as well as in case of industries but to a lesser extent. The YOY changes went into negative in a few years for the agriculture sector and in one year for industries sector. However, in case of services sector, the YOY changes has always remained positive and never exhibited a negative growth. The variations also have been less in case of services sector evidencing a steady and consistent growth.

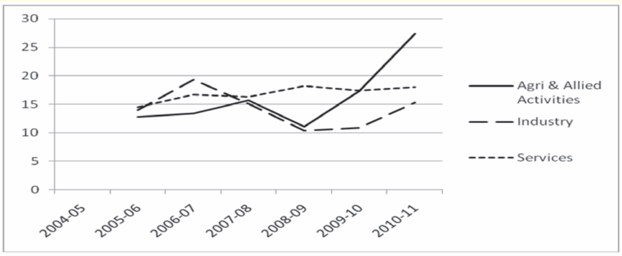
If GDP figures are taken at current prices, depicted in Figures 5 & 6 below, then also the trend, as discussed above, holds good.

Figure 5 : YOY % Sectoral Growth Performance of Indian Economy (at Factor Cost) from 1952-53 to 2004-05 [at Current Prices] Base Year 1999-2000



Source : Own calculations on data from Handbook of Statistics on the Indian Economy, September 2011, Reserve Bank of India, Table 3, p. 11

Figure 6 : YOY % Sectoral Growth Performance of Indian Economy (at Factor Cost) from 2005-06 to 2010-11 [at Current Prices] Base Year 2004-05



Source : Own calculations on data from Handbook of Statistics on the Indian Economy, September 2011, Reserve Bank of India, Table 3, p. 11

As a sequel to India's structural reform program and liberalization, it is evident that the services sector is the fastest growing sector of the Indian economy and this sector presently contributes more than half of the GDP of India.

Even during the recessionary years the service sector as well as services exports of India registered respectable growth rates.

Moreover, the services sector also has considerable employment generation and foreign exchange earning potential which have a positive impact on the economy.

The HSBC Market Business Activity Index, measuring service sector activity, increased to 58.2 in July 2011 from 56.1 in June 2011. Such a rise reflects the confidence among service providers regarding future business prospects.

Strategy of the Government of India regarding the service sector

Prasad & Sathish (2010), in their working paper on the policy for India's service sector, have identified certain selected services to be stressed upon for further consolidated and sustainable growth of the services sector of India. They include software, tourism and travel related services, transport, professional services, infrastructural services and financial services. This has been done on lines with the latest trend of world demand in services.

A strong and efficient service sector has three main positive impacts on the Indian Economy i.e. foreign exchange earnings, contribution to GDP and employment generation.

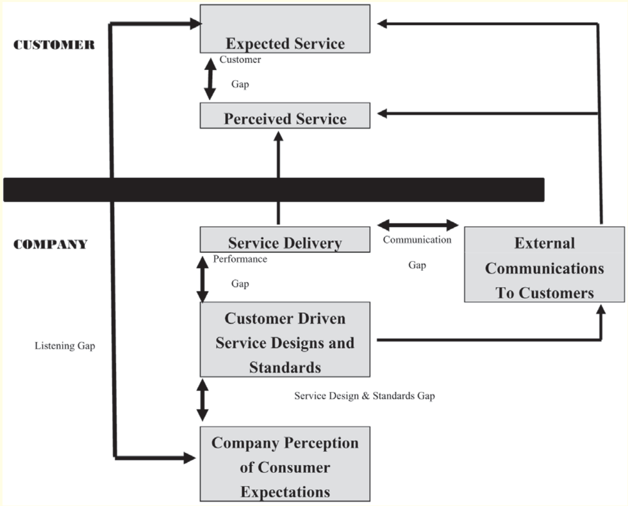
The Government of India has also been working on cooperation with international associations, ASEAN being one of them, for enhancing the performance of the services sector.

Role Cost & Management Accountants (CMAs) can play in service sector

The future prospect of the service sector depends on how efficiently and economically the service providers can provide service to the customers to their satisfaction. The customers look for better services but at a cheaper price. The service providers can find their margin thinning if price is to be kept lower. This apparently opposing facts leads to one solution i.e. efficient management of cost by the service providers so that quality service can be provided at an affordable and competitive price.

Zeithaml, Bitner, Gremler & Pandit (2011) identify possible gaps that can result in a customer getting dissatisfied with the services provided by the service provider. The said gaps are depicted in Figure 7. They show that the customer gap is caused by four gaps i.e. the performance gap, the service design and standards gap, the communication gap and the listening gap.

Figure 7 : The probable gaps which can cause dissatisfaction to a customer for services



Source : Zeithaml, Valarie A., Bitner, Mary Jo., Gremler, Dwayne D., Pandit, Ajay (2011). Services Marketing. Prentice-Hall of India Pvt. Ltd., 5th Edition, p. 45

The service provider has to maintain a delicate balance between maintaining the customer driven service designs and standards and the costs of so maintaining. It is exactly here that the role of CMAs get highlighted. They are professionally trained and experienced to eliminate unnecessary cost elements which do not add value.

The functional domain of CMAs include the latest cost and management accounting techniques i.e. Activity Based Costing, Total Costing, Kaizen Costing, Backflush Costing, Environmental Cost Accounting, Balanced Score Card etc. Zero-Base Budgeting etc. They are in a position to exercise their expertise in enabling service providers to offer quality services at competitive prices.

CMAs have a great role to play in the public utility services also. The government spends huge amounts on public health, education etc. It runs various departments and provides subsidies to various industries also. CMAs can play a vital role in identifying unnecessary costs and enabling the government to provide the same services but at a lower cost. This, in effect, will lighten the pressure on the government exchequer.

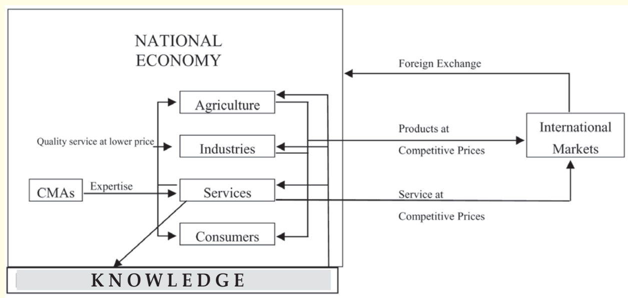
The expertise of the CMAs can be utilized by departments like the railways where providing service to the commuters are the main issue but such operations require maintaining huge amounts of physical assets also. This requires efficient capital asset and inventory management techniques which are natural expertise of CMAs.

The concern for environment has gained considerable momentum these days. For sustainable development of any business house, not only the private costs have to be controlled which affect the bottom line, but also the societal costs have to be given equal importance which concerns the society at large. This is true for service sector also. Healthcare, transport etc. businesses need to track and control these costs also which again falls within the expertise area of CMAs.

The role of CMAs in the Service Sector has been summarized in Figure 8 below.

Figure 8

Role of CMAs in Service Sector



CMAs, by providing their expertise, enable the services sector to offer quality services at cheaper prices not only to the domestic consumers but also to the other sectors of the economy to whom such services are inputs. Cheap service inputs enable such sectors to provide goods at competitive prices to the domestic consumers as well as to international markets. This enables the domestic consumers to get quality goods and services at competitive prices. This customer support provides the services sector with a thrust to surge ahead. Eventually the second benefit is realized in the form of increased contribution of the services sector to the national GDP and employment generation. The third obvious benefit is increased foreign exchange flow to the nation due to rising service exports.

Knowledge and information are key drivers of economic progress of any nation. Thus to ensure sustainable economic development, a nation needs to invest considerably in education, research and development activities and also in communication networks which ensures dissemination of the knowledge so developed to the appropriate users at the right time. All these activities fall within the ambit of the services sector. CMAs can play a crucial role here by utilizing their expertise to render such investments cost effective which in turn helps the economy to be built on a sound plinth of knowledge.

Conclusion

Service sector not only provides services to the retail consumers but also to business consumers. The price paid by the business consumers for such services form a part of the cost of their products or services. Thus an efficient service sector not only ensures quality services at affordable prices to the retail consumers abut also enables other sectors of the economy to produce goods at competitive prices. Investments in service activities e.g. education, research & development, information & communication technology etc. is essential for a nation.

CMAs can play a vital role in ensuring that the service sector provides services to the consumers, both in the domestic market as well as in the international markets, to their satisfaction besides maintaining a competitive price level. This will ensure the triple benefits of employment generation, growth in GDP and increased foreign exchange earnings. Further, by ensuring that investments in areas like education, research & development, information & communication technology etc. are cost effective, CMAs can play a vital role in transforming an economy into a knowledge-based economy.

There is huge scope of further research for application of cost and management accounting techniques for effective and efficient cost control and cost management in the service sector which is the fastest growing sector of the Indian economy. ❐

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CO-BRANDED CREDIT CARD FACILITY : ICWAI join hands with PNB

The Institute has entered into MOU with Punjab National Bank (PNB) in the matter of introducing a Co-branded Credit Card for our members with hologram of ICWAI and PNB. Only members of the Institute are entitled to make applications for this credit card. Members will have to obtain the prescribed application form from any of the branches of PNB and attach the following self attested documents along with their application forms :

1. Copy of Passport, or
2. Copy of Voter ID, or
3. Copy of Driving License

Any one

AND

1. Copy of PAN card
2. Copy of IT Return
3. Two passport size photographs
4. Copy of membership card of the Institute

Members are requested to take advantage of this facility.

CMAs in Service Sector

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Overview

The total economy of a nation can be divided into three sectors. First being the primary sector which consists of agriculture, fishing and extraction; second is the secondary sector being approximately the same as that of manufacturing, and third the service sector also known as tertiary sector which consists of the activities where people offer their knowledge and time to improve productivity, performance, potential and sustainability.

The basic characteristic of service sector is the production of services instead of end products. Services, also known as intangible goods, include attention, advice, experience, discussion and production of information. They may involve the provision of services to both businesses as well as final consumers. Services may involve transportation, distribution and sale of goods from producer to a consumer as happens in wholesaling and retailing, or may involve the services of pest controller or entertainment, etc. Though the goods may be transformed in the process of providing the service as happens in the case of restaurant industry, the focus is on people interacting with people and serving the customer rather than transforming physical goods.

Methodology

The collected information/data have been used in tune with the topic "CMAs in Service Sector" from different books, journals and websites related to the topic.

Sector status

Service sector is made up of companies that primarily earn revenue by providing intangible products and services. Service sector companies are involved in retail, transport, distribution, food services, as well as other service-dominated businesses. Hence a service industry is one where no goods are produced. Service providers face obstacles selling services which goods-sellers rarely face. Services are not tangible, making it difficult for potential customers to understand what they will receive and what value it will hold for them. Since the quality of most services depends largely on the quality of the individuals providing the services, it is true that "people costs" are high component of service costs. On the contrary, a manufacturer may use technology, simplification and other techniques to lower the cost of goods sold, the service provider often faces an unrelenting pattern of increasing costs.

The service industry forms a backbone for the social and economic development of a country. It has emerged as the largest and fastest growing sector globally, making higher contributions to the global output and employing more people than any other sector. The real reason for the growth of the service sector is due to the increase in urbanization, privatization and more demand for intermediate and final consumer services. Its growth rate has been higher than that of agriculture and manufacturing sectors. It is a large and most dynamic part of the Indian economy—both in terms of employment potential and contribution to national income. It covers a wide range of activities such as trading, transportation and communication, financial, real estate and business services, as well as community, social and personal services. In India, services sector as a whole contributed as much as 68.6 percent of the overall average growth in gross domestic product (GDP) between the years 2002-'03 and 2006-'07. Availability of quality services is vital for the well-being of the economy. In advanced economies, the growth in the primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, entertainment, etc.

Following charts depict eleven countriy's Gross Domestic Product (GDP) sector composition based on nominal GDP and Purchasing Power Parity (GDP) estimates and sector composition ratios provided by the CIA World Fact Book at market or government official exchange rates with figures in trillions of United States dollars. Here agriculture output is a component of the GDP of a nation which includes producing food, feed, fiber and other goods by the systematic raising of plants and animals; industrial output is a component of the GDP of a nation which includes mining and extraction sectors and service output is a component of the GDP of a nation which includes but is not limited to farm and factory related activities.

Nominal GDP Sector Composition, 2010 (in percentage and in millions of dollars)

	Country	Nominal GDP	Agriculture	Industries	Service	Agriculture	Industries	Service
	World	**62,909,274**	**6%**	**30.9%**	**63.2%**	**3,585,829**	**19,313,147**	**40,010,298**
0	European Union	16,282,230	1.8%	25%	73.1%	293,080	4,070,558	11,902,310
1	United States	14,657,800	1.1%	22.1%	76.8%	161,236	3,239,374	11,257,190
2	China	5,878,257	10.2%	46.9%	43%	599,582	2,756,903	2,527,651
3	Japan	5,458,872	1.4%	24.9%	73.8%	76,424	1,359,259	4,028,648
4	Germany	3,315,643	0.9%	27.8%	71.3%	29,841	921,749	2,364,053
5	France	2,582,527	2%	18.5%	79.5%	51,651	477,767	2,053,109
6	United Kingdom	2,247,455	0.7%	21.8%	77.5%	15,732	489,945	1,741,778
7	Brazil	2,090,314	5.8%	26.8%	67.4%	142,141	560,204	1,408,872
8	Italy	2,055,114	1.9%	25.3%	72.8%	39,047	519,944	1,496,123
9	Canada	1,574,051	2.2%	26.3%	71.5%	34,629	413,975	1,125,446
10	India	1,537,966	18.5%	26.3%	55.2%	284,524	404,485	848,957

PPP GDP sector composition, 2010 (in percentage and in millions of dollars)

	Country	Purchasing Power Parity	Agriculture	Industries	Service	Agriculture	Industries	Service
	World	**74,264,873**	**6%**	**30.9%**	**63.2%**	**4,233,098**	**22,799,316**	**47,232,459**
0	European Union	15,170,419	1.8%	25%	73.1%	273,068	3,792,605	11,089,576
1	United States	14,657,800	1.1%	22.1%	76.8%	161,236	3,239,374	11,257,190
2	China	10,085,708	10.2%	46.9%	43%	1,028,742	4,730,197	4,336,854
3	Japan	4,309,532	1.4%	24.9%	73.8%	60,333	1,073,073	3,180,435
4	India	4,060,392	18.5%	26.3%	55.2%	751,173	1,067,883	2,241,336
5	Germany	2,940,434	0.9%	27.8%	71.3%	26,464	817,441	2,096,529
6	Russia	2,222,957	4%	36.8%	59.1%	88,918	818,048	1,313,768
7	United Kingdom	2,172,768	0.7%	21.8%	77.5%	15,209	473,663	1,683,895
8	Brazil	2,172,058	5.8%	26.8%	67.4%	147,700	582,112	1,463,967
9	France	2,145,487	2%	18.5%	79.5%	42,910	396,915	1,705,662
10	Italy	1,773,547	1.9%	25.3%	72.8%	33,697	448,707	1,291,142

[Source : Wikipedia, the free encyclopedia]

The above tables manifest the increase trend of GDP for all the countries, except China, for the service sector.

Types of Services

The services can broadly be classified as :

Astrology • Banking • BPO • CAD services • CAM services • Call Centre • Consultancy • Designer • Education • Entertainment • Feng Shui • Healthcare • Human Resource • Insurance • Internet Service provider • ISO • Legal services • Vaastu Shastra • Market research • FMCG • Value Added services • Medical Transcription • Offshore Development • Software Outsourcing • Pest Control • Advertising Agency • Event Management services • Photography • Marriage and Event services • Modeling services • News Agencies • Six Sigma • NASSCOM • Travel & Tourism • Training & Education • Web services.

Service Sector in Indian perspective

In alignment with the global trends, Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times. The activities under the purview of the service sector are quite diverse. Trading, transportation and communication, financial, real estate and business services, community, social and personal services come within the gambit of the service industry.

One of the key services in the service industry in Indian economy has been health and education. They are vital for the country's economic stability. Not only this, they are one of the largest and most challenging sectors and hold a key to the country's overall progress. A strong and well-defined health care sector helps to build a healthy and productive workforce which in turn can contribute productively to the nation's growth. The 'Ministry of Health and Family Welfare' is responsible for implementation of various programmes in the areas of health and family welfare, prevention and control of major communicable diseases, as well as promotion of traditional and indigenous systems of medicines apart from carrying out measures like National Health Policy, implementing National Rural Health Mission (NRHM) in different States, conducting surveys and studies, etc.

On the other hand, education strongly influences improvement in health, hygiene and demographic profile. The 'Ministry of Human Resource Development' is involved in eradicating illiteracy from the country. It is concerned with elementary education, achieving full adult literacy, laying down of National Policy on Education, meeting needs of secondary and higher education for all, etc. India has achieved impressive demographic transition owing to the decline of crude birth rate, crude death rate, total fertility rate and infant mortality rate as well as gained high literacy rate in the country.

The era of economic liberalization has ushered a rapid change in the service industry. As a result, over the years, India is witnessing a transition from agriculture-based economy to a knowledge-based economy. The knowledge economy creates, disseminates, and uses knowledge to enhance its growth and development. The Information Technology industry has achieved phenomenal growth after liberalization. The industry has performed exceedingly well amidst tough global competition. Being knowledge based, India has been able to leverage the global markets because of the huge pool of engineering talent available and the proficiency in English language among the middle class. Today the Information Technology industry and ITE'S industry are the dominating sector in the overall growth of the Indian industry. A large number of Indian software companies have acquired international quality certification. Several policies have also been framed on the key issues of IT infrastructure, electronic governance as well as IT education. The ITES sector has also leveraged the global changes positively to emerge as one of the prominent industries. Some of the services covered by the ITES industry are :

- Customer interaction services, both Voice and Non-voice;
- Back Office, revenue accounting, data entry, data conversion, HR services;
- Medical Transcription;
- Content development and animation;
- Remote education, market research and GIS.

The Indian Telecom Market is highly dynamic and characterized by low average revenue per user (ARPU) and high churn rates. The telecom industry witnessed the launch of 3G, Broadband Wireless Access (BWA) and Mobile Number Portability (MNP) in the recent past, and these are expected to drive the telecom industry growth in the coming years. Recent developments in the telecom service industry are pushing the Telecom Service Providers (TSPs) to increase their focus on acquiring customers profitably and retaining them. They are now focusing on strengthening the Value Added Services portfolio, ensuring rapid go-to-market for new services and enhancing customer experience as the means to enable profitable growth.

According to a Frost & Sullivan study, it has been noted that the Indian Information Technology Services Market in the Telecom vertical was estimated to be USD 911.57 mn in 2010 and is expected to grow to USD 2769.3 mn in 2017 with a compound annual growth rate of 17 percent. The Operations Support Systems/Business Support Systems dominate the IT services spend by TSPs, followed by network and security services. [Source: Frost & Sullivan, BUSINESS WIREINDIA]

Another major and upcoming service industry has been media and entertainment. It is basically an intellectual property-driven sector with small to large players spread throughout the country. It covers film, music, radio, broadcast, television and live entertainment. It plays a significant role in creating people's awareness about national policies and programmes by providing information and education to all. The Ministry of Information and Broadcasting is responsible for formulation and administration of the rules, regulations and laws relating to media industry.

Prior to liberalization, India had one of the most underdeveloped retail sectors in the world. But, the scenario has changed dramatically during the post-liberalization period. Organized retailing with prominence on self-service and chain stores had changed the dynamics of retailing. In most of the tier I and tier II cities supermarket chains mushroomed, catering to the needs of the vibrant middle class. This indirectly contributed to the growth of the packaged food industry and other consumer goods. As such, retailing has been one of the fastest growing service sectors both in terms of turnover and employment. Many national and global players have been investing in the retail segment and are making all efforts to further expand the sector. Out of the total retail outlets in the country, most of them are related to food items.

Not only this, prior to liberalization, financial services such as Banking and Insurance were controlled and regulated by the government. Nationalized banks and Insurance companies had a firm grip over the market. But, after liberalization, the banking and insurance domain were opened up for private participation.

Following are the three major changes in the banking sector during post-liberalization :

- Step to increase the cash outflow through reduction in the statutory liquidity and cash reserve ratio.
- Banks were given greater freedom to leverage the capital markets and determine their asset portfolios. The banks were allowed to provide advances against equity provided as collateral and provide bank guarantees to the broking community.
- Nationalized banks including SBI were allowed to sell stakes to private sectors and private investors were allowed to enter the banking domain. Foreign banks were given greater access to the domestic market, both as subsidiaries as well as branches, provided the foreign banks maintained a minimum assigned capital and would be governed by the same rules and regulations governing domestic banks.

The Insurance Regulatory and Development Authority Act, 1999, allowed the participation of private insurance companies in the insurance sector. The primary role of IRDA was

- To safeguard the interest of insurance policy holders.
- To regulate, promote and ensure orderly growth of the insurance industry.

Not only this, the insurance sector could invest in the capital markets too. Other than traditional insurance products, various market link insurance products were available to the end customers to choose from.

However, to supplement the achievements and to meet the shortfalls in all the sub-sectors of the service industry, travel and tourism sector has to be developed in a sustainable manner. Being one of the largest industries in terms of gross revenue and foreign exchange earnings, it stimulates growth and expansion in other economic sectors like agriculture, horticulture, poultry, handicrafts, transportation, construction, etc. as well as gives momentum to growth of service exports. It is a major contributor to the national integration process of the country as well as preserver of natural and cultural environments. The Ministry of Tourism has been undertaking several policy measures and incentives so as to boost the sector such as the announcement of the National Tourism Policy.

All this shows that services hold immense potential to accelerate the growth of an economy and promote general well-being of the people. They offer innumerable business opportunities to the investors. They have the capacity to generate substantial employment opportunities in the economy as well as increase its per capita income. Without them, Indian economy would not have acquired a strong and dominating place on the world platform. Thus, service sector is considered to be an integral part of the economy and includes various sub-sectors spread all across the country.

Overall statistics of services sector in second quarter of 2011

According to statistics issued by the National Statistics Office, total services sector turnover advanced by 4.7 percent to 115.4 points in the second quarter of 2011. Wholesale trade advanced by 8.8 percent while further increases were recorded in retail trade by 4.6 percent, accommodation and food services by 2.2 percent and information and communication by 0.4 percent apart from a decrease of 3.2 percent in transportation and storage.

Employment within the service activities inclined by a total of 1.4 percent to 983.7 points over the same period of time, with increases mainly registered in accommodation and food services activities by 2.6 percent, retail trade by 2.4 percent and wholesale trade by 1.2 percent. There was, however, a decrease in employment registered for transportation and storage by 1.2 percent, administrative and support services activities by 1.8 percent and information and communication by 2.2 percent.

In the second quarter of 2011, gross wages and salaries advance by 1.7 percent over the corresponding period of 2010. Increases were recorded in accommodation and food services activities and wholesale trade at 0.6 percent and 2.4 percent, respectively. A decrease of 4.7 percent in gross wages was recorded in transportation and storage whilst a decrease of 1.1 percent was registered in administrative and support services.

Impact on Services sector

Overall economic activity is seen to be nearly stagnating as the employment level fell for the second successive month till September 2011. Activity in the services sector too shrank. The seasonally adjusted Service Sector Business Activity Index fell to 49.8 from 53.8 in August 2011. This is the first time since April 2009 that the services sector, which accounts for more than half the Indian economy, has slipped into negative terrain. The decline in services sector activity could be attributed to lower demand for off-shoring of Information Technology and Information Technology enable services from the US and Europe, where several economies are grappling with debt problems. There is also an impact of financial services as banking activity has slowed down on account of higher interest rates and investors are wary of parking their funds in stock markets.

At the moment, manufacturing activity is continuing to grow, though at a much slower pace. Slower new order growth is leading to weaker expansion in output. Business activity was broadly unchanged and new business is growing at a very slow pace. Backlogs of work are still rising, and employment fell in response to the deceleration in new order growth as well as shortage of staff due to unmet in wage demands.

The overall trend is in line with expectations that the Indian economy will grow at less than 8 percent during the current financial year, with agriculture providing the only silver lining. Last year the economy expanded 8.5 percent promoting the government to predict 9 percent growth during 2011–12. But over the last few months, as the global economic situation deteriorated and higher interest rates slowed down, the tempo of the government too is lowering its forecasts although not to the extent that others have done. But it isn't just services which are shrinking.

Future trends

- Globally outsourcing industry is expected to grow;
- Following the success of US and UK, more countries in the European Union would outsource their business;
- Political backlash over outsourcing would come down as companies reap the benefit of outsourcing;
- As India and China emerge as major players, technological power shift from the West to the East.

Government approach

The Finance Ministry may announce a negative list for services in the next Budget, despite suggestions from the industry, it be introduced alongside the Goods and Services Tax (GST). Currently, the Centre has a positive list of services, wherein a detailed description is provided for each taxable service. In a negative list approach, barring a few services listed by the government, all others will be taxed.

The idea behind moving to a negative list is to ensure that there are no unintended tax exemptions. The ministry is of the view that moving towards a negative list by next year itself will prepare the government as well as the industry for a new system before the GST is introduced. On the other hand, the industry has told the government that it is in favour of a negative list, but introducing it only at the Central level will defeat its purpose.

States do not have the power to tax services in the existing regime. But, the Constitutional Amendment Bill for the introduction of GST being vetted by a Parliamentary Standing Committee will empower States to do so.

The general feeling in the Finance Ministry is that the negative list should be announced in the Budget. However, it may come into effect only from July 01, 2012, so that the industry gets some time to make a switch from the positive list. Talks between the Centre and the States on GST are not making much headway. So, there is no certainty over when the new indirect tax regime would actually come into effect.

In a concept paper on the negative list for services released in August 2011, the Finance Ministry had proposed 27 broad categories of services in the negative list, under 9 different heads, which includes, social welfare and public utilities, agriculture, and the financial sectors. It proposed to tax new services, such as paid government services, rail travel, donations to educational institutions and certain health services.

The initial negative list may be kept a little longer to keep controversial items like health and education out of the tax net. But once GST is introduced, the list may be pruned and these services can be covered. Services where the government competes with the private sector—such as transport—may be taxed. But, non-competing services such as police services excluding security may come in the negative list.

Over 60 percent of India's GDP comes from services. Services contributed about Rs.50 lakh crore to GDP. The Centre imposes a 10 percent tax on 119 services.

On a rough estimate, nearly 40 percent of the total services will come into the tax net as a result of the proposed negative list. However, a large part of the informal sector would still remain outside the tax ambit due to the threshold exemption. Thus, the potential for effective taxation of services may be confined to about 20–25 percent of the service sector contribution.

Role of CMAs

The success of every organization depends upon skilled, dedicated and committed workforce. It also depends on the quality of information made available to the management. So the service sector needs people having analytical and judgment skills which the CMAs possess such qualities. They are capable to apply a number of cost and management techniques in assessing different kinds of situations and suggest the right kind of cost prescriptions. The professional expertise of the CMAs aids in stabilizing budget and standards, evaluating operating efficiency and effectiveness of service management, formulating the profit planning program, guiding the managerial decisions and identifying accountability for cost and profit variance. In addition they even act as consultants and advisors in company matters. They can work independently in applying analytical, technical, accounting and auditing skills in many areas of cost and management control.

CMAs help organizations in developing a privacy strategy so as to protect company's own intellectual capital and customers and ensuring that the privacy processes and practices are cost effective. A successful and well-executed strategy can bring about increased customer comfort which, ultimately, will increase the revenue. Today's business environment demands risk to be examined and managed in time. CMAs believe that risks can only be managed if they are identified. They suggest organizations to invest in a structured technology enabled approach to risk optimization.

Though traditional management accounting techniques such as budgeting, absorption costing, product profitability analysis, customer profitability analysis and non-financial measures for performance evaluation are more widely adapted but there is a need to place greater emphasis on more recently developed techniques such as activity based costing, activity based budgeting, activity based management, etc in order to enhance the value addition to the services rendered and achieve global excellence.

CMAs can serve the service sector and lend a hand to the growth of the nation. ❐

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

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NOTIFICATION

Cancellation of Registration under Regulation 25(1) of CWA Act, 1959
Registration Numbers Cancelled
For December-2011 Examination

UPTO

ERS/002802, NRS/004400 (except 4033, 4047, 4049-4105), 4695-4700

SRS/009075, WRS/006806, RSW/077893, RAF/005855

RE-REGISTRATION

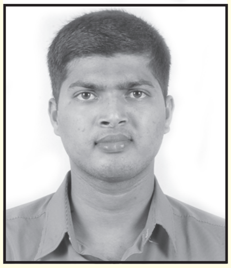
The students whose Registration Numbers have been cancelled (inclusive of the students registered upto 30th June 2004) as above but desire to take the Institute's Examination in December-2011 must apply for **DE-NOVO** Registration and on being Registered DE-NOVO, **Exemption** from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

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

Date : 21st June, 2011

ARNAB CHAKRABORTY
DIRECTOR OF STUDIES





Cost and Management Accountants in Service Sector—Realistic Positioning of Cost and Management Accountants in Airline Industry

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Introduction

The Services Sector constitutes a large part of the Indian economy both in terms of employment potential and its contribution to national income. The Sector covers a wide range of activities from the most sophisticated in the field of Information and Communication Technology to simple services pursued by the informal sector workers, for example, vegetable sellers, hawkers, rickshaw pullers, etc. In advanced economies the growth in the primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, entertainment etc.

The term is also used to refer to the relative importance of service in a product offering. The service economy in developing countries is mostly concentrated in financial services, health, and education. Products today have a higher service component than in previous decades. In the management literature this is referred to as the servitisation of products. Virtually every product today has a service component to it. The old dichotomy between product and service has been replaced by a service-product continuum. Many products are being transformed into services.

Services constitute over 50% of GDP in low income countries, and, as their economies continue to develop, the importance of services in the economy continue to grow. The service economy is also key to growth, for instance it accounted for 47% of economic growth in sub-Saharan Africa over the period 2000–2005 (industry contributed 37% and agriculture 16% in the same period). The means that recent economic growth in Africa relies as much on services as on natural resources or textiles, despite many of those countries benefiting from trade preferences in primary and secondary goods. As a result, employment is also adjusting to the changes and people are leaving the agricultural sector to find work in the service economy. This job creation is particularly useful as often it provides employment for low skilled labour in the tourism and retail sectors, thus benefiting the poor in particular and representing an overall net increase in employment. The service economy in developing countries is most often made up of the number of domains like financial services, Tourism, Distribution, Health, and Education.

The export potential of many of these products is already well-understood, e.g. in tourism, financial services and transport, and however, new opportunities are arising in other sectors, such as the health sector. For example, Indian companies who provide scanning services for US hospitals. South Africa is developing a market for surgery and tourism packages in India, the Philippines. South Africa and Mauritius have experienced rapid growth in IT services, such as call centers, back-office functions and software development.

Service Sector in India

India stands out for the size and dynamism of its services sector. The contribution of the services sector to the Indian economy has been manifold: a 55.2 per cent share in gross domestic product (GDP), growing by 10 per cent annually, contributing to about a quarter of total employment, accounting for a high share in foreign direct investment (FDI) inflows and over one-third of total exports, and recording very fast (27.4 per cent) export growth through the first half of 2010-11. The fact that the service sector now accounts for more than half of the GDP marks a watershed in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy.

Services or the "tertiary sector" of the economy covers a wide range of activities like trading, banking & finance, real estate, transportation, security, management & technical consultancy among several others. The various sectors that combine together to constitute service industry in India are Trade, Hotels and Restaurants, Railways, Other Transport & Storage, Communication (Post, Telecom), Banking, Insurance, Dwellings, Real Estate, Business Services, Public Administration, Defense, Personal Services, Community Services and other services.

There was marked acceleration in services sector growth in the eighties and nineties, especially in the nineties. While the share of services in India's GDP increased by 21 per cent points in the 60 years between 1950 and 2010, nearly 40 per cent of that increase was concentrated in the nineties and afterwards. While almost all service sectors participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector.

The boom in the services sector has been relatively "jobless". The rise in services share in GDP was not accompanied by proportionate increase in the sector's share of national employment. Some economists have also cautioned that service sector growth must be supported by proportionate growth of the industrial sector. Otherwise the service sector growth will not be sustainable. In the current economic scenario it looks that the boom in the services sector is here to stay as India is fast emerging as global.

An analysis of India's service sector

The service sector now accounts for more than half of India's GDP: 51.16 per cent in 1998-99. This sector has gained at the expense of both the agricultural and industrial sectors through the 1990s. The rise in the service sector's share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy (in the developed economies, the industrial and service sectors contribute a major share in GDP while agriculture accounts for a relatively lower share).

The service sector's share has grown from 43.69 per cent in 1990-91 to 51.16 per cent in 1998-99. In contrast, the industrial sector's share in GDP has declined from 25.38 per cent to 22.01 per cent in 1990-91 and 1998-99, respectively. The agricultural sector's share has fallen from 30.93 per cent to 26.83 per cent in the respective years.

Aviation Industry in India

Aviation Industry in India started in 1912 when the first flight took off from Karachi to Delhi. It was initiated by Indian State Air Services in partnership with Imperial Airways, UK. But the real initiation for Aviation Industry in India was in 1932 when Mr. JRD Tata started Tata Airline. In 1946 Tata Airlines was renamed as Air India. Just after independence, India had nine air transport companies transporting both cargo and passenger traffic. In 1953 the Indian government nationalized all the existing airline assets. Indian Airline was set up to cater to the domestic market, while Air India was set up to take care of the International sector. Both Indian Airline and Air India enjoyed monopoly over the Indian skies. Service was poor, flights were often delayed and frequent travellers had to face innumerous hardships. But the scenario changed post-liberalization. Post-liberalization the Aviation industry has witnessed unprecedented growth for both domestic and foreign passenger sector.

The monopoly of Indian Airlines and Air India over the Indian skies came to an end. The substantial growth in the Aviation industry post-liberalization was due to the entry of private players, increased competition ensuring better service to the customer. The entry of low cost carriers like Deccan, Spice Jet, Go Air changed the landscape of the aviation industry. The number of first time fliers in both urban and rural India increased dramatically.

The first move towards liberalization was initiated in 1986 when private airlines were given permission to start charter and non-scheduled services to all authorized airports under the Air Taxi Scheme. They were also given permission to make their own decisions with respect to fares and schedules. A major step towards liberalization was in 1990 when India initiated an Open Sky Policy for cargo which gave permission for foreign airlines to run cargo flights without restrictions and to charge rate without being controlled by Director General of Civil Aviation (DGCA).

In 1994, Air Corporation Act was passed. With this Act private service providers could now operate both scheduled and non-scheduled services in the domestic sector without any constraints on the size or type of aircraft. But to guarantee passenger safety, security, proper growth of air transport services and overcome infrastructural constraints in many airports, the government gave permission for addition to capacity based on increase in air traffic forecast. In 1994-95 the government gave permission to directly import aviation turbine fuel (ATF). In 1997-98 to take the process of liberalization one step further, foreign equity participation up to 40 per cent (100 per cent for NRIs) was allowed in the domestic airline segment. But international service providers could not take stakes either directly or indirectly without approval from DGCA.

Future Trends

The Centre for Asia Pacific Aviation (CAPA) has predicted that domestic traffic will increase by 25 to 30 per cent till 2010 and international traffic growth by 15 per cent by 2010. By 2020, 400 million Indian passengers are likely to be flying and Indian airports would be handling more than 100 million passengers. The Aviation industry has to be guarded against foreign carriers especially from the Middle East. The global meltdown and decrease in air travel due to terrorist activity have eroded the profitability of the aircraft operators in India.

Cost Accounting in the Aviation Industry

Many firms have moved beyond the traditional volume-related cost accounting systems. The belief is that systems based solely on volume-based measures such as units of output produced give biased cost estimates for managerial decisions. Based on the idea that more accurate cost estimates are needed, British Airways implemented activity based costing (ABC) in the 1980s. ABC attempts to classify costs by referencing to the activities that consume them. It is widely believed that ABC has more to contribute to decision making than traditional methods. Activities provide service to customers and when considered as a whole, they form 'value chains'. Value is added at each stage of the chain and costs are associated with this. While revenues always incur costs to generate, not all costs necessarily generate revenues. Hence firms are always trying to eliminate non-value added costs (activities). British Airways identified two categories

- Activities involving selling a ticket.
- Activities involving flying the passenger from point A to point B.

The objective was, first, to better control raw expenditures and, second, to help managers make cost-effective decisions. The experience identified two major problems. First, most airlines do not have cost accounting systems aligned to activities because department organizations still predominate. Second, the large number of products produced creates a large proportion of common costs. Tracing costs depends more on opinion and was hampered by organizational politics. That left tracing the costs to the activities that produced them very difficult. Since the airline industry has a high percentage of products are produced by the same delivery system, it is difficult to directly allocate indirect costs to products. Where products use common resources differently, some sort of weighing is needed in the cost allocation process. There are a high number of joint costs that are not easily separated by allocation to activity. For example the CEOs' salary or utilities are joint costs. This left sizable costs untraceable to activities and were "arbitrarily allocated" to one of the two activities.

The hub-and-spoke strategy is based on broad service in product and geography. It offers customers many destinations with flexibility and available capacity to accommodate routings, no-shows and flight changes. It requires aircraft with different capacities and performance characteristics. Hubs require large fixed costs due to large commitments made to cover scheduled service. They require large fleet and ground infrastructure that is not easily escapable during economic downturns. All of these increase capital, labor, operating costs, and complexity which are expensive and not easily avoided (Gillen 2006).

On the positive side, hubs can increase economies of scale in maintaining fleets, using ground property, equipment, and labor. By funneling in passengers to hubs, airlines can take advantage of economies of density. This is when unit costs are reduced by increasing output on an unchanged network such as flying the same frequencies with larger aircraft. Finally, hubs increase economies of scope. These arise when it is less costly per unit of output for two or more products to be produced and marketed within a single airline than for them to be produced by separate carriers. Hubs increase economies of scope by combining first class and economy class, local and connecting passengers all traveling on the same aircraft. All of this works toward reducing average costs.

Point-to-Point Networks and the Low-Cost Strategy

This strategy trades off service, capacity and frequency for low fares. The vast majority of the cost difference relates to product and process complexity. This is directly tied to the design of their network structure. While a full service airline relies on a hub-and-spoke network to create catchments, low-cost carriers create the incentive for each customer to create their own spoke to the point of departure. A common fleet is used to keep maintenance cost low. Frequency is lower and passengers give up convenience due to lower frequencies. Items like meal service and passenger lounges are not available. In total, this results in lower costs for the point-to-point network.

The empirical results from Banker and Johnston found output volumes to be important cost drivers. For all cost categories, the estimates of the coefficients of the volume base drivers are positive and have t-statistics that are highly significant. In addition, the coefficients of the operations-based drivers were in the expected directions and have t-statistics that were fairly high. In some contrast to the Kanafani and Hansen study, Banker and Johnson found that carriers who dominate their hubs can achieve greater economies from hub concentration than carriers with competitive hubs. This seems to suggest that carriers that can dominate hubs may be able to schedule, market and operate flights in a manner that enables them to control the flow of traffic and thereby use their resources more efficiently (Banker and Johnson 1993). Overall, their results showed that that the effects of operations-based cost driver are statistically significant.

Approaches to Cost Classification Based on Behavior.

Costs follow three basic behaviors :

- Fixed—not varying with output.
- Semi-fixed—fixed over a range but vary beyond
- Variable—(fuel, landing fees)

Airlines generally have a high percentage of fixed cost. As a result, any downturn in traffic or yield possible during a recession can rapidly take an airline's revenue below the level required to meet fixed cost. On the flip side, since variable costs are small in relation to fixed costs, once breakeven levels are reached at the existing capacity, profits increase at a faster rate than revenue. If an airline has a shrinking revenue base it means more seats must be full to hit the breakeven.

One other unique characteristic of airline breakeven analysis is that it must cover the fixed and variable costs of not only the sold output, but also the portion that is unsold (empty seats and cargo space) Break-even analysis can be used to check profitability at different volumes of output given the airlines' cost and yield structures. Revenue per available seat mile (RASM) is more comprehensive than yield as it takes into account all revenue—not just passengers, but that is not the reason airlines have adopted it. Their reason relates to the fact that when the load factor is rising, RASM grows faster than yield because it is a function of both load factor and yield. Thus, during these times, RASM presents a more favorable picture of company operations than would a yield to unit cost comparison. (A declining load factor produces the opposite effect) As this suggests, RASM is not an independent variable in airline economics, so using it without looking at trends in the two underlying components can lead to erroneous conclusions, particularly about the trend of passenger air fares.

Drawbacks from Break-Even Analysis (Holloway 2003)

- Only good for the short run because prices, costs, and their behavior change over time.
- May be inaccurate for a particular product if the entire airline as a whole is being considered.
- Any changes to capacity will change the breakeven point.

Comparison of Variable, Average, and Marginal Costs

Marginal costs are somewhat avoidable but do contain some fixed cost depending on the incremental change in output. For example, if we delete a single flight, the costs are mostly variable but if we delete an entire destination and all the flights to that station, there are some fixed costs associated with that decision.

Marginal cost is likely to vary over a large range of output and is very different from average cost (Holloway 2003). With marginal costs below average costs, fierce competition to fill highly perishable seats can drive fairs to below average cost. If a carrier has empty seats which have already been 'produced' the marginal cost is not significantly more than the additional ticketing, commissions, and handling to put a passenger into that seat. Average costs must be covered to maintain a break-even result.

Conclusions

Management Accounting's function is to assist managers in planning, controlling, and decision-making. All these are required to harmonize output, unit cost, traffic, and yield management. This information also allows managers to focus on value, quality management, and strategic position. One of two positions has developed in the airline industry—cost leadership (low cost carriers) based on the point-to-point model, or product differentiation (full-service airlines) based on the hub-and-spoke model.

Two points are clear from this discussion. First, no one accounting system will work for all airlines. Second, airlines should constantly look at modifying their cost accounting systems to better fit the evolving competitive industry and their needs. Individual airlines must design systems that allocate cost accurately and be useable. Since the purpose is to provide information to management, the goal should be to limit assigning cost in an arbitrary manner. ❐


Target Costing : A Tool for Effective Profit Planning

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Introduction

India was committed to a highly protective industrial and foreign trade regime since 1951 due to socialistic policy of governance. The protective regime controlled not only entry into industry and capacity expansion but also technology, output mix and import content. Import control and tariff provided high protection to the domestic industry. Industry suffered the ills of low productivity, obsolete technology and processes. Long lead times and high inventories lead to inefficiencies, and high cost which was passed on to the customers by way of price increases. Shortage, scarcity and premium ruled the roost ushering virtually no or little investment in technology and in upgrading processes, which resulted in inferior quality in all sectors.

The effect of economic reforms

The economic reforms brought a sea change in the industrial environment with intense domestic competitive pressures and entry of global players. This forced the organisations to rethink their competitive strategies as inefficiencies could not be passed on as price increases to customers as in the past. The immediate need was to focus on inefficiencies in all areas and cut costs to retain / reduce selling price (which was often the case) to maintain market share and healthy bottom line. The competition both from domestic and global players became cut throat, with quality driven up and costs pushed down. All this supported with the latest technology products and performance. The customer cry was 'Value for Money' and the investors focused for leap in 'Shareholder Wealth'. Industry was pushed to the wall, which compelled them to intensify all over the cost cutting effort and also to critically focus on managing costs effectively. To implement market – driven management policies across the organisation, measurement and cost control systems must be designed to motivate the desired consumer – oriented behavior. Thus strategies that determine the direction of product innovation have become more crucial to corporate management today than ever before. In this situation therefore, **target – costing system (Japanese) has been identified as the system, which helps managers to push forward this badly needed strategy.** The increasing popularity of the system as opposed to "cost plus" (Western), has influenced my study in this subject.

Objectives

To study the usefulness of Target Costing technique in profit planning in competitive market.

Sample Design :

Researcher has selected sample of 56 manufacturing companies for study representing 23 different types of industries consisting of Pharmaceuticals, Chemicals, Metals, FMCG, Automobiles, Electronics, Textiles, Paints etc.

Statement of Hypotheses :

Profit planning can be made effective with Target Costing.

Literature Review

Cooper and Slagmulder (1999), Kato Y. et al (1995) state that Target Costing is not just a cost reduction technique or control framework, but part of a comprehensive strategic profit management system. Important techniques in designing cost out of the product include value engineering, design for manufacture and assembly and quality function deployment. Lee, J.Y (1994) considers achievement of profit margin to be an important Target Costing goal. He states the traditional idea of "How much will the product cost?" is replaced with "How much can the product cost?" Butscher and Laker (2000) state, to guarantee achievement of target margins, it is important to position these products within the market's acceptable price range and within the manufacturer's acceptable cost range. This could mean the decision of not to launch the product if the target cost is not achieved. Cooper and Chew (1996) state target costing is primarily a technique to strategically manage a company's future profits. It achieves this objective by determining the life-cycle cost at which a company must produce a proposed product *with* specified functionality and quality if the product is to be *profitable* at its anticipated selling price. Thus it should include any costs that are driven by the number of units sold. If a company accepts responsibility for disposing off a product at the end of its useful life, these costs are included in the target cost. Gagne and Discenze (1993) **:** Generating higher profit margins is one of the company's goals, and cost reduction is one way to achieve this goal. The Japanese through Target Costing have provided guidance on how management accounting can play a significant role in creating sustainable competitive advantages for a firm. Old ways of product costing blunt a firm's ability to compete effectively and hinder their ability to focus on world class performance. Dutton and Anderson (1998) consider target costing an important tool in multi-year product and service, profit, and cost planning. The best practice firms such as Caterpillar aggregate their profit and cost plans to manage profits at the enterprise and product family level. According to Khandwalla (1972) the total amount of resources dedicated to cost management is high for any company in an intensely competitive environment. To survive, companies must look for ways to reduce costs year after year and at the same time become experts at developing *products* that deliver the quality and functionality that customers demand, while generating the desired profits. A unique strategy of ensuring that *products* are sufficiently *profitable* when they are launched is to subject them to *target costing.* The target profit for a specific product is based on long-term profit strategies for the company as well as short term market share strategies for the product. According to Cooper and Slagmulder (1997) Target profit is typically based on historical returns on sales and return on assets as well as profit planning goals. Helms et al (2005) further states, the desired profit margin will always be greater than the cost of capital but is influenced by macro environmental forces as well as shareholder goals. Monden Y. and Hamada K.(1991) state some auto companies use the payback period method as an aid in assessing profitability. The payback period should normally cover no more than two model lives; i.e., eight years. In the case of a specific facility used exclusively by a certain model, the payback period is usually no more than four years. For a minor model change the period is two years. According to Cooper, 1995; Horvath, 1993; Yoshikawa et al., (1993) Target Cost Management has emerged to meet the need for product-specific value measurements. The goal of Target Cost Management is to build profit and performance requirements from the market by controlling the relationship between cost and revenue. When the actual product cost exceeds the target cost, the cost planning process is used to question the reasons for the profitability gap and to identify ways to eliminate the discrepancy.

Product Development Strategy

The greatest value of target costing lies in its ability to bring the challenge of the marketplace back through the chain of production to product designers. Target costing ensures that development teams will bring profitable products to market not only with the right level of quality and functionality but also with appropriate prices for the targeted customer segments. It is discipline that harmonizes the labour of disparate participants in the development effort, from designers and manufacturing engineers to market researchers and suppliers. Target costing ensures that success with the customers will yield economic success for the company. Target costing is not a mere costing technique it is a comprehensive strategic profit management system since it provides opportunities for substantial growth in profits when applied throughout the value chain.

Target Costing used globally

Target costing, was developed in Japan in 1965. Japanese firms including Toyota, Nissan, Sony, Matsushita, Daihatsu, Canon, Olympus Optical, Komatsu, Topcon, and Isuzu, have adopted target costing to achieve global economic success. Tani et al (1994) in their study found that 60.6% from the sample of 180 listed Japanese manufacturing companies use target costing to compete globally. In United States Boeing, Caterpillar, Rockwell, Eastman Kodak, Texas Instruments, Mercedes Benz, Daimler Chrysler, and Continental Teves (an automotive brake supplier) are leaders in implementing the target costing process. The study by Chenball and Langfield-Smith (1998) found that among 78 large Australian manufacturing companies, 38% claim to use target costing to gain competitive advantage. Dekker & Smidt survey study among Dutch listed manufacturing companies found 22 of the 32 responding companies using target costing practice to launch profitable products. Thus target costing technique has been successfully used by companies all over the world for cost reduction and profit planning.

Of the fifty six companies surveyed, fifty one companies responded 'yes' to the question do you recognise the need for target costing. Amongst these fifty one companies, forty seven companies responded that they had actually used this technique

Concentrating on these forty seven companies, that have adopted target costing technique, responses to the question *'How has target costing benefited your company? Please rank in order of preference where 1= Extremely Important* was analysed.

Table – 1 Bivariate table showing preference for "Decrease in Cost" and "Increase in Profit"

X\Y	1	2	3	4	5	6	7	Total
1		*32	2					34
2	◘9							9
3				1				1
4	2							2
5								
6			1					1
7								
Total	11	32	3	1				47

X=Preference for adoption in Target Costing for Decrease in Cost

Y = Preference for adoption in Target Costing for Increase in Profit

*32 in cell (X=1,Y=2) indicates thirty two of the forty seven companies adopting Target Costing gave 1st Preference to decrease in cost and 2nd preference to increase in profit.

Table 2 Marginal Table for Preference in Increase in Profit (Y)

Preference for Increase in Profit (Y)	Number of Compaines	Percentage Frequency	Cumulative Percent
1	11	23.40	23.40
2	32	68.09	91.49
3	3	6.38	97.87
4	1	2.13	100.00
5	–	–	100.00
6	–	–	100.00
7	–	–	100.00
Total	47	100.00	

Almost 23.40% of the companies using target costing stated that the purpose was for increase in profit which by implementing the technique was achieved. As there is very little difference between the first and second preference, as decrease in cost leads to increase in profits the cumulative preference is 91.49%, shows that target costing is an effective tool for increase in profit and therefore profit planning.

To find the association between X and Y Karl Pearson Co-efficient of Mean Square Contingency {C} is used

Computation of C

$C = \sqrt{\text{CHI-SQUARE}/[N + \text{CHI-SQUARE}]}$

where CHI-SQUARE = $\sum \cup^2/E - N$

Maximum permissible value of C is **0.9258.**

Table 3 Tables of 'O' {Observed Frequencies}

X\Y	1	2	3	4	5	6	7	Total
1		*32	2					34
2	◘9							9
3				1				1
4	2							2
5								
6			1					1
7								
Total	11	32	3	1				47

Table 4 Table of E (Expected Frequencies)

X\Y	1	2	3	4	5	6	7
1		23.15	2.17				
2	2.11						
3				0.02			
4	0.47						
5							
6			0.06				
7							

E for {i,j}th cell = [{ith Row total} × (jth Column total}] / Grand Total

CHI – SQUARE = 112.6425

C = 0.8399

The calculated value is closer to Theoretical C, this shows strong positive association between two attributes X and Y

Thus it proves the hypotheses that target costing is a technique for cost reduction and profit planning.

Conclusion

Although target costing in its simplest form is merely a calculation – target price minus margin, today's competitive environment makes target costing an indispensable, strategic management technique. It can be successfully integrated into new product development and portfolio management process to provide the firm with economic and strategic benefits. A key element to consider is the benefit of abandoning projects which will not be economically viable in today's competitive markets and focusing typically limited resources on those opportunities which will provide adequate returns to the company. Target Costing provides guidance on how to create sustainable competitive advantage for a firm. Old ways of costing blunt a firm's ability to compete effectively and hinder their ability to focus on world class performance. The effort has its cost, but the cost of not making the effort is greater.

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Strategic Role of CMAs in Credit Card Industry

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Introduction

Welcome to the age of plastic money. Once upon a time our society was functioning without money; it is again likely to become moneyless with the blessings of plastic money. The use of plastic money in form of credit card, Debit card, ATM card, Charge card, Amex card, Master card, Visa card, Diner's club card, Smart card, Photo card, Global card, Add-on-card, Affinity card, Co-branded card, Petro card, Prepaid card, Promotional card, Kissan card and Cheque Guarantee card etc. bring a sea change in the field of consumer credit services globally. There are three leaders in the credit card industry today. They are VISA International, Master Card and American Express. Now the whole world became an abundant industry for credit cards due to the high credibility of acceptance by large number of banks as well as full technological support by the network of payment services like Visa, Master Card and American Express etc. Today, the Indian mode of payment has shifted from money to electronic mode.

Conceptual Framework and Mechanism

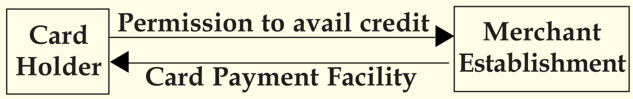
Credit card is a mechanism of credit service. It allows the holder to buy goods and services without making immediate payment. The issuer bank extends credit when the holder uses it at anytime anywhere. A credit card serves two purposes i.e. as an instrument of payment and a source of credit. The process of credit card mechanism involves the following sequential steps :

Step I : The Issuing bank issues a credit card to the card holder after observing certain formalities. Generally Direct Sales Agents (DSAs), Direct Marketing Agents are assigned in this step.

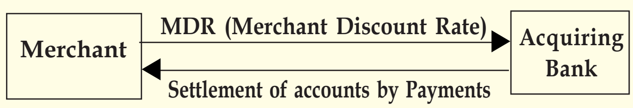
A credit card is a plastic card having the photo identity and the signature embossed on the card. It contains issuing bank's name and validity period of the card. The design of the card itself has become a major selling point in present scenario of customer credit. In recent design the front side of a credit card incorporates issuing banks logo, EMV (Europy, Master Card, Visa) chip, Hologram, Card number, card brand logo, expiry date and card holders name. Similarly in the reverse side magnetic stripe, signature strip and card Security etc are embossed.

Step II : The card holder uses the card as a means of payment against the purchase of goods and services from the Merchant Establishments.

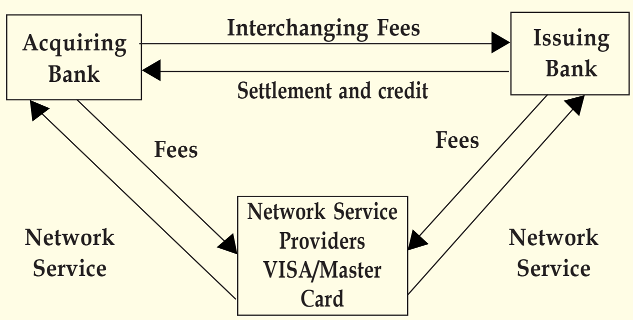
The Merchant Establishment (Seller of goods and Services) swipes the card and gives a credit slip on which the card holder (being the buyer) has to sign. In this process the bill is charged (debited) to the buyer's credit card.



Step III : The Merchant Establishments operate these transactions with credit cards through their Acquiring Banks. The moment the customer's bill is charged by swiping the credit card the Account of the Merchant will be automatically credited with less commission.



Step IV: The Acquiring Bank of the Merchant Establishment submits the charges to Issuing Bank of the card holder through the clearing mechanism maintained by the network sponsors like VISA International or Master Card.



Step V : The Issuing bank sends a statement to the card holder containing the details of amount charged through credit card. Normally, this statements is sent periodically i.e., once in a month. The moment the card holder pays the due amount to the card issuing bank the whole transaction cycle is completed.

Credit Cards in India

With the beginning of financial sector liberalization (1991 onwards), the Indian financial market saw a sudden forward movement in credit cards. According to survey report of MasterCard international in December 2004, only 14% of Indians were having credit cards. This was in shape contrast to countries such as the United Arab Emirates and Kuwait where 63% and 50% of respondents respectively owned a credit card. Thus, the survey found that there would be high growth potential for credit card industry in India. Till the end of 2004, the usage of credit cards by Indians was also much lower than their Asian counterparts. But credit card would be one of the fastest growing businesses in financial services in India.

RBI Guidelines on Credit Card Operations of Banks

To encourage growth of credit cards in a safe, secure and efficient manner as well as to ensure that the rules, regulations, standards and practices of the card issuing banks are in alignment with the best customer practices, RBI has issued the

guidelines vide its circular no.- RBI/205-06/211 dated November 21, 2005 on the following 8 (Eight) aspects :

1. Issue of credit cards.
2. Interest rates and other charges.
3. Wrongful billings.
4. Use of DSAs/DMAs and other agents.
5. Protection of customer rights
   i. Right to privacy
   ii. Customer confident ability
   iii. Fair practice in debt collection
6. Redressal of grievances
7. Internal control and monitoring system.
8. Right to impose penalty.

Credit Card Business During 2005-08

During 2005-06, it was observed that utility payments were made through plastic money. The number of customers paying their electricity and water bills though credit cards has risen significantly through the customer base was very small. There were 25 million credit card holders in India and ICICI was the largest player with 8.5 million cards issued. Citibank, SBI-GE card and HDFC are the other prominent players in India.

The growth potentiality in Indian plastic money business can be observed as follows :

Financial Year	Number of credit cards issued in India
2005-06	17.3 million
2006-07	23.1 million
2007-08	27.5 million

Source : Business line 12 September, 2010

Credit Cards Business During 2008-10

Use of plastic money instead of cash is seen by economists as a sign of confidence of the ordinary consumer in the Indian economy. Many of the public sector and private sector banks ventured into credit card industry in India. Some of the important banks in the Indian credit card industry as on the end of the year 2010 are :

- Andhra bank
- Bank of India
- Central bank of India
- Corporation bank
- HDFC
- IDBI
- American express bank
- Bank of Baroda
- Canara bank
- Citi bank
- HSBC
- ICICI BANK
- SBI
- Standard Chartered Bank
- Union bank of India
- Vijaya Bank

During the financial years 2008-09 and 2009-10, not only the plastic money is circulation in India was falling, it was also underutilized. On an average the annual number of transactions per credit cards stands at only 11. But it is only one in case of debit cards. Credit cards grew faster since inception, with the growth turning negative in the latest years. Backed by strong marketing, the number of credit card, issued by various banks showed as upward trend from 2006-08. In fact their number grew by more than a crore in the three financial years from 2005 to 2008. However, there after figures began to dip due to global economic slowdown and the Indian consumer's conservative nature. This decreasing trend in the Indian credit card business during 2008-09 and 2009-10 would be as follows :

Financial Year	Number of credit cards issued during the year
2008-09	24.7 million
2009-10	18.3 million

Source : Business line 12 September 2010

It is observed that, for the first time in many years the number of transactions when credit cards were used also fell in the financial year 2009-10. This negative happening can be observed from the following Statistics :

Financial Year	Number of transactions through use of credit cards
2005-06	156.1 million
2006-07	159.5 million
2007-08	228.2 million
2008-09	258.5 million
2009-10	234.0 million

Source : Business line, September 12, 2010

It is observed that, 26 crore purchases were made by use of plastic money in 2008-09; this figure fell by two crore transactions in the financial year ending March, 2010. During this period several customers surrendered their credit cards. Increasingly, debit cards are gaining popularity. However, in recent past credit cards have found acceptance with the Indian consumers after banks introduced several security features and even simple purchases could be made using plastic money. However, the falling numbers in both the years (2008 – 09 and 2009 -10) due manifold economic and non economic factors.

In the words of Dk. Joshi, Chief Economist, Crisil. "Due to the Sharper—than—expected global Slowdown and the impact of high interest rates on the domestic company, the overall growth is slowing down at a faster clip then anticipated earlier. Services Sector will slow down due to slowing industry but overall growth (in services) is till expected to remain healthy".

Problems observed in Credit Card Services

CMAs should aware the following problems in the credit card services :

1. Indian banks lax on credit card security.

2. There is no proper transparency in terms and conditions like interest rate on late payment, annual fees, fees for going over the credit limit, closing fees, balance transfer fees, billing cycle and optimum payment cycle etc.

3. Emotional attitude to spend by using credit cards. The card holder forgets the ethics i.e. "*cash discourages spending and credit card encourages it*".

4. The product design and promotions are such that the pricing is kept hidden and the users are obvious of the fact that the cost is ultimately borne by them. The DSAs/DMAs persuade the card holders by false reward system.

5. Disputes between merchant Establishments and card holders on charge backs (or disputes from the customers) issues

6. Banks are violating the basic guidelines of RBI on credit card operations

7. Acquiring Banks hike merchant's fees (MDR)on card swipes

8. Credit card grievances topped customer complaints list

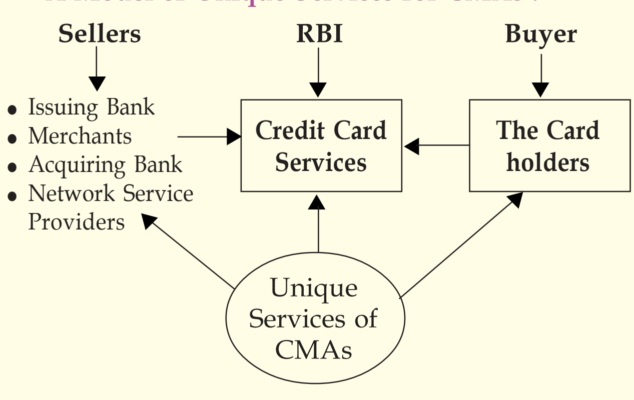
9. No adequate technology to fight credit card frauds.

10. Fraudsters use fake identities to trick banks and the banks became victims to identity theft.

Strategic Role of CMAs in Credit Card Management

The dramatic expansion in consumer credit, particular through the ready availability of credit cards raises significant questions about checks on potentially unscrupulous behaviors. In credit card services, the Issuing banks, the Acquiring Banks, The Merchants, The Network Service Providers, DSAs/MSAs, The Regulatory Authority i.e. The RBI and the Card holders (consumers) are involved. In a democratized markets characterized by large sellers and small transaction consumers, There is a risk that marginal charges may impose costs not worth the consumer's brother, but amounting in the aggregate to significant gains to for the sellers. In this scenario, the cost and Management Accountants with the expertise in cost reduction and improvement in quality service may innovate new tools for efficient credit card management.

A Model of Unique Services for CMAs :



However, CMAs may play the following roles :

1. Strategic Manager in the Credit Card System :

Banks are ramping up credit card operations to expand their market share and sharpen competitive edge by offering value added services. An increase in credit card issuers has given rise to a whole new set of challenges in terms of cost control and operational risk management. as a result CMAs should extend their consultancy services to the issuer banks for managing credit card issue cost. CMAs may use the following model for credit card management :

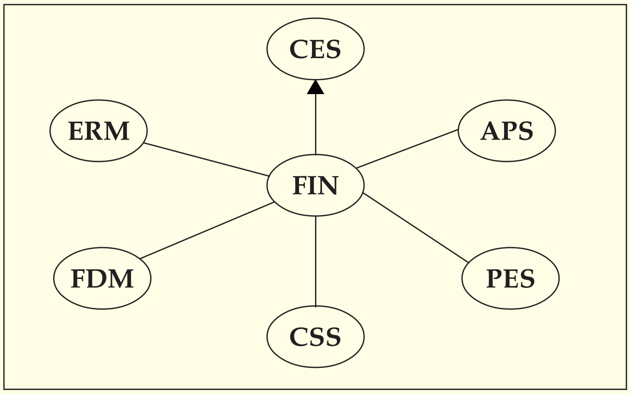


Fig : Solution Model for Credit card Management

FIN : Finance and Accounting Service :

Day to day accounting of credit card issuance, clearing and acquiring, and proving profitability analysis of card productions

ERM : Electronic Report Management Service :

Providing mass storage and management of credit card transaction reports, supporting flexibility query.

FDM : Fraud Detection Management Service :

Use rules and neural network technology to conduct fraud detection, Card user detection and Merchant detection

CES : Card Embossing System Service :

Responsible for card embossing and distribution as well as the storage and management of bank cards and card productions.

CSS : Credit Scoring System Service :

Credit assessment of applicants for support.

APS : Application Processing System Service :

Application form sorting, imaging and storing

PES : Printing and Enveloping System Service :

Letters and personal billing printing and enveloping, also support report printing

2. Advisory Role to Credit Card holders for Managing credit cards wisely :

CMAs may help credit card holders in finding solutions of the following problems :

- How to choose a credit card that is right to the user?
- What are the things to be considered before accepting a new credit card?
- What are the different types of credit cards?
- How to make sense of credit card offers?
- How to avoid mistakes in using costly credit cards?
- What are the new norms in credit card Reform Act?
- How to understand credit norms?
- How much your credit cards are really costing to the (card holder) you?
- How to prevent business credit card fraud?
- Is your credit card information secure?
- How to protect your credit card information online?
- How to prevent identity fraud when using credit cards?
- What are the benefits of business credit card cash back program?
- Is an Airline Rewards card worth it?
- What are the general tips to choose a Reward Card?
- How to play travel reward game and win?
- How to make Reward cards mare rewarding?
- What are the common fees associated with business credit cards?
- How credit card APR is calculated?
- How to avoid unreasonable penalties?

3. Consultant to Issuing Banks as well as Acquiring Banks for solving Consumer's Complaints

4. Quality Improvement Guide to the Network providers like VISA, Master Card and American Express etc.

5. CMAs also involve in research to find out the gap between the regulatory norms on credit card services and the actual practice. The research findings may be published in the various new papers and websites with a view to contribute for strengthening the financial system in India. This will help the Reserve Bank of India, being the regulatory authority, to introduce new regulatory norms to protect the interest of the large number of card holders. Besides the RBI may take step to reduce currency management cost.

Conclusion

In India, the credit card industry is facing numerous problems Banks issue credit cards freely without appraisal of the credit standing of the prospective card holder. Banks are not following the guidelines of the Reserve Bank of India on credit card operations. Acquiring Banks are charging 1% to 2%

of the amounts (billed through credit cards) on the merchants which is a burden to the card holders. Issuing banks are charging various fees and charges on card holders. Huge Indian money is going to the Purse of VISA, MasterCard and American Express, as networking service charges. Indian Consumers are not smart enough to use credit card wisely. Thus, CMAs should come forward to play innovative role in solving these problems for a better future of credit card industry in India. ❐

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Obituary

We deeply regret the passing away of Shri Amitava Bhattacharyya past President of our Institute on October 23, 2011. He was the President of the Institute for the period 1983-84. We extend our heartfelt condolence to Shri Bhattacharyya's family.

May his soul rest in eternal peace.

Obituary

We deeply mourn the sudden demise of Shri N. J. YASASWY (b.1950) who passed away on 8th October 2011. Shri Yasaswy has had a brilliant academic career throughout securing first position both in ICWAI Intermediate (July 1970) and Final (July 1972) examinations as well as in CA Intermediate and Final examinations. He was the recipient of Basu Foundation Award for the best student of the year from both ICWAI & ICAI.

ShriYasaswy was a visionary who served on the Board of Studies of Nagarjuna University (1978-80). He was appointed by Government of Andhra Pradesh as Chairman of A.P. State Trading Corporation (1985-88) and Vice Chairman of Public Enterprises Management Board (1986-88).

Shri Yasaswy was the Founder-Member and Governor of the Institute of Chartered Financial Analysts of India (ICFAI). He has authored several books on Finance and Investments.

May his soul rest in eternal peace.

Information Services and Beyond : Expanding Horizon of Credit Rating Functions

Dr. Mausumi Bhattacharyya
Sr. Lecturer in Commerce
Serampore College, Hooghly, W.B.

Concept of Credit Rating

Credit rating is an independent assessment of the creditworthiness of a borrower in respect of a debt instrument by a credit rating agency (CRA). It estimates the probability of timely repayment of principal and payment of interest on the debt security. The Rating Agency Reform Act, 2006, of the US Securities and Exchange Commission defines credit rating agency to be a "person (a) engaged in the business of issuing credit ratings on the Internet or through another readily accessible means, for free or for a reasonable fee, but does not include a commercial credit reporting company; (b) employing either a quantitative or qualitative model, or both, to determine credit ratings; and (c) receiving fees from either issuers, investors, or other market participants, or a combination thereof".

As per SEBI (Credit Rating Agencies) Regulations, 1999, credit rating means "an opinion regarding securities, expressed in the form of standard symbols or in any other standardised manner, assigned by a credit rating agency and used by an issuer of such securities, to comply with a requirement specified by these regulations". Moody's defines its credit rating as the opinions of the credit quality of individual obligations or of an issuer's general creditworthiness, without respect to individual debt obligations or other specific securities. According to Standard and Poor's (S&P), credit ratings are forward-looking opinions about credit risk. S&P's credit ratings express the agency's opinion about the ability and willingness of an issuer to meet its financial obligations in full and on time.

It is a symbolic, namely alpha-numeric representation, of a CRA's opinion on the relative capability of the corporate entity to timely service its debt obligations with reference to the rated instrument. Evaluation of capability of an issuer involves estimation of both its ability and willingness to make contractual repayments. The higher the credit rating, it is presumed, the higher is the degree of safety associated with the concerned instrument. Higher rating is also linked with lower cost of raising funds. Thus, credit rating serves both the issuers and investors, although it is the issuers who directly pay for the same. However, it is ultimately borne by the investors through the process of allocation of associated costs over the cost of securities. That is, issuers reap the benefits of rating at the cost of investors. Although rating is meant for guiding investors, it always comes with a disclaimer that it is not a recommendation to buy or sale a security. These words of caution relieve rating agencies of any responsibility for the wrong assessments—and consequent losses—suffered by the investors. Again, as issuers pay for the ratings, they have a better bargaining power with CRAs. Thus, there is an obvious scope of conflict of interest and consequent moral hazard problem in the entire process.

Credit Rating as a Subsystem of the Financial System

The system of credit rating can be interpreted as a subsystem of total financial system of a country. Again, as a country's financial system operates within the ambit of global financial system, so does a national rating framework. In other words, national credit rating framework is a subset of global financial system and global credit rating framework, in particular. Credit rating system draws its relevance from the efficient growth of the financial system within which it operates. The credit rating sub-system is built up of several components, namely, credit rating agencies, issuers of securities, investors, rating products, instruments or financial securities to be rated, regulators of the financial market, rating process and methodology or techniques of rating exercise. Credit rating is an inter-play among all these components while its primary focus is on issuers and investors.

Issuers value credit ratings because it lowers the costs that issuers incur for raising capital. On the other hand, credit ratings reassure the investors both about the risks they face when making an investment and about the competence and responsibility of the issuer's management. "In fact, the benefits to issuer accrue as a result of potential benefits to investors and in many ways they share the benefit of wider, healthier and more efficient debt markets, attributable to the role of CRAs" (Reddy, 2004).

Credit rating plays a very crucial role in case of securitisation. When repayments are backed by receivables, credit rating helps the issuer to raise funds at rates finer than what its own independent ratings would indicate. Investors use ratings to supplement their own credit evaluation process, particularly when they do not have adequate expertise, time and access to management or other resources to undertake independent risk analysis. Even when investors have some perception regarding a debt security of a particular issuer, credit rating acts as a proxy for a check against investors' own research and analysis. Ratings serve as a guide to investors willing to enter financial market, whether domestic or foreign.

Institutional investors too use credit rating to quantify credit risk exposures. They may also use credit ratings to construct bond indices against which they monitor the performance of fund managers (IOSCO Report, 2003). Similarly, broker dealers, investment advisors and underwriters and investment banks may use credit ratings to determine acceptable counterparties and set collateral levels for outstanding credit exposures. Private parties like creditors and other businesses may use CRA ratings in private contracts for a variety of reasons. Frequently noticed among them are "rating triggers" in financial contracts in the West.

All the components that make up the global financial system are bound together in a moral framework. Rating agencies being at the core of rating operations also have an attachment to this moral framework. Credit rating is a task of evaluating credibility of a borrower. It measures the trust-worthiness of a borrower. But the interesting puzzle in this process is that the firm whose instruments are rated pay for these services. Investors, the ultimate beneficiaries of ratings, do not directly pay for it. Moreover, the rating industry, all over the globe, is a regulated-oligopoly leading to an unhealthy competition. These two facts lead to an obvious problem of *moral hazard*. Thus, rating agencies themselves should have a strong moral foundation. They deal with people's trust, that is, are considered as the most sensitive feeling, and breach of which may render one traumatized and bereft of a stable economic state. Therefore, rating agencies need to orient themselves to the values—namely, honesty, integrity and sincerity—so as to do justice to their moral citizenship.

Credit Rating Process

Credit rating starts with the receipt of a formal request for rating from a prospective issuer. At the beginning of the rating process, the work is assigned to a primary analyst of the concerned CRA who works with the support of a back up analyst or a group of analysts. Analysts gather inputs from all possible sources and hold dialogues with the required personnel. The analysis is based on information obtained from the issuer and on an understanding of the business environment in which the issuer operates. It is carried out within the framework of clearly spelt-out rating criteria. The analysis is presented to a rating committee comprising members who have professional competence to assess the credit. The committee usually consists of 4-7 members depending on the volume and intricacy of the assignment. Ratings are finally assigned and reviewed by this rating committee. Rating methodologies of a CRA may vary across the rated objects and their tenure.

Functions of Credit Rating Agencies

Credit rating is a measure of relative risk of an issuer's ability and willingness to repay both interest and principal over the life of the rated instrument. Ratings generally signify the default probability of the rated instrument. Ratings are accompanied by detailed rationale, which helps the users of the reports to get the nuances of the assessment. CRAs assess the credit risk of corporate or government borrowers and issuers of fixed income securities. They attempt to make sense of the vast amount of information available in respect of an issuer or borrower, its market and economic circumstances in order to give investors and lenders a better understanding of the risks they face when lending to a particular borrower or when purchasing an issuer's fixed income securities (IOSOCO, 2003).

Availability of timely and accurate information is vital for efficient functioning of financial markets. Asymmetry of information between lenders and issuers is generally observed as the borrowers naturally possess more inside information than the lay investors. For savers, gathering of relevant information is costly and time-consuming. Further, they may not have adequate knowledge of how to judge the creditworthiness of the borrower. "In a global environment, this asymmetry is even greater and the cost of collecting information is even higher. The practice of credit rating and the emergence of CRAs for the purpose are meant to help mitigate this problem of asymmetric information" (Reddy, 2004).

Credit rating agencies are in the business of predicting default probabilities of various debt instruments. Ratings reflect the likelihood of timely repayment of debt by the issuer. But this is not the only task done by the CRAs.

The major functions of credit rating agencies are summarised :

(i) Information Function

CRAs can be regarded as information intermediaries as per the neo-institutional finance theory. They intermediate informational asymmetries between issuers and investors by generating information. Investors have very little or no information about the issuer while the issuers have complete knowledge about their own capabilities and intentions. Issuer has information superior to the investor. But the issuer is not able to cheaply convey the information about his own credit risk to the investors. Moreover, "because he (issuer) may profit from supplying the investor with wrong information, investors will not trust the reliability of such information. Thus, they require a risk premium which increases the cost of transaction" (Dittrich, 2007). Interest rate paid by the issuer rises. Issuers with low credit risk and offering low return find difficulty in obtaining credit. Thus, there appears a wide gap of information between fund-seeker and potential lender. CRAs try to bridge this gap by providing the investors with such information, which would otherwise not be accessible to them. In this process, the investors are provided with a screening mechanism, which reveals hidden information about the issuer to reduce information asymmetry.

According to Campbell and Kracaw (1980), CRAs disclose the implications of various private-information to the market while maintaining confidentiality about the information itself. They stress that during the rating process, an issuer's management is routinely consulted for non-public information. An empirical study conducted by Jorion and Zhu Liu (2005) reveals that US ratings have gained greater information value since 2000, when *Regulation Fair Disclosure* (FD) provided rating agencies with special access to private information. Regulation FD, implemented on October 23, 2000, prohibits the US public companies from making selective non-public disclosures to favoured investment professionals. Regulation FD has a number of exclusions, but included disclosure of non-public information to CRAs. As a result, the credit analysts of rating agencies have access to confidential information that is no longer made available to equity analysts, potentially increasing the information content of credit rating (Jorio, Zhu and Shi, 2005). Therefore, it may be said that access to adequate private information is key to CRAs' success. This, in turn, lowers the risk premium expected by the investors. Investors are willing to accept lower risk premium than they would without a rating. On the other hand, issuers buy rating as long as "the price paid by them is lower than the value of interest payment saved" (Dittrich, 2007). Institutional investors may, however, have their own mechanism of assessment of the issuer. In that case, they use ratings as checks against their own internal research. But for the retail investors, employing their own assessment exercise is quite problematic, if not impossible, given their limited resource, and poor accessibility to private information. Rating agencies make their tasks simple by exploiting vast economies of scale in information production (Grundman and Kerber, 2001). Thus, CRAs create value by reducing information costs in the market.

(ii) Certification Function

Besides acting as information intermediary, CRAs perform a second major function. Ratings serve as a regulatory tool in financial market oversight. Regulators of financial markets make use of rating in their regulatory frameworks. These rating-based regulations entrust rating agencies with the function, commonly called 'certification function'. "In this view, rating agencies not only assign a credit evaluation but they also issue a 'license' to access the capital markets or to lower regulatory burdens" (Partnoy, 1999). Regulators tend towards rating-based regulation primarily as a protection against systematic risk. The State intends to prevent the accumulation of too much risk at certain points in the financial system in order to prevent the contagious effects such as bank runs.

(iii) Monitoring Function

During the lifetime of the securities, credit ratings function as a monitoring mechanism. This is done so as to ease out the moral hazard problem after a credit has been granted. In the absence of monitoring, issuers may act opportunistically at the cost of investors. Following up the issuer throughout the span of the securities' life is simply beyond investors' capacity. Thus, CRAs monitor the actions of the issuers and issue periodic updates to their initial ratings.

(iv) Standardization Function

Sociologists such as Kerwer (2004) and Sinclair

(2005) maintain that the relative nature of CRAs' risk assessment creates a value by itself. They create a value by standardising the credit assessment process, regardless of the information value of the ratings. Rating agencies act as coordination firms establishing a common understanding of creditworthiness. From this point of view, CRAs are not only information providers, but also offer a standard of credit-worthiness that can be voluntarily adopted by the investors. Moreover, risky investments of all possible classes and countries can be compared easily by comparing ratings (Dittrich, 2007).

(v) Equilibrating Function

According to Boot and Milbourn (2002), credit ratings can serve as 'focal point', which means that credit ratings help fix the desired equilibrium in an environment for which multiple equilibria would otherwise exist. When a firm seeks to raise fund from the financial market, the market cannot readily observe the quality of the firm's investment opportunities. Depending on the beliefs of the market, the firm might be induced to choose high-risk or low-risk strategies. If the market anticipates a risky project choice, it will demand a high coupon rate in the debt contract. Thus, once the firm is confronted with the high funding cost, it will optimally engage in the risky project. Alternatively, the firm might be induced to choose the low-risk strategy if that is what the market anticipates. Thus, multiple equilibria may be present and depending on which project is the first best, the equilibrium is dissipative. If a sizable portion of investors follow the credit rating and base their investment decisions accordingly, others will follow as well. This can solve the multiple equilibria problem and substantiate the focal point role of credit ratings.

Inadequacies inherent in credit ratings

All over the world, CRAs have been subjected to severe criticisms in a number of occasions. Their independence, validity, impartiality, authenticity, integrity and the system of credit rating itself have been questioned from many quarters. Why should a private body corporate be given such an important place in market regulation, is a matter of debate among the market participants and experts.

The criticisms concerning CRAs can be viewed from two angles :

Conceptual Inadequacy

A basic problem lies with the definition of credit rating. While ability of a borrower to make timely repayment of debt can be judged subject to certain preconditions, willingness can hardly be anticipated. Willingness may not necessarily follow ability. Most of the corporate collapses demonstrate the dearth of willingness, not ability. Thus, the basic premise on which the superstructure of the concept of rating is built up appears faulty. And, coming to the question of ability, it is very hard to make any long-term prediction as it rests on many externalities beyond one's control and which change with time and context. Moreover, the fact that ratings are just the opinions of the CRAs and, therefore, CRAs are immune from liability of misinformation, add to further ambiguity.

Operational Inadequacies

Most of the difficulties concerning ratings pivot around the application of the concept. After all, it is a business run with profit orientation. Therefore, various human factors may lead to some operational bias. Conceptual foundation remaining sound, flawed applications may lead to undesirable consequences. That is, the problem lies not with the concept, but mostly in the way the concept is translated into practice by CRAs. Operational or application oriented deficiencies of CRAs all over the globe far outweigh the conceptual ones.

Problems of applicability again may manifest in two ways: *Firstly*, efficient application of the concept of rating is constrained by the socio-economic and cultural character of the country. As for instance, lack of large scale investor awareness constrains the dynamism of CRAs. Instead of bringing about much innovation, rating agencies, in such a situation prefer to go by convention. Similarly, regulatory dependence on rating delimits the efficiency of rating exercise.

Secondly, CRAs themselves have inadequate ethical foundation and training which lure them to compromise for short-term gains. Despite being a moral agent, CRAs have indulged in opportunist collusion many a time, even at the cost of their reputational capital. Most of the corporate fiascos bear the testimony of this argument. The frequently cited criticisms against CRAs in respect of their operational inefficiencies are conflict of interests, authority without responsibility, herding tendency, inadequate monitoring, cultural bias, pro-cyclicality, discriminating attitude.

Conclusions

Credit rating agencies hold a key position in the financial market not only for providing information about the credibility of the borrowers but also in terms of monitoring, standardizing and equilibrating various financial activities. Therefore, rating services need to be evaluated in a broader economic perspective. While conceptual inadequacies inherent in the very idea of credit rating are difficult to mitigate, the operational deficiencies can be addressed by sound monitoring by the market watchdogs as well as by the practice of higher ethical standards by the rating agencies themselves. ❐

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For Attention of Members

''CD of List of Members, 2011 will be made available for sale to the Members at a price of Rs. 100/- per copy. Members interested to procure the same may remit Rs. 100/- by Demand Draft drawn in favour of 'ICWA of India', payable at Kolkata, addressed to the Secretary, ICWAI.''

Mails to Editor

We would be too happy to publish your valued opinion / views / comments on subjects having a bearing on the profession or on matters of interest to members. If you have anything to share, please rush in your mails to rnj.rajendra@icwai.org.

Tax Titbits

S. Rajaratnam

Advocate & Tax Consultant, Chennai

Payment of ransom —Is it deductible?

Explanation to Section 37(1) would not permit deductions of payments, where the expenditure is for any purpose, which is an offence or which is prohibited by law making an exception to the deductions, which are admissible, if they are incurred wholly and exclusively for purposes of business. This exception was brought into the statute by the Finance (No.2) Act, 1998, with retrospective effect from 1.4.1962, to neutralise a decision of the Tribunal directing deduction of protection money (hafta) to the terrorists, the deduction of which was found admissible in **Pranav Construction Co. vs Asst. CIT (1998)** 61 TTJ (Mum) 145. The law in this regard has always been unsatisfactory and continues to be so. Payment to local police and local goondas to ensure security for a cinema theatre was not allowed as a deduction, since such payment was found to be illegal in CIT v. Neelavathi (2010) 322 ITR 643 (Karn).

Where ransom amount of Rs.5.5 lakhs had to be paid by a bidi-manufacturer to dacoits to secure the release of the kidnapped whole-time director, while on his assignment to purchase tendu leaves from a forest area, revenue declined to grant deduction, but the High Court found its way to allow the same by accepting the plea that while kidnapping is an offence, payment of ransom is not, since it had to be incurred for the purpose of business as decided in CIT vs M/s. Khemchand Motilal Jain in a judgement dated 29th August 2011 www.itatonline.org. It is odd that such expenses which are unavoidably incurred are disallowed on the basis of a puritanical approach, though the law would tax even patently illegal or immoral income like income from gambling, money circulation and prostitution.

Sitting fees—How treated for purposes of TDS?

Tax is being deducted in due course in quite a few instances of business disbursements as a matter of abundant caution. The common advice which goes around in respect of tax deduction at source is "when in doubt, deduct." Sitting fees is one such item, where tax is being deducted by quite a few companies and that too at different rates.

Sitting fees is a chargeable income bound to be reported by the director in his return as part of taxable income as income from "other sources".

Since sitting fees are "chargeable income", any payment to a non-resident is bound to require tax deduction at source under Section 195 of the Act. As for the rate at which deduction is warranted, it can only be at 30% for other income. He need not get Permanent Account Number (PAN), since it makes no difference, when tax is deducted at 20% or more. He himself or the company could, however, approach the Assessing Officer under Section 195(3) or (2), respectively, for a certificate of nil deduction or deduction at a lower rate, as the case may be.

As regards payments to residents, it cannot be treated as income from salary, since relationship of a director, except in the case of executive director, is not one as between employer and employee. It cannot be treated on par with commission under Section 194H. In quite a few cases, the director may be having professional qualifications. Where he has none, Section 194J would non-controversially have no application, so that there could be no case for tax deduction at source. Professional service has been defined under Explanation (a) to Section 194J to mean "legal, medical, engineering or architectural profession or profession of accountancy or technical consultancy or interior decoration or advertising or such other profession as is notified by the Board."

Merely because a director may be a professional falling under the Explanation, the income from sitting fees could not be assumed to be one from the exercise of his profession. The fact that he might have been inducted to the Board, because of such qualification, does not mean that he is exercising his profession. His responsibility as a company director under the company law is larger and different considering the matters which are discussed in any agenda of a board meeting and the responsibilities in respect of corporate governance under company law. His role is not different from a non-professional director. It should not, therefore, be necessary to deduct tax at source from payment to directors, who are residents in India.

Treatment of computer software

Software, in contrast with computer hardware, is a tool of business and can hardly be treated as enduring in the context of its rapid technological obsolescence, so that it merits deduction as current revenue expenditure as decided in Amway India Enterprises vs Dy. CIT (2008) 301 ITR (AT) 1 (Del). But Amended Appendix 1 with effect from A.Y. 2003-2004 and repeated in the Appendix from A.Y. 2006-2007 would treat computer software under the entry "computer including computer software" eligible for deduction of depreciation at 60%, so that it is no longer safe to claim it as revenue expenditure.

Periodical upgradation, however, is deductible as revenue expenditure as held in CIT vs Varinder Agro Chemicals Limited (2009) 309 ITR 272 (P&H) and CIT vs Southern Roadways Ltd. (2006) 282 ITR 379 (Mad).

Payments for Uninterrupted Power Supply (UPS) and printers are computer peripherals and are, therefore, eligible for depreciation at the same rate as computer at 60% as decided by the Tribunal in Haworth (India) P. Ltd. vs Dy. CIT (2011) 11 ITR (Trib) 757 (Del) following the decisions in Dy. CIT vs Datacraft India Ltd. [2011] 9 ITR (Trib) 712 (Mumbai) and ITO vs Samiran Majumdar [2006] 280 ITR (AT) 74 (Kol).

Words of wisdom

When a man tells you that he got rich through hardware, ask him, "Whose?" — Don Marquis.

At the Helm of the Affairs

Shri Brijmohan Sharma, Fellow Member and President of ICWAI for the year 2010-11, has been very recently appointed by Government of India as an Independent Director and the Chairman of the Audit Committee of IRCON INTERNATIONAL LIMITED, a mini ratna PSU under the Ministry of Railways which is the leading turnkey construction company in the public sector having widespread operations in several States in India and in 22 countries worldwide having a turnover of almost Rs. 3200 crores as on 31st March 2011. IRCON INTERNATIONAL has won several awards, notable among them are the National Citizen's award for unique contribution in the field of engineering projects and award for excellence received from Department of Public Enterprises.

Shri Sharma is a practicing Cost Accountant with over 24 years of professional experience having been on the Board of Maharashtra State Warehousing Corporation as a nominee of Central Warehousing Corporation during the period 2005-08.

Our heartiest congratulations to Shri Sharma on assuming the new position and we wish him all success.


Implementation aspects of Compliance Report and the Cost Audit Report, 2011

V. R. Kedia & Dipti Kejriwal

Practising Cost Accountants, Mumbai

In view of Ministry of Corporate Affairs, Cost Audit Branch six Notifications starting with date 11th April 2011 to 30th June 2011, various companies covered under **Compliance Report and the Cost Audit Report** fall under one of the following categories :

1. Companies covered first time under Compliance Report.

2. Companies covered first time under the Cost Audit.

3. Companies already subject to the Cost Audit.

I. Companies covered first time under Compliance Report

(a) Vide MCA, GSR No. 429 (E) dated 3rd June 2011 prescribing The Companies (Cost Accounting Records) Rules, 2011, cover all Companies engaged in the production, processing, manufacturing, or mining, as defined in the Rules and wherein, as on the last date of the immediately preceding financial year :

- Net worth exceeds Rs. 5 crores, or
- Aggregate value of the turnover from sale or supply of all products or activities exceeds Rs. 20 crores, or
- The Company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

'Turnover' has been defined as gross turnover made by the Company from the sale or supply of all products or services during the financial year. It is further clarified through the FAQ issued by the Institute that the turnover under these Rules would exclude duties and taxes.

First point of reference and spirit behind Section 209 (1) (d) of the Companies Act, 1956 shall be kept in mind while deciding about applicability of a particular activity under the Compliance Report e.g. trading activity, hotel, hospital, BPO, land development etc. will not be subject to the Compliance Report.

Companies covered by cost audit order issued so far, and additional companies getting covered under cost audit vide MCA, CAB order dated 3rd May 2011 and 30th June 2011 will be also subject to 'Compliance Report' under these Rules.

However, in case 100% activity of the company is covered by Cost Audit, they will be exempted from Compliance Report (even other than 8 products which are already exempted) for which clarification is likely to be issued soon.

The 'materiality' of the covered activity will be an important criteria for deciding whether a company will be subject to Compliance Report.

(b) Exemption is provided from applicability of the Compliance Report to

- A company which is body corporate governed by any special Act;
- Bulk Drugs, Formulations, Fertilizers, Sugar, Industrial Alcohol, Electricity Industry, Petroleum Industry, and Telecommunications.

(c) The Compliance Report will be applicable to the company in respect of each of its financial year commencing on or after 1.4.2011.

(d) Cost Records shall be kept on regular basis in such manner that factory-wise & product-wise cost statements etc. can be prepared at any periodicity. It is not expected to prepare product-wise cost statements on monthly/quarterly basis etc. Year end preparation of such statements is sufficient.

Cost Statements shall be prepared unit-wise, product-wise and activity-wise.

The abridged cost statement (Para 5 of the Annexure to the Cost Audit Report) can be used as a sample format for preparation of product-wise Cost Statement. This may be modified according to the need of the company (for Rule 4(3)).

In addition to financial and costing information, technical and other parameters of various functional activities should also be kept as per Rule 4(4) e.g. machine efficiency, machine utilization, utilities data etc.

Cost records shall be maintained in accordance with the Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards issued by the ICWAI

Profit as per Cost Records shall be reconciled with the annual financial audited statement (Rule 4(5)).

Variation in figures at various places in the Cost Records & the Annexure to the Compliance Report shall be clearly indicated and explained (Rule 4(5)).

Cost Records shall be preserved for 8 financial years.

(e) The companies subject to the Compliance Report should maintain the cost records as described in **Annexure A,** by way of illustrative list

(f) A suggested check list for information to be collected for introduction of Cost Accounting System is given in **Annexure B.**

(g) The Compliance Report shall be certified by a Cost Accountant—either permanent employee of the company or practicing cost accountant.

In case the Compliance Report is to be certified by employee Cost Accountant it is not necessary for the Company to issue any Appointment letter to him. However, in case the Compliance Report is to be certified by a practicing Cost Accountant, it is suggested that the Company should issue a formal Appointment Letter to him.

Preparation of Cost Records and issue of Compliance Report by the same practicing Cost Accountant is against the professional ethics and code of conducts of the Institute.

(h) Compliance Report shall be approved by the board of directors. In case the company is having a Audit Committee, it should be routed through Audit Committee.

The Compliance Report shall be submitted within 180 days from the close of the financial year.

(i) The Compliance Report consists of
(i) Form A
(ii) Form B
(iii) Annexure to the Compliance Report.

(i) Form A

● It is for e–filing of the Compliance Report with the Central Government. It is to be prepared for the 'Company as a whole' covering all products and activities.

● Part I covers General Information with Quantitative information (Sr. 5) with amount for Net Sales. Here data should be inline with Para 2 of the Annexure to the Compliance Report.

Product group, service group and trading activities (product group-wise) will be defined by the Institute. 'Other income' may be shown in totality. Service group may not have quantitative information.

Export benefits should be added in the respective product/service/trading groups.

Sales value in rupees should be net of excise duty, sales tax, VAT and other government levies. Value in Rupees may be rounded off to ... Rupees in lacs in case turnover is less than Rs. 100 crores and Rupees in crores in case turnover is equal to or more than Rs. 100 crores (to be in line with the requirement of Schedule VI of the Companies Act, 1956).

● Part II—Attachment should include Form B 'Compliance Report' and the Annexure to the Compliance Report (Para 1 to 3), both duly signed by the Cost Accountant.

● Form A has to be digitally signed by any one—Managing Director, Director, Manager, Secretary. Form A does not require Digital signature of the Cost Accountant.

(ii) **Form — B Compliance Report**

● It is to be prepared for the 'Company as a whole' covering all products and activities. However, unit–wise, product–wise and activity-wise Cost Statements shall be prepared and kept in the Company.

● There is a provision for stating material deficiencies and giving qualified report and also providing observations and suggestions by the Cost Accountant in the Compliance Report. (vide footnote nos. (ii) and (iii)). However, this aspect may remain on paper, in case employee Cost Accountant is certifying the Compliance Report.

(iii) **Annexure to the Compliance Report**

● It is to be prepared for the 'Company as a whole' covering all products and activities.

● It consists of Paras 1 to 3.

Para 1 provides general information about the company.

Para 2 on quantitative and value figures have to be reproduced again in Form A.

Data in this Para needs to be integrated with Para 3 of the Annexure to the Cost Audit Report.

Para 3 is reconciliation statement between net margin as per Cost Accounts vs Financial Accounts.

Data in this Para needs to be integrated with Para 7 of the Annexure to the Cost Audit Report and net margin for manufacturing products, service groups and trading activity is to be separately given for audited and non-audited product groups.

● It is advisable that, in case an appropriate Costing System is not in vogue in the company, it should appoint a practicing Cost Accountant as a Cost Consultant to advise management to introduce the costing system to take care of the Compliance Report requirement and it will also help management in Cost management area.

II. Companies covered first time under the Cost Audit

(a) Vide MCA Order No. F. No. 52/26/CAB/-2010 dated 2nd May 2011, 3rd May 2011 and modified Order dated 30th June 2011 for Companies covering 16 Products under automatic Cost Audit.

(b) Products covered vide Order No. F. No. 52/26/CAB/-2010 dated 2nd May 2011 are — Bulk Drugs, Formulations, Fertilizers, Sugar, Industrial Alcohol, Electricity Industry, Petroleum Industry, and Telecommunications (8 products).

Applicability — Company will be covered, if as on the last date of the immediately preceding financial year :

(i) Net worth exceeds Rs. 5 crores, or

(ii) Aggregate value of the turnover from sale or supply of all products or activities exceeds Rs.20 crores, or

(iii) The Company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

In case of Electricity activity, if 100% is captively consumed or insignificant portion of it is sold, such cases will not be covered by automatic cost audit order.

Power manufactured by windmill is transferred to State Electricity Board Grid. The Electricity Department is giving credit for the same in the power bill of the company by reducing the number of units generated by windmill. The power generated by windmill is not sold to outside party, it is directly transferred to SEB and from there it will be adjusted in their power bill in terms of units.

In a way the entire power is consumed captively. The use of the Grid is for transmission of its own power from the generation site to the factory. The Company would be paying willing charges to the Grid. Therefore, Cost Audit is not applicable on Power Generation.

(c) Order No. F. No. 52/26/CAB/-2010 dated 3rd May 2011 and modified order 30th June 2011 for Companies covering 8 Products under automatic Cost Audit

- **Products covered** are — Cement, Tyres and Tubes, Steel, Paper, Insecticides*, Glass, Paints and Varnishes, Aluminium (8 Products).

Scope and definition of products covered shall be as per relevant Chapter Heading of the Central Excise Tariff Act, 1985.

Intermediate products and articles or allied products of above industries if included under any other Chapter of the Central Excise Tariff Act, 1985, not mentioned above shall also be covered under these orders.

*Includes all classes of Insecticides as defined under clause (e) of Section 3 of the Insecticides Act, 1968 (46 of 1968) and included in the schedule annexed to the said Act and as amended from time to time.

'Glass' is newly covered product/Industry, bringing the total products covered under Cost Audit to 45. 'Steel tubes and pipes' which were separately covered earlier have been now included under 'steel' category. 'Paints and varnishes' which were earlier covered under 'chemical' category have been now covered separately for automatic Cost Audit.

- In case of Industries, such as — Chemical (44 Products), Engineering (7 Products), Motor Vehicle (6 Products), Mining & Metallurgy (14 Products) specific product names are indicated for coverage under product-wise Cost Accounting Records Rules. However, vide Notification No. GSR 429 dated 3rd June 2011 these individual Records Rules have been abolished. Therefore, it is opined that in such cases since Cost Audit Order is issued in the name of 'Chemical', 'Engineering' etc, products other than those mentioned in the applicability paras of these erstwhile individual Rules, if manufactured by a company will be also subject to Cost Audit first time from the financial year 2011-12. In other words, Audit coverage has been expanded with the abolition of individual product–wise Rules for above referred and other such products.

- **Applicability** — Company will be covered if as on the last date of the immediately preceding year —

(i) Aggregate value of the turnover from sale or supply of all products or activities exceeds Rs. 100 crores, or

(ii) The Company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

- **Applicable Rules —**

(i) Product/Industry-wise Cost Accounting Records Rules are not applicable to such companies, but Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards (CAS) issued by the ICWAI shall be followed.

(ii) Cost Audit will be automatic for all companies which are coming under applicability criteria under these Orders.

(d) Henceforth, Cost Audit Branch will not issue Cost Audit Orders to individual companies and for individual products which are specified in these Orders (16 products). Such companies will be automatically covered for Cost Audit.

(e) **Effective Date** — These Orders are effective from the financial year commencing on or after 1st April 2011.

(f) Vide General Circular No. 15/2011 dated 11th April, 2011 MCA, CAB has introduced new procedure for Appointment of Cost Auditor by Companies. It is summarized :

(i) It is effective from the financial year commencing on or after 1st April 2011.

(ii) Cost Auditor has to submit consent letter addressed to the Board of Directors of the Company

(iii) The company has to pass a Board Resolution proposing the name of the Cost Auditor.

(iv) The Company has to e-file Form 23C within 90 days of the issue of notification for automatic Cost Audit Order.

(v) The Company will issue appointment letter to the Cost Auditor after expiry of 30 days from filing of Form 23C.

(vi) The Cost Auditor will file Form 23D online with MCA within 30 days of receiving appointment letter from the company.

Some of the Companies who were covered first time for the Cost Audit may be facing a practical problem in complying with provisions of appointment of Cost Auditor within 90 days of issue of the Orders. In such cases, it is suggested that the company can appoint the Cost Auditor by passing a 'Circular Resolution'.

(g) The Company shall disclose full particulars of the Cost Auditor along with the due date and actual date of filing of the Cost Audit Report in its Annual Report for each financial year.

(h) In case the product of the company was subject to maintenance of Cost Records u/s 209(1)(d) of the Companies Act, 1956, but specific Cost Audit Order was not issued to such company earlier, the company is bound to submit data for previous one/two years, wherever required, in the Cost Audit Report.

However, in case company is covered by Cost Records and by automatic Cost Audit first time for the year 2011-12 due to their linkage with the Central Excise Tariff Act, or newly added Glass, Paints & Varnishes or Chemical, Engineering etc. (due to expanded coverage of these products) then previous one/two year data, to the extent possible should be made available in the Annexure to the Cost Audit Report.

In such cases, Cost Auditor should advise the company to disclose in Para 2 of the Annexure to Cost Audit Report that previous one/two years figures as furnished by the company have been submitted without doing the Audit of the same.

(i) Para-wise explanation given in subsequent part III will also be applicable to 'Companies covered first time under the Cost Audit'.

III. Companies already subject to the Cost Audit

(a) All companies for which individual Cost Audit Orders have been issued u/s 233B(1) of the Companies Act, 1956 shall continue to comply with the said orders (Rule 3(1)) – GSR No. 430 dated 3-6-2011.

(b) The new procedure for Appointment of Cost Auditor by Companies has to be followed from the financial year commencing on or after 1st April 2011 (MCA notification dated 11-4-2011). It is briefly explained in Part II (f) (g) above.

(c) **New Form of the Cost Audit Report —**

- Existing Form as per the Cost Audit Report Rules, 2001 for Cost Audit Report submitted on or up to 31st March 2012 is applicable.
- Vide GSR No. 430 (E) dated 3rd June 2011 prescribing 'The Companies (Cost Audit Report) Rules , 2011, new form is prescribed for the Cost Audit Report submitted on or after 1st April 2012, irrespective of the financial year to which it relates.

(d) **Applicability**

(i) Every Company for which Cost Audit had been specifically ordered on or before 2nd May 2011 (44 Products), and

(ii) Every company which has been recently covered automatically for cost audit under Orders dated 2nd May 2011, 3rd May 2011 and modified order dated 30th June 2011 (16 Products), and

(iii) Every company in respect of which audit of the cost records will be ordered under sub-section (1) of Section 233B of the Act.

(e) **Procedure For Submission of the Cost Audit Report**

The Cost Auditor shall submit the Cost Audit Report (Form II) along with Annexure to the Cost Audit Report to

(i) the Central Government in the prescribed form, and

(ii) a copy to the Company.

The Cost Auditor shall also furnish Performance Appraisal Report (Form III) to the Board/Audit Committee in the prescribed Form.

Cost Auditor to give clarifications, if any, required by the Central Government within 30 days.

(f) **Time Limit for Submission of the Report**

Cost Auditor shall submit his Report within 180 days from the close of the Company's financial year to which the report relates.

However, there is no provision for the time limit by which the company shall make available to the Cost Auditor, all Cost Records, Cost statements and Annexure to the Report duly completed.

(g) **Authentication of Annexure to the Cost Audit Report**

Annexure, shall be approved by the Board of Directors before submitting to the Government by the Cost Auditor. In case company has Audit Committee, the Cost Audit Report shall be routed through the Audit Committee.

The Annexure, duly audited by Cost Auditor, should be signed by the Secretary and at least one director. If there is no secretary, the same to be signed by at least two directors (Rule 7).

(h) **Penalties**

(i) Sections 209(5), 209(6) and 209(7)—Failure to keep proper books of accounts including cost account records.

Persons Responsible — Managing Director/ Manager/Every Director, if MD or Manager is not there and "Officer who is in default". For each offence —imprisonment up to six months or fine up to Rs. 10,000/- or both.

(ii) Section—233B (11) – Failure to comply with Cost Audit provisions.

Company—Fine up to Rs. 5,000/-. "Officer who is in default"—Imprisonment up to three years or fine up to Rs. 50,000/- or both.

(i) **Form of the Cost Audit Report**

The Cost Audit Report will consist of

(i) Form I
(ii) Form II
(iii) Annexure to the Cost Audit Report.
(iv) Form III—Performance Appraisal Report.

(i) **Form I** For e–filing with the Central Government. It is to be prepared for the 'Company as a whole' covering all products and activities.

Part I — General Information about the company and the Cost Auditor (no figures have been asked for).

Part II — Attachment – The Cost Audit Report alongwith the Annexure to the Cost Audit Report.

The unit-wise and product-wise Cost Audit Report in Form I have been discontinued. Hence question of filing separate cost audit reports for each plant and product does not arise. However, a problem may arise in case of a company appointing separate Cost Auditors for different products and different factory locations e.g. ONGC, BPCL, Reliance. In such cases, it will not be possible to submit one e-file report for 'company as a whole'. Within the same company, different auditors have to e-file separate Form I, Form II and Annexure to the Cost Audit Report for their respective product and location.

The concept of joint cost auditors and lead cost auditor will have to be brought in soon to solve the problem of appointment of product–wise and factory–wise cost auditor vs. filing of one cost audit report for the 'company as a whole'.

Form I has to be digitally signed by the Company Secretary and at least one director. If there is no secretary, the same to be signed by at least two directors (Rule 7).

However, from the wording of Form I, it seems that it can be digitally signed by even Manager or Company Secretary who is not a member of ICSI.

(ii) **Form II — The Cost Audit Report** It is to be prepared for the 'Company as a whole' covering all products and activities.

The above situation will create problem in case of appointment of factory-wise and/or product-wise separate Cost Auditor. It is suggested that in such situations, location of factory can be mentioned in bracket with registered office and product name can be mentioned with product group.

Conformity of GACAP & CAS shall be ensured by the Cost Auditor.

Unit-wise, product–wise and activity-wise Cost Statements shall be prepared and kept in the Company.

The Cost Auditor has to certify about the adequacy of Internal Audit of Cost Records.

The Cost Auditor shall submit Performance Appraisal Report to the company, in the prescribed Form. It is opined that it should restrict to the product under audit activity only.

There is a provision for indicating material deficiencies and giving qualified report. It should be indicated against the relevant para (i) to (viii). All these points should be discussed with the company management. There is also provision for providing observations and suggestions by the Cost Auditor in Para 2 of the Cost Audit Report.

Form of the Cost Audit Report cannot be modified/ altered by adding any other matter, other than specified in the Form.

The cost auditor also needs to mention that he has not conducted verification of data relating to the company , as a whole, to be given in the Annexure to the Cost Audit Report and data relating to Excise Duty and Vat have been checked with only the returns filed by the company and not checked in detail.

This can be mentioned as a general observation in Para 2 of the Cost Audit Report. The wording of this note can be finalised by the institute.

(iii) **Annexure to the Cost Audit Report**

Para 1. 'General information' (for the Company as a whole)

Location of factory and product name can be mentioned in bracket with registered office address in Sr. 3.

Para 2. 'Cost Accounting Policy'

Para 2(3): Since all these paras are prepared and signed by the company, if any observations are made in this para regarding 'Budgetary Control System' by the cost auditor, the Company may not like to attest the same. Hence this aspect may be covered by the Cost Auditor in Para 2 of Form II.

There is no provision in the Cost Audit Report for giving observations and comments by the cost auditor on the cost accounting system/policy etc. Hence this aspect may be covered by the Cost Auditor in Para 2 of Form II.

Para 3. 'Product group details' (for the Company as a whole)—figures for one year

In this Para production quantity and sales quantity data is not asked for, which is prescribed under the Compliance Report.

Export benefits may be added in 'Net Sales' Value, which is net of taxes, duties etc.

Figures of all factories producing same product groups should be combined. Definition of the 'product group' will be given by the Institute.

Manufactured product, Service and Trading activities (product group-wise) should be as per the Central Excise Act and Service Tax Rules, for which the Institute will issue Guidelines.

Para 4. 'Quantitative information' (for each product group separately)—figures for two years.

Separate statement should be prepared for each product group.

A list of 'products covered under the product group' can be given by way of Appendix, in case it contains numerous products.

Sr. 1(a) If same machine is used for other products not covered by Cost Audit, it will not be possible to give available capacity data e.g. a company manufacturing Air-conditioner and Water-cooler from the same machinery, while only Air-conditioner is covered by Cost Audit.

Sr. 1(b) Capacity enhanced: Since Sr. 1(a) already includes this figure, this will be by way of information only.

Sr. 1(c) Capacity available through leasing arrangement: It may not be available in many cases.

Sr. 1(d) Capacity available through loan license : It may not be available unless factory of the third party is used as dedicated plant exclusively by this company.

Sr. 2(a) Self-manufactured: It will cover own production for sale.

Sr. 2(b) Produced under leasing with reference to 1(c).

Sr. 2(c) Produced on loan license: It means **manufactured by others** under job work for the company.

Sr. 4 Capacity Utilisation % = 2(a) / 1(a) * 100.

Sr. 7 It should be corrected as [2(d) +5(c) +/- 6(d)].

Para 5. 'Abridged Cost Statement' (for each product group separately)—figures for one year

'Amount' can be shown in 'Rs. in lacs'

Sr. 4. Direct Employee Cost will include indirect wages and indirect staff salary for production cost centers.

Sr. 5. Direct Expenses will include outside Job work charges paid.

Sr. 12. Other Production Overheads will include Administration Overheads relating to production activity (to be in line with CAS 4).

Sr. 15. Credit for recoveries will include scrap/ by-product/miscellaneous income.

Sr. 16. Primary packing cost will include secondary packing cost in most of the cases.

Sr.17. It should be changed to (13 to 16).

Sr.22. Administrative overheads will consist of only post-manufacturing overheads, not covered in Sr. 12 above.

Sr. 23. Secondary packing cost may be added with Sr. 16 primary packing cost.

Sr. 27. Net Sales Realisation will also include Export benefits, if any.

Note 1—Cost Sheet for same product/product group manufactured at more than one factory should be separately prepared but subsequently combined for this Para for submission to Government.

Note 2 – Some of the expense items referred above may be combined, if they are not significant in value.

Note 3 – The above Cost Statement can be modified depending upon the nature of Industry e.g. in case of Textile Industry or Process Industry with multiple processes, instead of element-wise cost data, cost centre-wise cost can be submitted in this statement.

Para 6. 'Operating ratio analysis' (for each product group separately) — figures for 3 years

This Para is linked with Para 5. However, in Para 5, figures are required for 2 years only.

Comparative Linkage of Para 6 with Para 5 is tabulated below :

Para 6 (Sr. No.)	Para 5 (Sr. No.)	Para 6 (Sr. No.)	Para 5 (Sr. No.)
1	1+2	9	8+9+10+15+19+20
2	3	10	14+18
3	4	11	12
4	5	12	22
5	6	13	24
6	7	14	25
7	11	15	26
8	16+23		

Para 7. 'Profit Reconciliation' (for the Company as a whole) — figures for 3 years

Sr. 1(b) Costing profit for unaudited product groups: Cost auditor cannot certify for unaudited data. Therefore, he has to make a suitable mention in Para 2 of Form II to this affect. Further, the company has to develop a system to prepare costing profit for unaudited product groups.

Sr. 2 to Sr. 7 This information can be provided for audited product groups only.

Sr. 8 Adjustment for others: It will cover all types of Income & Expenses of unaudited product groups.

Para 8. 'Value addition' and distribution of earnings (for the Company as a whole)—figures for 3 years

Value Addition

Sr. 1 Gross sales (excluding returns): Sales returns should also be reduced from gross sales.

Sr. 5 WIP stock is normally adjusted along with finished stock. Otherwise, it should be adjusted in Sr. 6, may be in material cost.

Sr. 6(e) Others will consist of various items of overheads, except wages and salaries, depreciation and interest.

Sr. 8 Income from any other sources will include foreign exchange fluctuations, profit on sale of assets, investment income etc.

Distribution of Earnings to

Sr. 3 Company as retained funds—It will be total of Depreciation and Profit After Tax (PAT), less of Dividend (since considered in Sr. 2).

Sr. 4 Only corporate income tax and dividend tax should be shown here.

Sr. 5 Others : Interest (net of income) should be shown here.

Para 9. 'Financial Position and Ratio Analysis' (for the Company as a whole)—figures for 3 years

Sr. A.3 Loans : Since Schedule VI of The Companies Act, 1956, has been amended; its grouping is also changed. Therefore, calculation of loans (secured and unsecured) should be done accordingly.

Sr. A.4(b) Net Fixed Assets : Gross fixed assets less depreciation (without giving effect of revaluation of fixed assets and capital work-in-progress)

Sr. B.3 Net Sales: It should be net of sales returns and inclusive of export benefits and exclusive of government levies.

Sr. A.5(c) Net Current Assets: It is also called net working capital.

Sr. A.6 Capital Employed : It has been defined in note (1) below as average of net fixed assets (excluding intangible assets, effect of revaluation of fixed assets, and capital work-in-progress) plus average of net current assets (Sr. 5(c)), existing at the beginning and close of the financial year.

Sr. A.7 Net Worth : It has been defined in note (2) below as share capital plus reserves and surplus (excluding revaluation reserves) less accumulated losses and intangible assets.

Capital work-in-progress should be adjusted while calculating net worth. Further, it is suggested that to be in line with capital employed, net worth should be also average of the beginning and close of the financial year.

Sr. B.1 Cost of Production and Sr. B.2 Cost of Sales: They may not be readily available for company as a whole. Separate working has to be done for these items.

Sr. B.3 Net Sales: It should be net of government levies but inclusive of export benefits.

Sr. B.4 Value Added: It should be picked up from Para 8 Sr. 7.

Sr. E.1 Net Working Capital: It should be as per Sr. A.5(c) above.

Sr. E.3 : It should be read as stores and spares **stock** to consumption.

Para 10. 'Related party transactions' (for the Company as a whole)—figures for one year

'Transfer price' shall be inclusive of government levies. In many situations 'normal price', may not be ascertainable, then how it can be shown? It is mentioned that report will be considered as incomplete without indication of the normal price.

To furnish address of related party and information about each sale/purchase separately will create voluminous data base. Therefore, it may be condensed as per the requirements of the Annual Accounts of the Company.

Para 11. Reconciliation of indirect taxes (for the Company as a whole)—figures for one year

One more column should be added for 'total' (of excise duty, service tax, cess and others, and VAT) to improve utility of this Para.

Note 1—Significant variations, say +/– 10% over the previous year's figure for various items shown under each para, should be explained with reasons under each Para.

Since, figures are for the 'company as a whole', e.g. Paras 3, 7, 8, 9, 10 & 11, it will be difficult to give reasons for variation, since audit covers a part of the activity. Again, in case figures are submitted for one year only e.g. Paras 3, 10 & 11, reasons for variations will not give complete information for understanding. In other words, reasons for significant variations can be only given for Paras 4, 5, 6 & 7 (partially).

The logic behind asking for figures for 1 year, 2 years, 3 years in different Paras is not clear. It could have been better to have called for figures for 2 years/ 3 years uniformly for fruitful comparison and consistency.

(iv) **FORM III—The Performance Appraisal Report**

It is not clear as to whether it is to be prepared for the 'company as a whole' since there is no mention of name of the product and location of the factory in this Form. It is opined that it should be prepared for product under audit only.

It is better to prepare this report as a part of annual audit exercise.

It is understood that the ICWAI is preparing guidelines and the methodology wherein various parameters to be considered under each area will be explained.

Annexure –A

What constitutes Cost Accounting Records?

The Records contemplated under Section 209(1)(d) of the Companies Act, 1956, would include all the accounting records maintained by the company and make available for audit to the Financial Auditors. In addition, the following records are also part of the Cost Accounting Records :

(i) Production

- Raw material consumption record.
- Production report.
- Rejection/wastage/scrap report.
- Report on stoppage of machines with reasons.
- Idle time of labour report with reasons.
- Machine utilization report.
- Details such as production hours, labour hours and machine hours.

(ii) Work-in-progress and finished goods

- In Process stock record, cost centre-wise and product-wise
- Finished goods stock record, product-wise, pack–wise, type–wise etc.

(iii) Repairs & maintenance

- Works order record/card showing material and spares consumed and labour utilized for repair jobs.
- In case of workshop, additional records as described under (i) above.

(iv) Utilities (Steam, power, water, air conditioning, humidification, ETP etc)

- Records of inputs and outputs.
- Records of cost centre–wise allocation of outputs and cost.
- Separate records showing source-wise, cost of own generation of power and purchased power.

(v) Other Service Cost Centers—QC, QA, R & D etc.

- No. of tests carried out, No. of products developed etc.
- Basis of cost apportionment and justification for the same.

(vi) Raw materials, process materials, colour and chemicals, consumable stores and spare parts.

- Goods received record.
- Bin cards.
- Materials/stores ledgers in quantity and value.
- Product-wise material consumption reports in quantity and value.
- Physical stock verification and shortage/excess statement, and reasons for differences.

(vii) Wages & Salaries

- Attendance record and leave records.
- Wages/salary sheets.
- Leave wages, bonus, gratuity payments and other fringe benefits.
- Overtime, idle time etc. records.
- Details of VRS, Retrenchment compensation, lay off payment.

(viii) Overheads

- Overheads analysis record, cost centre–wise.

(ix) Sales

- Sales analysis by products. (Quality, size, variety-wise) in terms of quantity and value.
- Export Sales, product-wise, country-wise.
- Product-wise analysis of export incentives and benefits.
- Analysis of sales to related parties.

(x) Records of inter-company and related party transactions, information about normal price.

(xi) Cost accounts/records/statements.

- Cost center-wise assets record.
- Finished Product-wise moment record. (Quantity reconciliation)

- Factory-wise, Product – wise, Pack–wise, Size–wise etc. Cost Statements.
- Annexure as per Cost Accounting Records Rules and Cost Audit Report Rules.
- Reconciliation of profit/loss as per cost records and financial accounts.

This is not an exhaustive list. Further, the Cost Record shall be in accordance with Generally Accepted Cost Accounting Principles and Cost Accounting Standards issued by ICWAI.

All such Cost Records shall be preserved for 8 financial years.

Annexure B

Check List for introduction of Costing System

I. One-Time Information

(i) Organisation chart with names of Executives of major functional areas.

(ii) Process of Manufacture—Description and flow chart.

(iii) A list of machinery-production, utilities, services.

(iv) Production area-blueprint with various machine locations.

(v) A List of cost–centres — production and service.

(vi) Machine-wise data

- Speed, production rate
- Power H.P. (Installed)
- Electric motor load factor
- Book value and depreciation

(vii) Product-wise process sequence chart.

(viii) Cost centre-wise/machine-wise workers strength (standard) Category wise.

(ix) Dept.-wise staff strength (Std.)—grade wise, with pay scale details.

(x) Fringe benefits details-separate for workers and staff.

(xi) Marketing : product-wise sale price, brokerage and commission, discount etc. details.

(xii) Technical parameters : product–wise/process–wise/cost centre–wise.

- Steam Consumption
- Water Consumption
- Compressed Air Consumption
- Air Conditioning
- Other Utilities (Utility-wise)

(xiii) Raw material requirements : product-wise standard with Waste/Scrap percentages.

(xiv) Product-wise standard recipe (in quantity)

- Colour & Chemicals
- Process materials
- Packing materials

(xv) Export products : separate information, in case any variation in cost parameters as compared with inland sale products.

(xvi) Export Incentives—details

(xvii) Interest cost details : type of loan facilities (Term Loan, Working Capital Loan etc.) loan amount, rate of interest, purpose of loan.

(xviii) Item–wise Budgeted Overhead analysis into

- Factory
- Administration
- Selling, and
- Distribution.

II. Monthly data to be collected

(i) Product-wise raw material consumption—Quantity and Cost

(ii) Process–wise, product-wise — Waste, Scrap etc. in Quantity

(iii) Process-wise, product-wise — Consumption of auxiliary materials such as colour, chemicals in Quantity and Cost.

(iv) Process-wise, product-wise — process material

(v) Process-wise, product-wise — packing material

(vi) Utilities details — Power Bill — Units & Cost

- Fuel Oil Consumption — Quantity and Cost
- Water Consumption — Quantity and Cost
- Other utilities — Quantity and Cost

(vii) Cost centre-wise / process-wise —

- Wages sheet
- Staff Salary sheet
- Stores and spares cost
- Repairs & Maintenance Cost

(viii) Process–wise, cost centre–wise —

- machine shifts worked
- production (output)

(ix) Process-wise, product-wise Work in Process Closing Stock statement–Quantity.

(x) Finished Goods Movement Statement showing

- Product-wise Opening stock — Quantity
- Product-wise packed production — Quantity
- Product-wise Despatch quantity
- Product-wise Closing stock — Quantity

(xi) Product-wise sales analysis — Quantity and Value, separately for Domestic and Export. ❐



Microsoft's Acquisition of Skype : The Analysis of a Deal

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According to the Press Release, Microsoft has a long-standing focus and investment in real-time communications across its various platforms, including Lync (which saw 30 percent revenue growth in Q3), Outlook, Messenger, Hotmail and Xbox LIVE. Skype will support Microsoft devices like Xbox and Kinect, Windows Phone and a wide array of Windows devices, and Microsoft will connect Skype users with Lync, Outlook, Xbox Live and other communities. Microsoft will continue to invest in and support Skype clients on non-Microsoft platforms. "Skype is a phenomenal service that is loved by millions of people around the world," said Microsoft CEO Steve Ballmer. "Together we will create the future of real-time communications so people can easily stay connected to family, friends, clients and colleagues anywhere in the world."

Skype : Exploring New Horizons

Founded in 2003 and based in Luxembourg; Skype is a software application that allows users to make voice and video calls and chats over the Internet. Owned by an investor group led by Silver Lake and which includes eBay Inc, Joltid Limited and Skype founders Niklas Zennström and Janus Friis, the Canada Pension Plan Investment Board and Andreessen Horowitz. Skype had an average of 145 million "connected" users per month in the fourth quarter of 2010. Skype users made 207 billion minutes of voice and video calls in 2010, approximately 42% of which was video.

This acquisition has been largest since the 2007 purchase of online ad company aQuantive (founded in 1997) for $6 billion, which was advertising network, the parent company to Avenue A | Razorfish, Atlas and DRIVEpm. The acquisition came after recent big acquisitions by Google and Yahoo in the online advertising space where Google bought **Doubleclick** for $3.1 billion in April. Later that same month, Yahoo acquired competitor **RightMedia** for $680 million.

It was heard that Microsoft also insisted on a "no shop" clause while the companies talked as Facebook, Google and Cisco were stepping up as potential buyer for Skype.

The reactions from the analyst community have been mixed; here are some facts about the deal :

This case study provides a landscape for the MS-SKYPE deal and tries to showcase how this deal could give birth to new technologies and faster than ever "connecting world (people)"

Microsoft : The strategist

Microsoft bought Skype to make a big move into the IP communications space, as well as for its huge audience and its peer-to-peer video chat. MS offers Lync (communication software) that requires extra "SIP trunking" gear, and its current generation Xbox Live doesn't do it at all. Windows Live Messenger used to have a service called Windows Live Call that worked with third-party telcos, but it was scrapped in 2010.

Although it makes billions of dollars selling software for personal computers, Microsoft has struggled badly in its effort to become a bigger force on the Internet. In the past six years, Microsoft's online division has lost more than $7.2 billion.

A Brilliant move or a must do agenda?

Microsoft's move could be seen as rather desperate to keep Skype away from its rivals on the enterprise side of things—Google, Facebook & Cisco. How MS would want to position this is that—Skype benefits from the acquisition as it can evolve into a unified communications platform and Microsoft gains as it can plug the VoIP hole in its attempt to be a unified communications provider.

Microsoft has separate communications software (read: Lync and Office 365). Incorporating Skype into it would make it easier for corporate users to carry out video chats with people at other companies, or from home.

Microsoft also gets an important consumer brand with a reported 600+ million subscribers and more than 145 million connect users. Skype is supposed to make using the Internet for video phone calls as common as logging on to Facebook or instant messaging is today.

Skype's services also span hot markets—online socializing, mobile phones and digital video—where Microsoft has been struggling to catch up with Facebook, Apple and Google.

The software giant surely needs a competitive offering to Google Voice and Apple's emerging communication platform, Facetime.

The Unified Communication Battlefield decoded

The big players such as Microsoft, Cisco, Google and Facebook.

Microsoft competes with the likes of Avaya, Cisco and IBM in unified communications. The VoIP landscape was significantly re-shaped when Google started offering its own calling service Google Voice over Gmail. Google's services are currently free, which is a challenge for Skype, as it charges its users for making calls through SkypeOut. But making calls through Gmail to phones in U.S. and Canada is free.

To counter Google's dominance in VoIP space, Skype becomes a key arsenal in Microsoft's armory. Lync is currently offered as part of Microsoft's SaaS offering, Office 365, which competes directly with Google's productivity suite Google Apps. Skype could, thus, be integrated with Lync and its cloud-solution Office 365 to offer a complete unified communication solution with VoIP.

Although MS makes billions of dollars selling software (OS—Operating Systems) for personal computers, Microsoft has struggled badly in its effort to become a bigger force on the Internet. In the past six years, Microsoft's online division has lost more than $7.2 billion.

Skype has lost money consistently since its inception in 2003, mostly because it charges only a small fraction of its users. As a standalone company, Skype lost $7 million on revenue of $860 million last year.

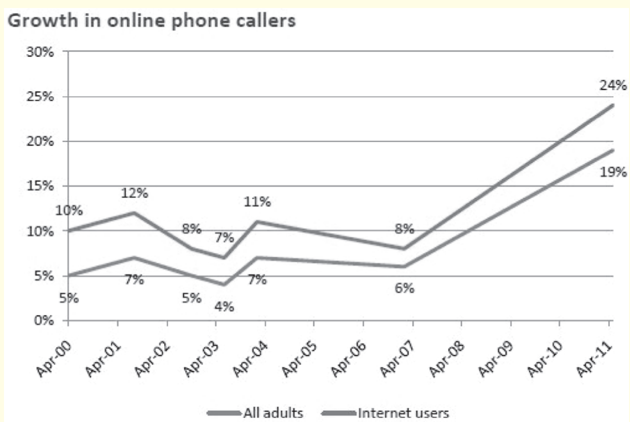
The Future demystified: VoIP (Voice-over-IP) Telephony, P2P VoIP & its Trend

IP Telephony is a packet switching technology, as opposed to circuit switching as used by the PSTN (Public Switched Telephone Network). In Voice over IP, the analog voice is converted into digital packets that are routed through the internet, and in the case of one of the parties being on a PSTN connection, the packets are routed to the nearest local switching station and placed back on the PSTN. If both persons are using VoIP, then there is no reason to use the PSTN, and the entire conversation takes place over the Internet.

Internet Telephony over Peer to Peer (P2P) Networks

Peer to Peer technology (P2P) first came into focus through companies like Napster and Kazza, who developed file sharing applications that would allow users to share their own files, as well as search for and download files of other users on the network. Instead of relying on a centralized client server relationship, a peer to peer network gets its strength from each individual node, adding bandwidth and processing power with each new member for the good of the many.

According to Pew "On any given day 5 percent of internet users are going online to place phone calls,". That may seem like a small number, but it is part of a big trend.



Source : The Pew Research Center's Internet & American Live Project, April 26-May 22, 2011

According to Pew Research Center's Internet & American Life Project, nearly one quarter of American adult Internet users have placed phone calls online. That works out to 19 percent of U.S. adults. This is just US — with huge built-up telephony infrastructure. What about the world?

''On any given day 5 percent of internet users are going online to place phone calls," according to Pew. That may seem like a small number, but it's part of a big trend. Skype is the largest provider of international calling services in the world, surpassing any single phone company, according to research firm TeleGeography.

The chart given — and the steep climb in number of people who call online — is graphic enough. The number of Internet users making online calls since April 2007 climbed from 8 percent to 24 percent three years later.

Pew cites three major reasons for increased online phone calling's popularity: "It is free or cheaper than other types of phone calling; it is enabled on many handheld devices like smartphones and tablet computers; more and more meetings and classroom activities exploit online phone connections along with video capabilities; and more families and friends are building online calls into their communications streams."

Research firm Point Topic's senior analyst John Bosnell said "the growth of VoIP has been bumpy but shows signs of acceleration. If Skype continues to grow as it has been and manages to keep its ARPU (average revenue per user) at the current level then it will be generating in the region of $2 billion a year by the start of 2016"

The Real Deal : What did the various parties gain from the deal?

- **Using the $8.5 billion price as the likely sale price**, eBay gets $2.55 billion for its 30-percent stake in Skype. So in the end, eBay did make money on the Skype deal.
- **Niklas Zennström and Janus Friis**, the co-founders, with their 14-percent stake, take home **about $1.19 billion**. Damn, these guys know how to double-dip!
- **Silver Lake**, Andreessen Horowitz and the Canada Pension Plan Investment Board (CPPIB) own 56 percent of the company, and that stake is worth $4.76 billion.
- **Andreessen Horowitz** had three percent of the deal and made $205 million profit on their $50 million initial investment.

Conclusion

Social Networks + VoIP Telephony+ TV: Paradigm shift in "staying connected"

Microsoft might also expand Skype's video chatting services into Facebook, the social networking site that has more than 500 million users of its own. Microsoft owns a 1.6 percent stake in Facebook, and both have an interest in cutting into Google's power.

The biggest winner of this deal could actually be Facebook. The social networking giant had little or no chance of buying Skype. Had it been public, it would have been a different story. With Microsoft, it gets the best of both worlds : It gets access to Skype assets (Microsoft is an investor in Facebook with 1.6%) and it gets to keep Skype away from Google.

Facebook might need Skype very badly. Among other things, it needs to use Skype's peer-to-peer network to offer video and voice services to the users of Facebook Chat. If the company (Facebook) had to use conventional methods and offer voice and video service to its 600 million plus customers, the cost and overhead of operating the infrastructure would be prohibitive.

Comcast President Neil Smit said in a statement : "TV has evolved into a social experience, and Comcast and Skype will be delivering a product that personalizes the TV experience even more, and brings friends and family together through the biggest screen in their homes."

Telecom giant Comcast and Skype announced a "strategic partnership" that will enable Comcast cable television customers to make and receive high definition video calls through their TV sets later this year. ❐

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Forensic Accounting, a useful tool to combat Fraud & its consequences—a study of its development

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Greed and arrogance – the main roots of Fraud, are human nature. If we look through the financial transaction fabric, it transpires that, over the years, Fraud or deception has become an industry, not just for the group of fraudsters – academics study it, investigators investigate it, lawyers litigate on it and conference-goers debate it. In business, we must recognize fraud as a permanent risk which we must take action to prevent and manage.

Fraud is theft which hits an enterprise in the pocket having direct impact on the bottom line and in turn the economy. The extent of fraud and white-collar crime resulted in the formation of various specialized units in law-enforcement agencies and also in a major demand for accountants in the fields of forensic accounting.

More appropriately, crimes can only be proved with forensic reports and testimony by expert investigators. Experience shows that instead of preventing the fraud, industry is built on managing the consequences of fraud. Though, in practice, professional investigators offer services to detect the cause and creators of the crime, in recent past, endeavors towards preventing fraudulent practices are growing globally by creating a culture and environment and developing structured syllabus and training towards this direction. According to a report released by Nedcor on South Africa in 1994/1995, a large part of the amount of fraud could be attributed to white-collar crime.

What is Forensic Accounting

The word forensic is derived from the Latin word *forensis*, meaning thereby belonging to the forum, which was the site for public debate in ancient Rome. Forensic relates to the use of science or technology in the investigation and establishment of facts or evidence on legal platform. Hence, forensic testimony or forensic medicine is used to help the legal system in resolution of disputes or issues, including assistance at a trial. The integration of auditing with accounting and investigative skills brings the specialty known as forensic accounting. Forensic Accounting believes in analysis of evidences. This branch of study and operation with speciality practice area of accounting describes engagements of professional investigating agencies which result from real or anticipated litigation arising from financial or accounting crime or fraud. The word forensic accounting can be split into two parts, viz., (a) Forensic – which means relating to, or normally used in courts of law or public debate or some sort of argument and (b) Accounting – the language that provides information about the financial position of an entity.

With the growth over time, the business world has become more complex. Need for Financial reporting have emerged as a top priority and interest in determining true financial status has became even more paramount. The 1970s witnessed massive problems of corporate financial disclosure like in companies – Lockheed and Penn Central, created a furor that blamed financial accounting irregularities on cozy relationships between corporate top management and the independent auditors.

The decade of 1980 showed us problems of high magnitude in the corporate world mainly in the US covering savings and loan industry, E.F. Hutton, and Drexel Burnham Lambert, Inc. Content and timing of the financial reporting disclosure requirement in 1990s put enormous pressure on the companies. Besides, the spread and growth of internet based media function, board room discussion has come to the viewing public but it is well accepted that the gangsters are not just afraid of the awareness of the general public and corporate leaders about their strategic movements in the recent times and they are improving their techniques of fraud at a much higher pace.

Financial Auditing, Fraud Auditing and Forensic Accounting

The term Forensic Accounting is commonly coined with the use of accounting principles and investigating techniques to ferret out fraud and theft. This subject often testifies in legal parlance and functions as a useful instrument in building legal cases. Forensic Accounting also encompasses providing services in major legal areas namely, damages, antitrust, accounting, valuation, general consulting and analysis.

Financial Auditing **:** The auditor's role is to opine on the fairness and compliance with the requirement of Accounting principles, standards, legal and other relevant angles and the action is based on historical data. The financial auditors are responsible to the clients and users of financial statements issued.

Fraud Auditing **:** In regulatory environment, Fraud auditing aims at assessing the likelihood of prevention and detection of fraud. It is desirable that they make recommendations to implement procedures to detect or prevent fraud. Fraud audits are mostly proactive in nature and not to be confused with fraud investigations conducted generally by Forensic Accountants who are responsible to its employer or client.

Forensic Accounting **:** Forensic Accountants' objective is related to the specific issues defined by the client engaging them, such as calculate the loss, calculate the royalty, calculate the value of the pension plan, etc. by examining a trail of paperwork to substantiate the calculations needed to meet the specific goals of the engagement. The forensic accountant is not performing the attest function like the financial auditor. Basically the objective for hiring the forensic accountant is to use the accountant's views and findings to facilitate a settlement, claim, or jury award by reducing the financial component as an area of continuing debate. (Source: Information obtained from 'A Guide to Forensic Accounting" by Jill A. Blumenfeld, Reprinted with permission, Faulkner & Gray 1992).

Development of Forensic Accounting

Phase 1 — the Evolution in the early age & appearance in 19th century

Forensic Accounting dates back to the ancient Egyptian scribes who accounted for all of the Pharaoh's assets. They were well known as the "eyes and ears of the Pharaoh, the king". However, in 1817, Forensic Accounting had its first appearance on a day in court when an accountant was required to testify at a hearing of bankruptcy. It got larger appearance only in 1824, when a Scottish accountant advertised his expertise in legal accounting, but the term Forensic Accounting was yet to be coined and popularized.

Phase 2 — Forensic Accounting & its role in catching gangsters – a saga of early 20th century

Development and first popularity of the subject, Forensic Accounting is mainly in Western part of the globe though, by the passage of time, it is getting more and more importance in fraud prevention and investigative actions in the modern corporate sky.

- Forensic Accounting and the Al Capone Case in US

Conviction of the then mobster Al Capone in 1931 was successful only due to IRS and FBI used accounting for this purpose. The legal system could not arrest him until tax evasion case could be established by law enforcement by using accounting expertise. The agent Frank J. Wilson played a great role by establishing charges with finding proof of tax evasion against Al Capone, the mobster. Wilson could prove it with the evidence for a conviction by sifting through millions of financial documents!! As a result of the grand success in the case, the IRS produced an ad campaign—"Only an Accountant Could Catch Al Capone."

- Forensic Accounting and Lindbergh Kidnapping

The same Frank J. Wilson continued to influence the society with his forensic accounting work on the case of Kidnapping of Lindbergh baby in 1932. He used the technique of tracking the serial number of the gold certificates used to disburse towards the kidnapper's ransom and was able to trace and identify the perpetrators in the case. The methodology he used in this case made him popular and Forensic Accounting function got widespread practice in tracking and prosecuting financial crime. Thereafter Wilson joined the Secret Service and created a laudable work by formulating educational program to fight counterfeit currency.

Phase 3 — Forensic Accounting — the present scenario — the O. J. Simpson trial

The credit of developing the term Forensic Account goes to Maurice E. Peloubet when, in 1946, he used this in his essay "Forensic Accounting: Its Place In Today's Economy". Though this term had proven its worth during the World War II, it got structured procedures during the 1980s. It was due to the major academic works published during this period. Forensic Accountants evaluated the value of assets of O.J. Simpson during the trial having the impact of the damages awarded in the civil suit. A pivotal role was played even after that by the Forensic Accounting in the corporate scandals of companies such as Enron, Tyco and Worldcom.

Establishment of Academic and Profession bodies

- **The Western panorama**

The American College of Forensic Examiners was formed in 1992 while the American Board of Forensic Accounts started in 1997. Publication of the Journal of Forensic Accounting, Auditing, Fraud and Taxation began in 2000. The famous Sarbanes-Oxley Act was established in 2002 with the Public Companies Accounting Oversight Board (PCAOB) with the responsibility of conducting investigations, developing auditing standards, and ensuring implementation of corporate compliance. It is because of the establishment of the Sarbanes-Oxley Act that continuing emphasis on forensic accounting was possible.

● **The initiatives in Asian context**

In recent past, global initiatives are growing to teach the technique of combating fraud by conducting various workshops and courses. One such initiative is undertaken by Asian School of Cyber Laws—it is one such initiative that teaches people about the frauds related to cyber world. Indian chapter of ACFE offers the course to cover the white-collared crimes. In India, IndiaForensic, an organization yet to be affiliated to any of the Universities, provides formal education about Forensic Accounting. Some of the initiatives in this direction are — **Certified Forensic Accounting Program** —*CFAP*, **Certified Bank Forensic Accounting** — *CBF*,**Certified Anti-Money Laundering Expert** — *CAME*.

The Indian Scene

Though, in 1946s, Maurice Peloubet coined the term Forensic Accounting, worldwide we recognize the great Sherlock Holmes to be the first Forensic Accountant. However no one can ignore the considerable contribution made by some historic characters in India in this arena. During the ancient Mauryan Times, Kautilya was the first person to describe the famous forty ways of embezzlement in his famous book, Kautilya's Arthashastra. In a remarkable exercise carried out at the "Indiaforensic", Kautilya is brought back into the 21st century and have started the series of virtual conversations between him and the computer. Through the dialogue, it is revealed that allmost all the major failures in USA Incorporates were the extended versions of what Kautilya said few thousand years before. Even there is hardly any change in their number. This virtual conversation between Kautilya and the computer of the present age is available in the Indian Forensic Accounting Manual. Birbal was another stalwart and great scholar in the time of King Akbar who used various tricks for investigating various types of crime. These work as the Litmus test to the Fraud examiners even of recent times. Birbal's stories are mostly applied by the Gem of Indian Fraud Examiners, Chetan Dalal, to the investigation of the frauds. Another one, the third scholar in the above field, is Tenaliram who emphasized on the techniques of investigations to detect the root of fraud and the perpetrators. Leaders like KPMG, E&Y have already taken commendable steps by organizing training and also have praiseworthy research work in this field.

Forensic Accountant—Prerequisites

The subject being still young and high tech involved in the present age when Cyber crimes are taking the lead in field of fraud, the Forensic accountant needs to be, firstly. a professionally qualified accountant like CA, CPA etc and then he must get trained in the techniques of forensic accounting under some recognized association to get acquainted and skilled in this specific arena. There are some existing organizations and besides them, leaders like KPMG, E&Y, PwC contributes substan-tially towards advancement of this branch of study. With qualifications, like auditors, a forensic accountant needs the intuitive skill also to get success in this highly skill driven profession. The goal is to have the best possible quality in the Forensic Accountant to combat the horror in the present days of terror fill world.

How Forensic Accountants work—the Fraud Triangle

The Forensic Accountants mainly rely on the Fraud Triangle consisting of three core concepts leading towards happening of fraud, namely, Incentive, Opportunity and Rationalization. Recent study suggests a fourth concept to convert the triangle to a diamond by adding: Capability. That means, in absence of any one of these four concepts, fraud generally cannot take place.

Forensic accountants in today's complex commercial world are being deployed to not only play the investigative role once the fraud appears but also act as the preventers of financial mischief by ongoing process of utilizing their skill and techniques in the operational level of the enterprise. This helps to nip the problem in the bud rather than spending time after the unwanted situation crops up (Source : Introduction to Forensic Accounting, by Robert K. Minniti, CPA, CFE, Cr.FA, CFF, MBA).

B. Flight of Forensic accounting with some major development of relevant laws in the world, particularly in the Western countries who are pioneers in the relevant fields :

10,000 years ago—temple priests took inventory of village livestock

3,000 B.C.—scribes recorded ruler's wealth

(contd. to page 1045)

Lines in the Sand: Retrospective Imposition of Tax and Constitutional and Jurisprudential limitations

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In all effort and endeavour, mankind wishes to look forward and progress is linear in outlook and prospect. In the Hindu theory of Karma, that part of the cumulative past Karma (comprising both the good and the bad) which will not be applied to the present life is called Sanchitham and it will have no effect on a person's current life. It comes into effect at the end of the current life and the beginning of the new one. However, in the arena of legislation, the Law is permitted to look both backward and forward at one go. In other words, Law can both be retrospec-tive and prospective at times in its effect and application. The theory of restrospectivity of Law applies to both procedural and substantive provisions. Necessity and justice are often cited as the foundations of such retrospective law. The jurisprudence of restrospectivity in law propounds that there is always a presumption against restrospectivity which is stated in the following expression given by Lord Reid in the case of Sunshine Porcelain Potteries Pty Ltd Vs. Nash (cited in Craies on Legislation – 9th Edition, Sweet & Maxwell).

"Generally there is a strong presumption that a legislature does not intend to impose a new liability in respect of something that has already happened, because generally it would not be reasonable for a legislature to do that …. But this presumption may be overcome not only by express words in the Act, but also by circumstances sufficiently strong to displace it. When the intention of the legislature has not been adequately manifested in the Statutory provision as regards its restrospectivity, the Courts often have to decide whether such restrospectivity is intended by necessary implication or not".

In general, some principles regarding general restrospectivity in Law can be noted as follows :

A. There has been a long surviving rule of common law that a Statute should not be interpreted so as to impair an existing right or obligation unless that result is unavoidable on the language used.

B. A Statute is retrospective if it takes the way or impairs a vested right acquired under existing Laws, or creates a new obligation or imposes a new duty or attaches a new disability in regard to events already passed.

C. There is an exception from the bar against restrospectivity in the case of a Statute or statutory provision when it is purely procedural because no person could have a vested right in any particular course of procedure, but only a right to prosecute or defend a suit according to the rules for the conduct of an action for the time being prescribed. (There is however considerable difficulty in distinguishing between substance and procedure in a statutory provision).

D. The presumption against restrospectivity is particularly strong in relation to Penal Statutes and Statutes creating criminal offence.

E. Similarly, it will require strong evidence to rebut the presumption against restrospectivity in the case of a provision which has the effect of removing a defence formerly available in relation to a criminal matter.

F. As a general rule, a power to make subordinate legislation will not confer the power to make provision having retrospective effect unless it does so expressly.

G. However, in the case of **Westminster City Council Vs. Haywood** (page 443 – Craies on Legislation, *ibid*), it was laid down that if the statutory scheme is clearly intended to have retrospective effect, and certain details of the scheme are left to be supplied by subordinate legislation, the subordinate legislation will be treated as having retrospective effect (and may be so treated whether or not it contains express provision to that effect).

H. A provision in an Act inserted with retrospective effect from the date specified cannot have retrospective effect prior to that date **(Cooperative Co Ltd Vs Commissioner of Trade Tax—(2007) 4 SCC 480)**

I. A Section in the statute may be prospective in some parts and retrospective in other parts **(Shah Bhojraj Kuverji Oil Mills and Ginning Factory Vs Subash Chandra – AIR 1961 SC 1596)**

J. If a statute is passed for the purpose of protecting the public against some evil or abuse, it may be allowed to operate retrospectively, although by such operation it will deprive some person or persons of a vested right **(Sree Bank Ltd Vs Sarkar Dutt Roy & Co (AIR 1966 SC 1423)**

K. The Supreme Court has, in a service tax case — (**Union of India Vs Martin Lottery Agencies Ltd — 2009 (14) STR 593 SC)** held in the context of an explanatory clause to a statutory provision**:** "It is, therefore, evident that by reason of an explanation, a substantive law may also be introduced. If a substantive law is introduced, it will have no retrospective effect".

L. Where retrospective effect is to be given, no larger retrospective effect will be given to a statute than the language warrants.

M. There is no presumption of retrospective effect when a statute explains or supplies an omission in an earlier enactment (Page 325 –Interpretation of Statutes by Vepa P. Sarathy—5th Edition—Eastern Book Company).

Power to Impos a Tax with Restrospective Effect

The purpose of this Article is to analyze the recognized power of Government to burden tax payers with a tax levied with retrospective effect. The incidents of such retrospective levy of tax have not been infrequent in recent times. The retrospective power has been explained as derived from the plenary power over the subject of legislation supposed to be available to the legislature as well as from inherent sovereignty of an organ of the State. In this analysis we will pose and discuss the following questions, which should be of interest and concern to all citizens in a liberal constitutional democracy informed by an eminently desirable adherence to the Rule of Law and to the concept of Government limited by power devolved by the citizens :

- Is there a plenary power for the legislature over the subject matter when it comes to retrospective levy of tax?
- How far the levy of tax can be taken back in time?
- Are there any jurisprudential, constitutional and common law limitations on such unbridled power to impose a tax with retrospective effect?
- Whether such retrospective levy of tax can be permitted to interfere with the outcome of a concluded litigation in a Court or whether it is limited to pending lis?

In examining these issues, the intention is not to question the State having a rightful opportunity to bring about a retrospective levy of tax in the interest of equity and fairness or unimpeachable necessity, the justice of which could be manifest. On the other hand, the objective is to shine the debating torch on an area of unchecked exclusivity which may have unwitting baleful consequences for a large mass of affected tax payers. For, after all, we live under a republican, democratic Constitution with widely-shared, noble ideas of Justice where the sovereign powers reside in the people collectively and the State organs are manned by the delegates of the people when they act as wielders of sovereignty. The state organs would remain accountable to the people, not just at the time of general elections, but throughout the duration of their exercises of power. Checks and balances in the constitutional arrangement are recognized as an essential safeguard for the safety and certainty of the liberties and freedoms guaranteed to the people by the people's constitution. By the same token, checks and balances regarding unbridled retrospective imposition of tax should be an area of abiding concern for all the citizens. This analysis explores possible limiting restraints on the power of legislature to impose a tax retrospectively. Each of the above questions is taken up as follows :

Is there a plenary power for the legislature over the subject matter when it comes to retrospective levy of tax?

It is an old bromide that a legislature possesses absolute, unencumbered and practically unlimited ability, which is what a plenary power amounts to, over the subjects given to the jurisdiction of law—making power of the legislature, and this has been too strongly embedded in jurisprudential consciousness largely owing to the inexorable influence of the British Parliamentary culture. The idea of plenary power of a legislature is a relic of the British Empire and the episodes-filled history of its all-powerful Parliament. The British Parliament was a unique institution. In addition to its practically unlimited law-making power continually bolstered by its long and successful conflicts with the British kings, the British Parliament with its House of Lords as the final arbiter of any legal dispute in the British realm was its own Judge with a final say on anything. The Parliament in Britain thus always possessed the last word on the law enacted as well as on any dispute that questioned any Act itself. Even though Britain now nominally has a US-Style Supreme Court, it is the Law Lords from the House of Lords who sit as Judges of that Court. In such a monolithic system of practically unified legislative and judicial power, the separation of powers as a check and balance among the organs of state was a notion that did not even get a lip service and it is understandable that the Parliament enjoyed a larger-than-life reverence and constitutional worship. The courts which functioned under the benevolence of the purse of the parliament found it difficult to rule any Act of Parliament as unconstitutional. For, the Parliament that made the law was also the Final Court of the land. How could a subordinate court rule an Act of Parliament as unconstitutional? Common law principles were the only available safeguard and even these could be altered by the parliament itself which then would prevail over the rules of common law. It was in this context that it was said that the British Parliament was so powerful that it could do whatever it wished except to make a man a woman and a woman a man. The cardinal fact that Britain has had no written constitution also helped in the deification of British Parliament as an institution that obliged of its citizens a veneration of its supremacy and pre-eminence in the political life of the country. What is now called the British constitution consists of several written instruments pertaining to the organs of the state and unwritten but studiously observed conventions and practices.

Since India inherited the colonial legal superstructures of the British system, there was an abiding memory and inherited belief that the Indian Parliament possessed a similar fount of supremacy as that of the British Parliament. However, it should be borne in mind that the Indian Parliament has not been that kind of an historical institution that won against autocratic kings and made them sign the *Magna Carta*. It is another matter that the British parliament became too powerful for its own good and that of the limited population who elected them. Nevertheless, the British politicians had the wisdom not to soak in their supremacy in parliament and the system ensured its survival and support by give–and-take as well as by substantial internal reforms when it felt buffeted by the winds of change. On the other hand, the Indian Parliament is an institution of law-making, an important organ of state, created under the Constitution of India, which itself has been made and enacted and given by and on behalf of the People of India. It did not, at its creation, have the historical glow and the institutional glare of the British parliament. Therefore, to say that parliament possesses plenary power of law-making is not to stretch it too far against the people of this country. The plenary power that does exist will be subject to limitations emanating from the Constitution itself, both textual and inferential, as well as jurisprudential bars.

How far the levy of tax can be taken back in time?

A study of judicial decisions shows that the restrospectivity of statutes has been extended to long periods back in time though they mostly dealt with statutory repairs in the exercise of such restrospectivity. However, on the question whether the retrospective levy of tax can cover very long periods there have been certain Supreme Court decisions which are discussed as follows :

In indirect taxes, such as Central Excise, Service Tax, etc., there are two time limits for tax demand— one year for normal levy and demand and five years for cases proved to have involved suppression and concealment on the part of the subject tax payers. On the question whether in introducing a tax with retrospective effect, the legislature or the Government can exceed the one year time limit, the following decisions answer in the negative :

J K Spinning and Weaving Mills – 1987 (32) E.L.T 234 (S.C.) is even now a very landmark judgment. In this case the Supreme Court has said that the retrospective amendment as in Section 51 of the Finance Act, 1982 cannot override the provision of Section 11A of Excise Act under which duties short levied or erroneously refunded cannot be recovered beyond the period of six months (at the time the normal time limit was six months, as opposed to one year now). The Apex Court mad the following significant observations on reasonable criteria for retrospective tax :

"29.It is not disputed that the Legislature is competent to make laws both prospectively and retrospectively. But, as pointed out by this Court in Jawaharmal v. State of Rajasthan and Others, (1966) 1 S.C.R. 890, the **cases may conceivably occur where the court may have to consider the question as to whether excessive retrospective operation prescribed by a taxing statute amounts to the contravention of the citizens' fundamental rights;** and in dealing with such a question the court may have to take into account all the relevant and surrounding facts and circumstances in relation to the taxation. Again in Rai Ramakrishna and Others v. State of Bihar, (1964) 1 S.C.R. 897 this Court has pointed out **that if the retrospective feature of a law is arbitrary and burdensome, the statute will not be sustained** and the reasonableness of each retrospective statute will depend on the circumstances of each case; and the test of the length of time covered by the retrospective operation cannot, by itself, necessarily be a decisive test". (Emphasis supplied)

Morarji Goculdas Vs UOI (83) E.L.T. 259 (S.C.) Following the ratio of the above judgment of JK Spinning, the Supreme Court has said in this judgment that, even where retrospective amendment has been made, the demand has to be made within six months of the date of amendment. The following cases may also be seen in this connection :

Collector Vs Kaipully Mazh Industries—1989 (43) E.L.T.A 45

Collector Vs Andhra Sugars Ltd. —1991 (52) E.L.T A 28

Collector Vs Uma Match Industries—1997 (96) E.L.T A 226

Mafatlal Industries Ltd. v. UOI – 1997 (89) E.L.T. 247 (S.C.) : In this landmark case legalizing the new idea of unjust enrichment in indirect tax refunds the Apex Court held that Section 11B of the Excise Act as amended in 1991 has retrospective effect but such claims continued to be governed by the time limit under section 11B.

Even this whiff of a statutory block might be of no avail, if the retrospective law were to specifically state that the prevalent time limit in the affected statute will not apply to the retrospective levy and go on to make special time limit for the extra recovery of tax made possible through the retrospective law. Whether such a provision, if made, will be arbitrary or unreasonable in the light of the *J.K Spinning & Weaving Mills* case is yet to be tested in our country.

A nuance of the theme in the English law

In England, it is generally regarded as acceptable for the legislation giving effect to a ministerial announcement to have effect retrospectively from the date of the announcement, in cases where the government identifies what they consider as an abusive or evasive practice in relation to a particular tax and in respect of which the government may make an announcement, perhaps by way of a written ministerial statement in the House of Commons (Page 439, Craies on Legislation—Ninth edition—Sweet & Maxwell).

Are there any jurisprudential, constitutional and common law limitations on such unlimited power to impose a tax with retrospective effect?

Apart from the above case laws of the Apex Court in stipulating a time limit of the shorter version already available in the Act concerned as against the longer time limit prescribed under observance of stringent conditions, there could be other limitations on the ability of the constitutionally begotten legislature to enact an unreasonable retrospective imposition of tax. One such jurisprudential check on unbridled imposition of tax with retrospective effect would be the concept of ***Rule of Law*** which acts as a bar against unreasonable and arbitrary exercise of any power. The penchant of a legislature to attempt a retrospective levy of tax beyond the recognized and proven needs of the Government for collecting that tax (necessarily compared and justified against the troubles and loss that it would entail against affected tax-paying citizens) as opposed to misbegotten considerations of governmental prestige and an ever unsatisfied need for funds could be assailed on grounds of unreasonable and arbitrary measure. The necessity for undertaking and imposing a retrospective levy of tax would have to be weighed in this context. A Government wedded to the Rule of Law is not expected to demand and exact unreasonable taxes in the unbridled exercise of legislative power. Thus the Rule of Law could be one such constraint against unreasonableness discernible and discoverable in a retrospective imposition of taxation.

Another bar that could be contemplated is the well known concept of ***due process*** in constitutional law. Due process checks are now available against both procedural and substantive statutes. Even though the word 'due process' is not used in our Constitution textually, its inferential existence and well-marked evolution since *Maneka Gandhi et al* has been widely accepted. Even though Article 21 of the Constitution provides for due process safeguards in a procedural sense textually and limits it to right to life and personal liberty, the due process jurisprudence has been expanded by our Supreme Court and encompasses various rights under Articles 14 and 19 as well as 21. **The constitutional injunction under Article 265 is also unmistakable. *It mandates that no tax can be levied and collected without the authority of law*.** The 'law' for Article 265 will not be viewable as exempt from having to answer the test of non-arbitrariness flowing from article 14 read with the freedoms under article 19 and it has to be a law which is ***'just, fair and reasonable'***. Thus, due process can also be envisaged as a bulwark against arbitrariness in the contest against unfairly retrospective levy of tax. The "due process" is a limitation on unbridled power and by corollary could be tested against irrational and unreasonable retrospective levy of tax. So far, the Courts have acted against taxation only when it was considered expropriatory or the imposition was ultra vires or when it violated the principles of natural justice. Enormous leeway has been granted to the Legislature and the Government in issues relating to the levy of taxation, particularly *levy, classification and assessment*. Perhaps the time has come to study such retrospective levies and put their rationale to constitutional and jurisprudential tests. A high constitutional bar and strict terms of justification are essential against the retrospective imposition of tax, as compared to a prospective introduction of tax.

Whether such retrospective levy of tax can be permitted to interfere with the *concluded litigation* or whether it is limited to pending *lis*?

There has been considerable unease in many countries over what is viewed as legislative interference with the decisional independence of the Courts, as contrasted with its institutional independence. The latter is usually well-protected in explicit constitutional guarantees assuring the judges of protected conditions of service, tenure etc and making their removal from office a very difficult exercise. On the other hand, the decisional independence of the judges is a moot question. The decisional independence is defined as :

*"......**The ability of the Courts to interpret and***

apply, rather than create, substantive legal principles in the specific context of an individual adjudication, free from Control or Interference by the purely political branches….".- {Such as the Executive and the Legislature}."**-** emphasis added- (The Separation of Powers and Legislative interference in Judicial Process by Peter Gerangelos – Hart Publishing Ltd, U.K). That control or interference could be brought about by a retrospective imposition of a newly made law or by validating an action impugned and invalidated by a jurisdictional court.

This question comes up frequently in the case of Validating Acts which seek to undo the effect of Court judgments in particular contexts. A validating Act seeks to validate earlier Acts declared illegal and unconstitutional by courts by removing the defect or lacuna which led to the invalidation of the law. In this context, it is an accepted principle that a validating Act seeking to nullify court's order instead of curing the defect or lacuna pointed out by the court is not a validating Act.

The position of courts in India seems to be that while pending cases, even if they are at the appellate stages may have to be decided in the light of the changed law, the outcome of decided cases which have achieved finality of adjudication and appeal is not amenable to re-opening without a clear mandate in the changed statute (citing the case of **Delhi Cloth & General Mills Co Ltd Vs Commissioner of Income Tax — AIR 1927 PC 242** — " Interpretation of statutes by Vepa P. Sarathy – Fifth edition – Eastern Book Co). Interfering with judicial finality may tantamount to interference with the exercise of judicial power by the courts and will convert the legislature into a Super court from which there is no appeal.

Conclusion

The retrospective levy of taxation is an area too important to be left out of fresh jurisprudential thinking. The government in modern constitutional democracies owes a duty to the citizens to provide fair governance, marked by adherence to principles of the Rule of Law. The need for any retrospective taxation must be proved and founded upon judicially and normatively justifiable criteria and must be in accordance with popular views which will not be too difficult to ascertain in this age of mass communication. The Courts can help erect safeguards against unreasonable retrospective taxation by resorting to substantive and procedural Due Process. For too long, governments have gone about reversing adverse judgments invalidating its attempt at taxation by retrospective levy of taxation and functioning virtually as the court of last resort if it so chooses to do. It is time such retrospective taxation depriving the citizens of their moneys is put under strict constitutional and jurisprudential limitations especially by top judicial forums. ❐

(contd. from page 1040)

1200's Florentine merchants use double entry bookkeeping

1494 — Luca Paacioli publishes first book describing double entry accounting methodology

1772 — Josiah Wedgwood, Charles Darwin's grandfather, develops cost accounting

1856 — In England, the audit of corporations became required

1887 — American Association of Public Accountants (later becoming the AICPA) was formed

1902 — American Congress calls for audit reports for large corporations

1913 — Federal Reserve Board created

1913 — Federal income tax law was passed

1914 — Federal Trade Commission created

By 1921 — All states had passed laws requiring exam for CPA certificate

1931 — Al Capone was indicted for income tax evasion — the first documented use of forensic accounting

1946 — Maurice E. Peloubet coined the phrase "Forensic Accounting"

1982 — The first forensic accounting book was written

2002 — Sarbanes Oxley Act

2003 — The AICPA's Litigation and Dispute Resolution Services Subcommittee issued a report of its Fraud Task Force entitled "Incorporating Forensic Procedures in an Audit Environment."

(Source: Introduction to Forensic Accounting, by Robert K. Minniti, CPA, CFE, Cr.FA, CFF, MBA)

Conclusion

In the present day, corporate management is to ensure sustainable development through operation of a good corporate citizen and it is also required to act proactively in the area of efforts towards eradicating the Fraud nuisance too. Forensic accounting function has a great role to play in this regard as truly investigative minded professionals. Hence it is demanded to put experts like Forensic Accountants to assist the entities to combat fraudulent practices proactively, besides their investigative function on historical crimes.

Besides, proper data storage and document control system backed by appropriate IT support for need based trailing of chain of transactions to be ensured to support forensic accounting and forensic audit function to meet the challenges of the present corporate world to convert the dream of Fraud-free corporate world into reality. ❐

Crisis Management in Infrastructure Sector

Prof. K. Selva Kumar

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There is a tide in the affairs of men,
Which, when taken at the flood, leads to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries

WILLIAM SHAKESPEARE

From this incisive passage from Julius Caesar, Shakespeare shows himself to be not only a brilliant poet and dramatist but also an excellent businessman.

Indian Infrastructure Overview

Provision of infrastructure facilities like transport including rail, air, roads, bridges, power, ports, telecommunication, etc., traditionally in the government domain, is now being offered for private sector investment and management in most countries including India.

This trend has been reinforced by the resource crunch by many governments. Infrastructure projects, with private participation, worth several hundred billion of dollars using some form of project finance are under implementation in many emerging economies like India. These projects present unique problems for structuring, risk management and financing as they are usually characterized by large investments, long gestation periods and very specific domestic markets and target consumers.

Crisis is a critical event or point of decision which, if not handled in an appropriate and timely manner (or if not handled at all), may turn into a disaster or catastrophe. Every crisis is unique, but crises can be managed and mitigated through the systematic development and application of a comprehensive plan. All crises are characterized by certain elements that distinguish them from "normal" conditions. Another hallmark of a crisis is a high degree of insecurity as far as its specific nature and its expected consequences are concerned. Crises are always characterized by time pressure and the urgency of countermeasures.

Lerbinger (1997) categorized seven types of crises

1. Natural disaster
2. Technological crises
3. Confrontation
4. Malevolence
5. Crisis of skewed management value
6. Crisis of deception
7. Crisis of management misconduct.

Generally, corporate crises stem from either failure of operations or a failure of issues management. There are numerous man-made disasters which could have been avoided due to timely crisis management.

Lessons in Crisis Management from Japan's Fukushima Daiichi Nuclear Crisis

Tokyo Electric Power Company's Fukushima Daiichi nuclear plant had been slammed by a mammoth tsunami and rocked by hydrogen explosions and had become highly radioactive. In the early days after the earthquake and tsunami, many Tokyo Electric workers had little time to speak out. An explosion had blown the roof off one of the reactor buildings in Fukushima, heightening fears of large-scale radiation exposure. To stabilize the reactors and restart cooling systems, the company rushed to reconnect the power plant to the electric grid.

At J-Village, 12 miles south of the plant, on the night of March 15, 2011, hundreds of fire fighters, self-defence forces and workers from Tokyo Electric Power convened at the sports training centre, arguing long and loudly about how best to restore cooling systems and prevent nuclear fuel from overheating. Complicating matters, a lack of phone service meant that they had little input from upper management. There were so many ideas, the meeting turned into a panic. There were serious arguments between the various sections about whether to go, how to use electrical lines, which facilities to use and so on.

The quarrelling echoed the alarm bells ringing throughout Tokyo Electric, which has been grappling with an unprecedented set of challenges since March 11, 2011, when the severe earthquake and massive tsunami upended north eastern Japan.

Many of the workers—especially the small number charged with approaching damaged reactors and exposing themselves to unusually high doses of radiation—are viewed as heroes, preventing the world's second-worst nuclear calamity from becoming even more dire. Several line workers expressed frustration at the slow pace of the recovery efforts, sometimes conflicting orders from their bosses and unavoidable hurdles like damaged roads.

The Bhopal Disaster is the world's worst industrial catastrophe. It occurred on the night of December 2–3, 1984, at the Union Carbide India Limited (UCIL) pesticide plant in Bhopal, Madhya Pradesh, India. A leak of methyl isocyanate gas and other chemicals from the plant resulted in the exposure of hundreds of thousands of people. Estimates vary on the death toll. The official immediate death toll was 2,259 and the government of Madhya Pradesh has confirmed a total of 3,787 deaths related to the gas release.

Chasnala mining disaster was a disaster on 27th December 1975 in a coal mine in Chasnala, Dhanbad, in Indian state of Jharkhand. The explosion in the mine followed by flooding killed 372 miners. The caving in of a roof of coal let in seven million gallons of water per minute in the mine. Miners were trapped under a mountain of debris and drowned when the water surged into the mine. The Indian Iron and Steel Company, which owned the mine, said it conformed to international standards.

Disasters cause not only physical and environmental damage but also affect psychological well-being of the victims. Man-made disasters cause extensive damage to both living beings and the environment. Intentional human misbehaviour like arson, terrorism, civil disorder, etc., cause damage to persons, property, untold misery to the victims and push them into economic crisis by destroying their belongings and properties. The economically weaker sections of the society are the most affected by man-made disasters. Infrastructure disasters like air crash, train accidents, space shuttle disasters, etc. cause large scale loss both to the passengers and their families besides huge restoration costs associated with restoring the transportation services. The loss of production and employment due to disruption in critical infrastructure like power supply and water cannot be easily measured due to their cascading effect.

Stages of Crisis Management

According to Norman (2000), the six stages of crisis management which are also applicable to infrastructure sectors are

(1) Avoiding the crisis
(2) Preparing to manage the crisis
(3) Recognizing the crisis
(4) Containing the crisis
(5) Resolving the crisis
(6) Profiting from the crisis.

Historical Perspective

The one aspect of business in which a Chief Executive's influence is measurable is crisis management. Indeed, the very future of the enterprise often depends on how expertly the Chief Executive handles the challenge. The airline, financial securities, infrastructure and computer industries are, of course, not alone in facing crisis. Throughout history, there has been no shortage of business crises.

In 1637, speculation in Dutch tulip bulbs peaked at today's equivalent of more than $1000 per tulip bulb and the market collapsed on its own weight. In 1861, the infant Pony Express met its sudden demise when Western Union inaugurated the first transcontinental telegraph. In 1906, the San Francisco earthquake devastated the city and its banking community—except for A. P. Gianni whose small bank called the Bank of America continued making loans during the crisis and went on to become one of the world's largest banks.

In the 1970s, a large number of insurance companies faced possible bankruptcy as a result of the Equity Funding scandal when they discovered that they have been paying off large sums to nonexistent policyholders.

Crisis Management

Almost every crisis contains within itself the seeds of success as well as the roots of failure. Finding, cultivating and harvesting the potential success is the essence of crisis management.

There is no magical 9-1-1 number or 100 number we can call to extricate ourselves from predicaments. We get into a fix; we get ourselves out of it. It is that simple. There is no way to run the sausage machine backward and get pigs out of the other end. After all, if the solution were easy, it would not be a crisis in the first place.

In business as in life, crises come in as many strains as the common cold. One category of accident which we might call technologically charged involves failure of advanced technologies that public have come to believe were foolproof. This category includes the Challenger space craft explosion.

Role of Leadership in Crisis Management

Leadership is not rank or privileges, titles or money.

Leadership is responsibility (Drucker, P. F., 1996). A leader not only has to use all the wisdom to guide the organization through the crisis, he must dig deep inside him to find the courage to keep going forward. Before leading the organization through a crisis, the leader has to acknowledge that there is indeed a crisis. Next he has to get everyone else to acknowledge it as well. Only then he can define the problems accurately and develop plans to deal with them.

Crises often start out in relatively benign ways, and then seemingly minor events escalate into major ones. Unless leaders face reality early, they can easily miss the signals of the deeper crisis that is waiting ahead. Until its leaders acknowledge the crisis, their organizations cannot address the difficulties (George, B. 2009).

Six Stages of Crisis Management

Stage 1: Avoiding the Crisis

The first stage, not surprisingly, is prevention. Even though it is the least costly and simplest way to control a potential crisis, amazingly it is usually skipped altogether. This chronic carelessness arises from a blind spot common among many business executives who actually believe that they are in control of their companies' fortunes.

One way of avoiding the crisis is to make a list of everything that could go wrong or attract trouble to the business, consider the possible consequences and to estimate the cost of prevention. Executives must keep in mind that almost anyone of the thousands of employees can plunge the entire Corporation into a crisis through either misdeed or sheer negligence or oversight as the recent collapse of venerable Barings Bank made abundantly clear.

This type of employee can be called the cross-eyed discus thrower: he seldom wins any prizes but he sure keeps the crowd on its toes. Discretion and privacy can be critical to avoid some kinds of crisis such as those that result from leaks during sensitive negotiation.

Stage 2 : Preparing to Manage the Crisis

When preparing for a crisis, it is instructive to recall that Noah started building his boat Ark long before it began to rain.

Steven Fink (2002) says that everyone in a position of authority should view and plan for the inevitability of a crisis as much the same way one views and plans for the inevitability of death and taxes: not out of weakness or fear but out of strength that comes from knowing that you are prepared.

We must make plans for dealing with crises by preparing well in advance. This could be done by preparing action plans, communication plans, fire drills and building essential relationships long before a potential problem erupts into a crisis. Experience suggests a number of useful preparations for dealing with an upheaval: establishing a crisis centre, making contingency plans, selecting in advance the members of the crisis team, providing ready and redundant communications etc., the best laid plans are worthless if they cannot be communicated.

Stage 3 : Recognizing the Crisis

This stage of crisis management is often the most challenging: recognizing that, in fact, there is a crisis. In general, we need to understand how others will perceive an issue and to challenge our own perception. Executives who refuse to face reality should be mindful of the bright if inexperienced student of chemistry who warned 'when you smell an odourless gas, it is probably carbon monoxide'. Companies sometimes misclassify a problem focussing on the technical aspects and ignoring issues of perception. But it is often the public perception that causes the crisis.

In recognition stage, independent investigators as well as insiders are needed in understanding the crisis situation. Asking the people who are responsible for preventing a problem whether or not there is a problem is like delivering lettuce by rabbit.

Stage 4 : Containing the Crisis

This stage of crisis management requires stopping the bleeding. This is the phase in which tough decisions have to be made, and made fast.

The problem at this stage is usually we don't know what we don't know. There may be too little information or there may be too much with no way to sift out what is important.

It is widely said that the world is not interested in the storms we encountered but whether we have brought in the ship safely. Organizations that have thought through what they stand for well in advance of a crisis are those that manage crises best.

When all seems to be crashing around them, these organisations have principles to fall back on. It is wise to do the following :

- constitute a dedicated team of individuals working full-time to contain the crisis
- A single individual should be identified as the Company Spokesman, the one who makes all public comments
- A Company's stakeholders viz., its customers, owners, employees, suppliers and communities should not be left to ferret out information from the public media.

(contd. to page 1052)

Krishna as a Management Strategist

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The role of Krishna as a management strategist is most astonishing, when I look at him on a human level. A strategist requires sharp vision, accurate analytical ability, tactical grasp of a situation and operational ease. In addition, a strategist must look for and use cost—effective sources of reliable and adequate information. In today's era of information technology, and other scientific skills, 'strategy formulation' has become a systematic science with reasonable amount of predictability. Corporations employ subject specialists and generalists to carry out strategic planning. It has become a collective task, with lot of references and rituals to correct any strategy formulated. With advanced software packages, demonstration of 'dummy strategies' is also possible, with good number of permutations and combinations. In economies of the USA, England, France, Germany etc., which are enjoying 'perfect market conditions'; strategic planning has become further easier.

None of these facilities were available to Krishna, 5000 years ago. At a very young age, destiny compelled him to think and act like a strategist. He with his brother Balrama, designed most appropriate strategies to threaten wicked Kansa, systematically. Both the brothers gathered information about Kansa's crooked plots, through their informants staying in Mathura. The most important and successful informant was Akroora. He was one of the captains of Kansa. Krishna could know and assess the competencies of Kansa's powerful associates, who unsuccessfully attacked Gokul and Brindavan; to kill both the brothers.

We do not really have to read Porter's book on 'Competitive Strategy' or C. K. Pralhad's work on 'Competing for future'. Krishna's strategic preparations remind a combination of Lord Shivaji's pragmatism and Arya Chanakya's shrewd thinking. Krishna used every good or bad occasion strategically, for the benefit of the society. His was a simple definition of strategy. It is an action-plan to achieve sustainable success or it is a thoughtful approach to one's long-term or medium-term goal. One wonders, if Krishna's life-mission was by design or by default. Those who take him as God, obviously believe that every move of Krishna was a small part of his big agenda. And this agenda was quite well-planned. This agenda was the predetermined work of Lord Vishnu who reincarnated as Krishna. It would be interesting and useful to analyze his role as a strategist, on human level. This is essential for three reasons—an impartial assessment of his strategic planning and implementation, an evaluation of his networking to use strategic partners and an honest enquiry into the competencies of 'human Krishna as a 'strategic executive'.

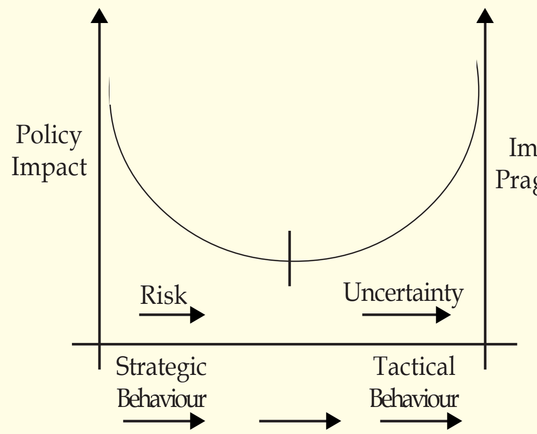
We must assess his strategic preparations at human level, so that his 'strategic planning model' would be acceptable to most of the human beings. It is very obvious that Krishna used six important components or qualities of a strategist, which were abstract thinking, notional algorithms for psychological impact, calculated partnerships with important value-drivers, ruthless implementation of strategies, generous sharing of the reward from strategy – implementation and flexibility in people-processes and programme-processes.

What was Krishna's assessment of the 'large society' (i.e. Brihat Samaj), whose morale was down and suffering was up? How as a strategist, did he decide his agenda to rectify such a societal system? What were his visible and invisible approaches to the smooth implementation of his strategic plans? How did he compare different value-chains of different individuals or group of people, to conclude on his priority list? What was his ultimate philosophy to decide the 'ethical quotient' of his behaviour as a strategist? And the last question, how did he balance the triangle of strategy, tactic and policy?

The society, which Krishna wanted to change, was fragmented. Therefore, there were no collective efforts to stop the injustice done by emperors like Jarasandha, Kansa, Kalyavan and Dhrutarashtra. Simple logistic of ethical behaviour and pragmatic management of ethical dilemmas was absent in many of the royal families. The percentage of such absurdity was very negligible during the era of Ramayana. People strongly believed in ideals and ethical icons. In a span of hundred years, the larger Indian society deteriorated on almost all benchmarks. Like today's world, the world of Mahabharat too was busy gathering weapons of mass destruction. The great gurus like Dronacharya were taking extreme interest in personal egos and biased relationships.

Comparatively, therefore Krishna's job of reformation was much more difficult than Ram's. Ram could win his battle, using straight strategies. He clearly knew, who his enemies were and what strength they had. Whereas Krishna had to use his diplomacy and all possible resources to know and assess the tangible and intangible strengths and weaknesses of his enemies and so-called friends. Krishna balanced the triangle of strategy, tactic and policy very well. For the ultimate sacred goal, he altered (or appropriated) the approaches to work on every strategy or tactic. As per Indian mythology, he used his d ivine and human power freely, to see that every strategy – appropriation becomes acceptable to others. As mentioned earlier, he used the pragmatic theory of 'highest benefit of largest number of people'. The problem of 'minority community' or 'minority shareholders' was also there, 5000 years back. But Krishna solved every such problem with his personal sacrifices or through the network of his friends and relatives.

Krishna combined his strategies and tactics, with a flexible mix of ethos and situational pragmatism. But every time, such mix was to avoid ethical dilemmas. A simple, such mix was to avoid ethical dilemmas. A simple diagrammatic expression may be as follows –



Wherever possible, Krishna used his strategic designs within the broad frame of classical ethos. Reformation requires, 'rectification' of orthodox rituals. Krishna did such rectification, by taking risk or facing uncertainty. Using immense pragmatism, he converted many unknown, intangible uncertainties into known, tangible and manageable risks. For such conversion, Krishna used the following matrix of qualitative and quantitative change –

Qualitative & Quantitative combination of change	Individualistic Goals			Collective Goals		
	Strategy	Tactic	Policy	Strategy	Tactic	Policy
Change in Processes (Technology)	Low	High	Nil	High	Average	Average
Change in People (i.e. stakeholders)	High	High	Low	Average	Average	High
Change in programmes (i.e. occasional events)	High	High	High	Average	High	High

Krishna's strategic behaviour could be understood, analyzed and approved by every few key personalities from Mahabharat. Among them were; Arjuna, Kunti, Rukmini, Vidur, Akroora, Satyaki, Draupadi, Bhishma and Balrama. Their understanding of Krishna's strategic impact was of different shades and degrees. A perceived observation may be as follows –

Key Personality	Understanding of Krishna's strategic behaviour		
	Divine	Superhuman	Human
Arjuna	☑	☑	☑
Kunti	☑	☑	–
Rukmini	–	☑	☑
Vidur	☑	☑	–
Akroora	☑	–	–
Satyaki		☑	☑
Draupadi	☑	☑	–
Bhishma	☑	☑	–
Balrama	☑	☑	☑
Radha	☑	–	–
Nand	–	☑	☑
Yashoda	–	☑	☑
Vasudeo	☑	–	–
Devaki	☑	–	–
Kansa	–	☑	☑
Duryodhan	–	☑	☑
Jarasandha	–	–	☑
Vyas Muni	☑	☑	☑
Karna	–	☑	☑
Gandhari	–	☑	☑

Those who participated closely in the divine designs of Krishna, could only understand him on all the three levels – divine, superhuman and human. Krishna had his own compartments of strategic and tactical behaviour. Depending on his needs and priorities, Krishna used to operate these compartments exclusively or inclusively. Perhaps, only a modest and mature CEO of a business enterprise should be able to do this. These are the CEOs who could manage and grow their enterprises during good and bad times. Like Krishna, many leaders attempt to broadly define their vision for the organization and for themselves. But many of them do not succeed optimally because they do not properly bridge the gap between their vision and mission, mission and strategic plan, strategies and competencies etc.

Krishna could very well decide and define his vision and mission. Those who understand him as a human could at least appreciate his performance as a brilliant strategist and executives. But those who could grasp his competencies and recognize him as a genius could also understand his vision and mission. If we try to look at the business, political, social and spiritual leaders of the globe; of last one thousand years; we observe that they used one single set of strategies, suited to each one's style, competency, priorities and ethos. But Krishna was comfortable with different sets of strategies, at different points of time. This tremendous amount of flexibility in Krishna's strategic thinking, strategy formulation and strategy implementation was there, because as a 'Poorn – Purusha' he never bothered for the reward or result. He, rather set an example for all of us, of a 'strategist' who could take different situations of different vibrancies with equal ease and maturity. Today's CEOs or bureaucrats or political leaders do not show such versatile maturity and adequate ease; mainly because they get badly tied up with the results. Of course, results are important in a highly materialistic world, but do we take them without hurting our mind and soul? Do we develop a strong, inner system, which should absorb all possible reactions from the cosmos? In other words, do we continue to experience the same 'Chaitanya' (i.e. Anand) or happiness from every accomplishment? If we do not, then how do we build up a 'control system', which enjoys an endless source of happiness, under all circumstances?

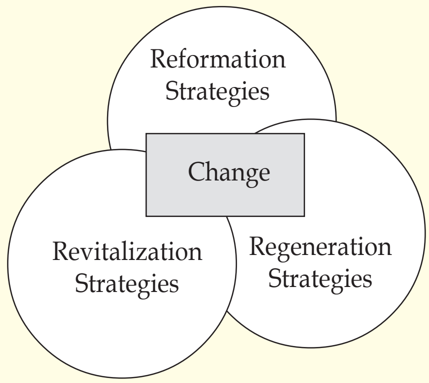
Krishna answers this question and makes the 'design of equilibrium' simple for a mature strategists; as follows –

Sukhaduhkhe same krtva labhalabhau jayajayau
Tato yuddhaya yujyasva naivam papamavapsyasi

(Shloka number 38 from chapter no. 2 of Geeta)

One must take happiness and sorrow, victory and defeat, gain and loss with equal ease and peace of mind. By developing such ability of equilibrium, he doesn't invite any ill feeling or suffering. Indirectly, Krishna suggests that a strategist should leave the 'burden of results' to the omni present and enjoy the 'pure happiness' of completing the assignment. Such mental preparedness is possible if one coordinates and converges mind, body, heart, brain and soul; for serving a sacred goal. A complete 'corporate citizen' may also achieve his materialistic goal, with reasonable sanctity, if he considers the interest of others. The western countries are talking about the same sacred equilibrium as 'corporate governance'. When a strategist thinks about 'maximum gain of maximum people', his journey is perpetually on, to reach the ultimate possibility of 'total gain of all people'. In this sense of an ongoing exercise of perfection; one should not bother about the results. A 'state of mind' that equals a 'full pot of joy', may only enjoy such neutrality between gain and loss.

Krishna's strategic planning and its execution were pragmatically based on the equilibrium of the processes of 'change management'.



In simple words, he worked simultaneously on creation, reformation and empowerment. He used aggressive strategies for recreation. He rebelled many a times; to reform socio-political and socio-economic theories and practices. He used many novel and interesting people – processes to empower more and more people; to revitalize the eternal principles of 'community living' and 'individual freedom'. With his finest orchestrating of mind and body, body and brain and brain and mind; he created a notional but visible impression of 'equity' among all. He knew (and made us believe) that a 'notional' visibility of a sacred and workable idea alone leads to a pragmatic reality.

In all the three initiatives, Krishna had different partners and different quotients of preparedness. He used a very judicious mix of the four quotients, to create a supportive environment for strategy formation and strategy implementation. A concise assessment of the various combinations of quotients may be presented as follows –

Quotient	Reformation	Revitalization	Regeneration
Emotional	High	Medium	Low
Intellectual	High	Medium	High
Entrepreneurial	Low	Low	High
Social	High	High	Medium

Now if we look at his 'strategy partners' we get a very interesting and useful picture —

Quotient	Partners in strategic initiatives		
	Reformation	Revitalization	Regeneration
Emotional	Nand, Yashoda, Devaki, Vasudeo, Yudhishthir	Draupadi, Arjuna, Yudhishthir, Kunti, Rukmini, Radha	Arjuna, Yudhishthir, Draupadi, Balrama
Intellectual	Balrama, Sandipani, Arjuna, Dhrustdumna	Draupadi, Arjuna, Vidur, Drupad, Satyaki	Balrama, Vasudeo, Nand, Arjuna
Entrepreneurial	Vidur, Yudhishthir, Arjuna	Kunti, Draupadi, Sudama, Satyabhama	Arjuna, Bhima, Balrama, Satyaki, Vishwakarma, Drupad
Social	Nand, Akroora, Vidur, Kunti, Draupadi, Radha	Kunti, Balrama, Sandipani, Rukmini, Draupadi, Radha	Draupadi, Arjuna, Yudhishthir, Sudama, Sandipani

If we now take an account of strategies framed and implemented by Krishna, we find an amazing use of superb qualities of a strategist. Comparatively, Krishna was the best 'strategist' among his contemporaries. One may simply attribute this number 1 position of Krishna to his divine powers. I would put these divine powers as the 'application of one's intrinsic energy to divine causes'. Krishna just did this. For the sake of argument, if we accept that he was the incarnation of Lord Vishnu, then the question arises about his 'humanly behaviour'. As per Hindu mythology, he may be a reincarnated Vishnu, but he never claimed so publicly. He claimed to be Vishnu or the omni-present, only during his intellectual dialogue with Arjuna. ❐

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- A devil's advocate should be part of the crisis management team – someone who can tell the emperor in no uncertain terms that he is wearing no clothes.

Stage 5 : Resolving the Crisis

In this stage, speed is of the essence. A crisis simply will not wait. It is like wrestling a gorilla. We rest when the gorilla wants to rest.

Stage 6 : Profiting from the Crisis

The final stage in crisis management is making lemonade from the abundance of available lemons. If the Company has not somehow managed to make the crisis even worse but instead handled the previous five steps flawlessly, the sixth stage of crisis management offers an opportunity to recoup some losses—at least partially—and begin to repair the dislocations.

Conclusions

The notion that one person, sitting atop the Corporate hierarchy, can regularly and successfully guide the daily actions of tens of thousands of individual employees is a pleasant confection created by academics. However, the one aspect of business in which a chief executive's influence is measurable is crisis management. Indeed, the very future of an enterprise often depends on how expertly the CEO handles the crisis.

Crises tend to be highly formative experiences — watershed experiences, sometimes even life threatening experiences—for a business. Nowhere else is the leadership of a Chief Executive more apparent or more critical to the long term prospects of an enterprise than how the CEO manages the crisis.

The bottom line with crisis management can be summed up in just seven words :

Tell the truth and tell it fast. ❐

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The Management Challenges of the 21st Century : An Evolutionary Perspective

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The discipline of Management is on the threshold of radical rethinking. A group of leading business and management thinkers and practitioners assembled in May 2008 to layout a roadmap for reinventing management. The conference was organized by the management Lab with the support of Mckinsy and Company. The well-known management Guru, Gary Hamel, in a thoughtful article in Harvard Business Review, "Moonshots in Management", presents the conclusions of the conference in the form of a list of management challenges of the future. This essay is a brief review of the HBR article in the light of an integral and evolutionary vision of life.

Management at the Cross Roads

Has management as a profession come to a dead-end? In this article under review, Gary Hamel argues that what is called as "modern" management in its traditional form of theory and practice, has reached the limit of its possibilities. The emerging and future world of business and management will bring new challenges which require an altogether different paradigm of management. After an intense debate and discussion, the leading management minds which gathered at the conference organised by Management Lab, charted a list of twenty-five challenges facing 21st century managers and corporate leaders. We cannot reproduce the entire list in this brief review. For the purpose of our present discussion, we may classify the essence of these challenges into four categories :

1. Rethinking the philosophical foundations of management towards a higher and nobler purpose

"Ensure that the work of management serves a higher purpose" is the first in the list of management challenges. Gary Hamel rightly points out that the traditional goal of maximizing shareholder wealth is "inadequate in many respects" because it "lacks the power to fully mobilize human energies." And therefore, "tomorrow's management practices must focus on the achievement of socially significant and noble goal."

However, in the corporate world it is not enough to have noble and inspiriting goals. The company should also be innovative and adaptable. This requires broadening the mental horizons of management with insights from "fields as diverse as anthropology, political science, urban planning and theology." There must also be a radical change in the language and practice of management from mundane and uninspiring terminology or ideals like "efficiency", or "advantage", to "deeper, soul stirring ideals such as honor, truth, love, justice and beauty" which have "long inspired human beings to extraordinary achievements and can no longer be relegated to the fringe of management."

Redesigning the organisation into a more open, democratic and inclusive community

There must be a greater sharing and diffusion of power, knowledge, information into all the members of the organization at every level of the corporate ladder, which means greater empowerment of the people in the lower levels of hierarchy, especially with the front-line employees who are in direct contact with the customer. Strategy-making should move away from a top-down process done and imposed on all by an elite few at the upper levels of the organization towards a bottom-up process which enables every employee to participate in evolving the strategy.

Similarly decision-making, problem-solving and innovation systems of the organization must be able to harness the "collective wisdom of the entire organisation."

2. Rethinking leadership and control towards a more equitable self-managing power-structure

Leaders of the future must be able to create an environment which leads to self-management and self-discipline among the employees rather than an imposed control from about through compliance to rules, or fear of punishment. The leader must be able to create a high-trust culture which unleashes the creativity of people. He or she must rely less on authority or position and more on shared vision, values and purpose. Regarding hierarchy, Gary Hamel states : "The traditional organizational pyramid must be replaced by a natural hierarchy where status and influence correspond to contribution rather than position."

3. Reinventing management education and training towards a more right-brain thinking

The traditional management education and training relies heavily on left-brain thinking, deductive reasoning and analytical thinking. The managers of the future require a different set of skills based on the functioning of the right-brain like holistic or systems thinking, intuitive problem-solving and value-driven decision-making.

The Evolutionary Context

The best minds in management were thoughtful and precise in identifying the management challenges of the 21st century. However there is nothing entirely new in the list of challenges. Most of them are part of the new and emerging paradigm in management, discussed and debated in the growing management literature on this subject. However what is lacking in the discussion is a clear and precise understanding of the change or evolutionary transition which humanity as a whole is going through. In other words, first we have to understand and identify clearly the evolutionary challenges facing future humanity as a whole and, based on this understanding, we have to figure out what will be its implications for business and management.

As the intuitive and evolutionary thinkers like Sri Aurobindo and Teil-hard-de-Chardin have pointed out, the main evolutionary challenge facing humanity is the growth of consciousness from the rational, divisive and analytical consciousness of the mind towards the unitive, holistic and intuitive consciousness of the Sprit. The ultimate goal of this evolution is towards the creation or establishment of a Global Consciousness, wherein humanity discovers its inner spiritual unity. Sri Aurobindo called this higher consciousness as the "Gnostic" or "supra-mental" consciousness and Teil-hard-de-Chardin named it as the "Omega Point" beyond the rational mind. This is the deeper and inner significance of the present trends towards globalisation, which is moving towards, not exactly a global society or a global government, but a global consciousness. The path to this global consciousness is through a system of values, education and culture which leads to a moral, psychological and spiritual development of the individual and collectivity. When this global consciousness expresses itself in the outer life it will lead to a global civilization, governed and united by the principle of a free, rich, harmonious and mutually complementing diversity.

This is the inner imperative of the future evolution of mankind. In the external world, the main thrust of the evolutionary drive of Nature seems to be towards greater distributive justice which means greater diffusion of knowledge, power, wealth and culture into the masses, especially those who are suppressed or exploited in the previous cycles of evolution. This evolutionary thrust is expressing itself in the emerging society through the following movements :

1. Increasing empowerment and participation of woman, with more and more woman entering into the professional world and raising to leadership position.

2. Greater empowerment and participation of those workers in the lower levels of the corporate hierarchy.

3. Thrust towards inclusive growth, economic upliftment of the poorer section of the society, people participation in development, and a greater focus on minorities.

The Integral View

These are the inner and outer evolutionary imperatives of the future. Those individuals or groups, organisations, communities or nations, who are able to successfully achieve or implement this evolutionary transition will gain evolutionary advantage over others and will be the leaders of the future.

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The Influencing Factors on Cash Turnover of National Stock Exchange—An Empirical Study

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Introduction

Until the 1980s, India's development strategy was focused on self-reliance and import substitution. The country faced debt crisis in late 1980s and BOPs crisis in 1990-91. These two problems led to the third one, namely, shortage of investible resources. All this necessitated the Indian government to initiate financial liberalization programmes. Since the beginning of liberalization in 1990s, FII flows to India have steadily grown in importance. The Indian stock market's (both NSE and BSE) volume (i.e., trading value) had really picked up after such opening up of the economy in the early 1990s.

India, which is the second fastest growing economy after China, has lately been a major recipient of foreign institutional investor (FII) funds driven by the strong fundamentals and growth opportunities.

Since the introduction of the reform process in early 1990s, India has witnessed a significant increase in cross-border capital flows, a trend that represents a clear break from the previous four decades post-independence. Net capital inflows increased from $7.1 billion in 1990-91 to almost $18.13 billion (Rs. 82,360 crores) in 2010-11 (up to September 30th 2010).

Strong and positive net investment flows (i.e., gross purchases-gross sales) by FIIs to India in the recent period has reflected the sustained momentum in domestic economic growth (i.e., improvement in GDP numbers), better corporate performance, the positive investment climate, the long-term view on India as an investment destination by all, favourable liquidity conditions and falling interest rates in the global market. Apart from this, the prevailing higher domestic interest rate along with a higher and stable growth rate have created a lower risk-perception and has been attracting higher capital inflows in India.

Thus, India has now become one of the highest net capital flow recipient among the emerging market economies (EMEs) of the world.

The FIIs

An important milestone in the history of Indian economic reforms happened on September 14th 1992, when FIIs were allowed for the first time to invest in all the securities traded on the primary and secondary markets, including shares, debentures, and warrants issued by companies which were listed or were to be listed on the stock exchanges in India, and in the schemes floated by domestic Mutual Funds (MFs).

Schedule 2 of the Regulation 5(2) of Notification No. 20/RB-2000 dated May 3rd 2003, deals with the provisions relating to Portfolio Investment by FIls. An FIl has been defined as an institution organized outside of India for the purpose of making investments into the Indian securities market under the regulations prescribed by the Securities & Exchange Board of India (SEBI). 'FIIs' include "Overseas pension funds, mutual funds, investment trust, asset management company, nominee company, bank, institutional portfolio manager, university funds, endowments, foundations, charitable trusts, charitable societies, a trustee or power of attorney holder incorporated or established outside India proposing to make proprietary investments or investments on behalf of a broad-based fund".

The ceiling for overall investment for FIls is 24 per cent of the paid-up capital (PUC) of any Indian company. The ceiling of 24 per cent for FIIs' investment could be raised up to sectoral cap/ statutory ceiling as prescribed by Government of India (GOI)/Reserve Bank of India (RBI), subject to the approval of the Board and the general body of the company passing a special resolution to that effect.

In recent years, FIIs have displayed a strong appetite for Indian equities (especially in the cash segment) along with MFs (categorized under DIIs) as shown in TABLE I and Fig. 1. The number of FIIs as registered with SEBI has been also in ascendancy as shown in Fig. 2. The FIIs registered with SEBI come from as many as 28 countries (including money management companies operating in India on behalf of foreign investors).

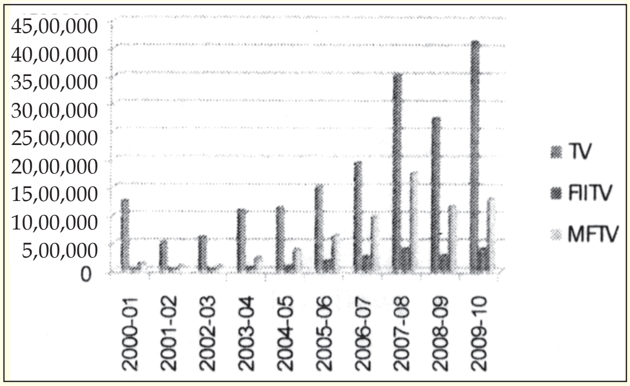

Fig. 1 : A comparative picture of TV, FIITV and MFTV (all amount in Rs. Crores)

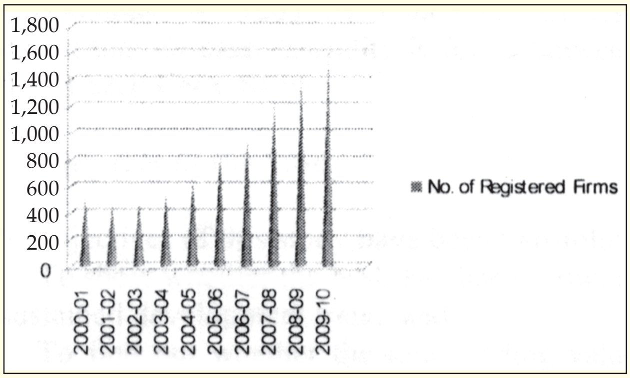

Fig. 2 : Number of FIIs registered with SEBI (Source : SEBI website)

The NSE & S&P CNX Nifty Index

National Stock Exchange (NSE), a more recent establishment which came into existence in 1992, is the largest and most advanced stock market in India. It is also the third biggest stock exchange in Asia in terms of transactions volume (or total trading value, i.e., TV).

The NSE was incorporated with an equity capital of Rs. 25 crores. The International Securities Consultancy (ISC) of Hong Kong helped in setting up of NSE. The promoters of NSE were financial institutions, insurances companies, banks. SEBI Capital Market Ltd., Infrastructure Leasing & Financial Services Ltd., and Stock Holding Corporation of India Ltd. It was set up to strengthen the move towards professionalisation of the capital market; as to provide nation-wide securities-trading facilities to all types of investors.

On April 22nd 1996, NSE launched a new Equity Index 'The NSE-50' (better known as Nifty-50). The base period for the Index is the close of prices on November 3rd 1995, which makes one year of completion of operation of NSE's Capital Market (CM) Segment. The base value of the Index was set at 1,000.

The new Index, which replaces the existing NSE-100 Index, was expected to serve as an appropriate Index for the new Segment of Futures & Options (F&O). S&P CNX Nifty is now a well-diversified 50 Stock Index accounting for 23 sectors of the economy with an aggregate market capitalization (MC) of around Rs. 69,58,534 crores (as on September 30th 2010) from Rs. 1,70,000 crores. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds.

For inclusion in the above Index, the security should have traded at an average impact cost of 0.50% or less during the last six months for 90% of the observations for a basket size of Rs. 2 crores. Companies eligible for inclusion in S&P CNX Nifty should have at least 10% floating stock.

Literature Review

A lot of studies have been conducted on Indian stock markets regarding FIIs investments ([2]-[15]). All these authors studied the impact of FIIs on Indian stock market in terms of return and volatility and came out with diverse views. However, less attention was given to determine the relation of FIIs' investments with other microeconomic variables, such as, market capitalization, total trading value and P/E Ratio of stock market, etc.

Kumar [2006] found a positive relation between FIIs' investments with both market capitalization and total trading value. Tripathy [2007] found no significant relation between FIIs with market capitalization. However, the scope of these studies were limited as time period of all these studies was too short (generally 3 to 5 years' monthly data were taken) and the number of variables used for the analysis purpose was less.

Batra [2003], using both daily and monthly data, tried to understand the trading behaviour of FIIs and returns in Indian equity market. He found strong evidence of FIIs chasing trends and adopting positive feedback and herding investing strategies. However, Batra [2003] had not found FIIs having any destabilizing impact on the equity market.

Chakrabarti [2001] made an empirical investigation to see the interrelationship between FIIs' flows and equity returns in India using monthly data. He came up with the evidence that FIIs' flows are highly correlated with equity returns in India. He also found that FIIs' flows are more likely to be the effect than the cause of these returns, which contradicted the view that the FIIs determine market returns in general.

All the existing studies found that the equity return has a significant and positive impact on the FIIs([18]-[20]).

But, given the huge trading value of investments, FIls could play a role of market-makers and book their profits, i.e., they could buy financial assets when the prices are declining—thereby jacking-up the asset prices and sell when the asset prices are increasing [21]. Hence, there is a possibility of bi-directional relationship between FIIs and equity returns.

On the issue of market stability, Mazumdar [2004] found that FII flows have enhanced liquidity in the Indian stock market. Kumar [2001] inferred that FII flows do not respond to short-term changes or technical position of the market and they are more driven by fundamentals. A study by Panda [2005] also showed that no clear causality is found between FII and S&PCNX Nifty.

Objectives of the Study

The objectives of this study have been two-fold :

- To show whether the NSE has been showing a sustained development trend, and
- To find out whether the total trading value (TV) of S&P CNX Nifty (of Cash Segment) has been most significantly dependent on the FIIs' total trading value (FIITV) or MFs total trading value (MFTV) or S&P CNX Nifty's returns (NR), or a combination of some of the above factors.

Methodology

This study has covered a time period of more than ten years from April 2000 to September 2010 so as to find the sustained development trend of NSE (in some respects) in long-term to eliminate the criticism of short-duration in some above-mentioned empirical studies. Monthly data (in terms of percentage change from the just previous month) on TV. FIITV, MFTV and NR has been collected under this study from different published sources, such as SEBI Annual Reports, NSE Fact Books, India Index Services and Products Ltd. (IISL), BSE Statistics and RBI Bulletin to measure the dependency of TV of Cash Segment of NSE on the influencing factors—FIITV, MFTV and NR.

After such collection, the multiple regression equation has been formed with TV of NSE (Cash Segment) as the outcome (i.e., dependent) variable and FIITV, MFTV and NR as the predictors (i.e., independent variables). It has been hypothesized in this study that all the above predictors have some role to play in influencing TV of NSE. Thereby, multiple regression analysis has been conducted to find out which of the above predictors has the most significant role to play in the improvement or decrease of TV of NSE Cash Segment. The said equation has been solved by putting the relevant data in SPSS and running it properly (see TABLE).

The empirical results are then analysed and discussed with the required validation. In the discussions and concluding remarks of this study the initial observa-tions about the predictors have been critically analysed in terms of multiple regression results (SPSS output) and then the most significant of the influencing factors (i.e., predictors) or a combination of some on the TV of NSE Cash Segment recommended.

The Influencing Factors

The development of stock market is a complex and multifaceted concept. There are various indicators of judging stock market development. One commonly used measure is Value-Traded Ratio (VR), which is the value of total shares traded on a country's stock exchanges (in this study, the NSE Cash Segment) as a percent of GDP. The second measure is the value of total shares traded as a percentage of market capitalization (MC). This Turnover Ratio (TR) measures the total trading value relative to the size of the stock market. The third indicator-Market-Capitalization Ratio (MR), is the market capitalization of listed shares in a stock exchange as a percentage of GDP, measures the size and expansion of the market. VR and TR are considered as the indicators of liquidity.

Turnover/Trading value on stock exchanges reflects the transaction activity of the market players (buyers and sellers) in the stock market. The turnover figures demonstrate not only change in price of shares but also variation in volume/value traded. It is also a sign of size of market and liquidity. The liquidity allows investors to alter their portfolios and cheaply make investment less risky. Thus, it is very significant in judging the efficiency of the stock markets. So, it has been taken as the outcome variable in this study.

It has been observed (see TABLE I) that FIITV leads to improvement or decline in TV of S & P CNX Nifty (i.e., Nifty-50) and its market capitalization in the long-term and on a sustained basis as FIIs (and also MFs) intend to invest on the basis of well-researched strategies and realistic fundamental stock valuation. FIIs have been contributing significantly in TV of Indian stock markets (especially NSE Cash Segment) in comparison to MFs total trading value (MFTV) (see TABLE 1) and other DIIs participants' trading activities. It has also been observed from TABLE I that, except 2008-09, in all other years the net FII investment was positive and generally in an up-move. In the recent times (2005-06 onwards), it has also been observed that FIITV and MFTV have been contributing significantly in TV of NSE Cash Segment. So, both FIITV and MFTV have been taken as predictors in this study.

It has been observed combinedly from TABLE 1 and TABLE II that whenever S&P CNX Nifty Index value was low, e.g., in 2002-03, the Nifty-50 Index value was 978.20—net FII investment was enhanced by 1,602.11 percent (appx.) (i.e., from 2,688.60 to 45,763.00 crores), net MF investment was enhanced by 301.41 percent (appx.) (i.e., from 2,049.80 to 4,128.60 crores), market capitalization (MC) and value of total shares traded in NSE Cash Segment were nearly doubled. The cumulative impact of all the above resulted in 81.14 percent (appx.) (i.e., from 978.20 to 1,771.90 Index value) increase in S&P CNX Nifty Index value (i.e., return) in 2003-04.

Similar evidences were found in 2005-06 and 2009-10 (in most of the cases). So, Index returns have also been taken as predictors in this study.

The Multiple Regression Equation

The output variable and predictors of this study (as stated above) is represented by the multiple Regression equation as given :

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3$$

where

Y = TV

X_1 = FIITV

X_2 = MFTV

X_3 = NR

a = Numerical constant

b_1, b_2 and b_3 = Coefficients

Empirical Results & Discussions

The multiple regression equation as formed is (see the values in TABLE VII) :

$$Y = -0.593 + 0.242X_1 + 0.410X_2 + 0.508X_3$$

It has been found from TABLE II that the NSE's Cash Segment has been showing a sustained development trend in terms of GDP and MC. Although VR was less significant up to 2005-06 in comparison to TR, but, 2006-07 onwards, it has shown an enormous improvement on a sustained basis (VR was more than 45% in all those years). It indicates enhanced liquidity and expansion of NSE size in terms of total trading value which has a positive impact on GDP of India.

During the same period, TR has also shown a steady and sustained increase (TR was more than 55% in all the study years). It signifies improvement in liquidity in Cash Segment of NSE and makes the market trading value-heavy in relation to MC.

The MR also has pointed out that NSE Cash Segment has been becoming expanded in size (steadily increasing from 2002-03 and more than 50% from 2004-05) and importance in terms of economic development of this country. All the above observations pointed out to the fact that the economic and stock market's sustained development have been happening side-by-side and are strictly complementary and dependent on each other.

The results of multiple regression equation have given TV of NSE Cash Segment (i.e., outcome or dependent variable) Variable 00001 status. The predictors (i.e., independent variables) have been given Variable 00002 (FIITV), Variable 00003 (MFTV) and Variable 00004 (NR) (see TABLE III for reference).

It has been found from TABLE VII that FIITV ($b = 0.242$) is significant ($p = 0.000$ and $t = 3.952$) in improving or decreasing the TV of NSE Cash Segment. MFTV ($b = 0.410$) has been found to be most significant ($p = 0.000$ and $t = 6.875$) in contributing toward the TV of NSE Cash Segment. NR ($b = 0.508$) has been also contributing significantly ($p = 0.001$ and $t = 3.412$) in the outcome variable of this study. The standardized beta value of MFTV (i.e., Variable 00003) of 0.509 (see TABLE VII) has also proved the point that this predictor has been the most significant contributor in the overall improvement or decline of TV of NSE Cash Segment.

From TABLE III, it has also been found that TV and FIITV (0.658) and TV and MFTV (0.751) are highly positively correlated. However, TV of NSE Cash Segment has low positive correlation with NR (0.377).

The R value (0.802) in TABLE V has proved that there have been multiple correlations in between the outcome (TV of NSE Cash Segment) variable and the predictors.

The R^2 (i.e., multiple coefficient of determination) measure has shown that 64.3% (i.e., 0.643) (see TABLE V) of the variability of TV of NSE Cash Segment is accounted for the FIITV, MFTV and NR. It means that the probable influencing factors as taken for this study as predictors have been very significant contributors in the improvement or decrease of TV of NSE Cash Segment.

The adjusted R^2 (i.e., adjusted coefficient of determination) has pointed out that if the model of this study was derived from the population rather than a sample it would account for approximately 1.0% (0.643-0.633 = 0.010) (see TABLE V) less variance in the outcome.

The Durbin-Watson statistic has pointed out that as its value (2.012) (see TABLE V) is closer to 2, it has met the assumption of independent errors.

For the model used in this study the F-ratio is 73.169 (see TABLE VI), which is highly significant (p = 0.000).

These results have proved that this model significantly improves one's ability to predict the outcome variable, i.e., the TV of NSE Cash Segment.

Table I — Trading Volume/Value for 2000-01 to 2009-10

(1) Year	(2) Gross FII Purchases (in Rs. Crores)	(3) Gross FII Sales (in Rs.Crores)	(4) Total FII Trading Value (in Rs. Crores)	(5) Net FII Investment (in Rs. Crores)	(6) Gross MF Purchases (in Rs. Crores)	(7) Gross MF Sales (in Rs. Crores)	(8) Total MF Trading Value (in Rs. Crores)	(9) Net MF Investment (In Rs. Crores)	(10) Total Trading (in Rs.Crores)
2000-01	74,050.60	64,116.40	1,38,167.00	9,934.20	17,029.70	19,827.30	36,857.00	(2,797.60)	12,63,898.00
2001-02	49,920.00	41,165.00	91,085.00	8,755.00	12,102.80	15,897.10	27,999.90	(3,794.30)	5,08,121.00
2002-03	47,061.30	44,372.70	91,434.00	2,688.60	14,273.40	16,323.20	30,596.60	(2,049.80)	6,21,569.00
2003-04	1,44,858.00	99,095.00	2,43,953.00	45,763.00	35,644.40	31,515.80	67,160.20	4,128.60	10,90,963.00
2004-05	2,16,953.00	1,71,072.00	3,88,025.00	45,881.00	45,046.40	44,599.00	89,645.40	447.40	11,40,969.00
2005-06	3,43,211.10	2,94,411.40	6,37,622.50	48,799.70	1,00,254.10	86,055.30	1,86,309.40	14,198.80	15,16,839.00
2006-07	5,03,619.80	4,78,383.40	9,82,003.20	25,236.40	1,35,734.80	1,26,814.70	2,62,549.50	8,920.10	19,40,094.00
2007-08	9,08,301.90	8,54,369.50	17,62,671.40	53,932.40	2,16,266.00	1,88,248.30	4,04,514.30	28,017.70	35,19,919.00
2008-09	5,54,585.30	6,02,291.60	11,56,876.90	(47,706.30)	1,44,069.70	1,37,087.50	2,81,157.20	6,982.20	27,49,450.00
2009-10	7,05,522.80	5,95,301.80	13,00,824.60	1,10,221.00	1,95,661.50	2,06,172.90	4,01,834.40	(10,511.40)	41,29,214.00

Source : SEBI Annual Reports, NSE Annual Fact Books

Table II — S&P CNX Nifty Information for 2000-01 to 2009-10

(1) Year	(2) Market Capitalization (MC) (Crores)	(3) GDP (in Rs. Crores)	(4) MC/GDP (in %)	(5) Value of Total Shares Traded (in Rs. Crores)	(6) = (5)/(2) Turnover Ratio (TR)* (in %)	(7) = (5)/(3) Value-Traded Ratio (VR)** (in %)	(8) S & P CNX Nifty Index Value***	(9) S & P CNX Nifty Index Return (in %
2000-01	6,57,847.00	18,95,812.68	34.70%	12,63,898.00	203.62%	66.67%	1,148.20	(24.88%)
2001-02	6,36,861.00	20,80,565.18	30.61%	5,08,121.00	80.58%	24.42%	1,129.55	(1 .62%)
2002-03	5,37,133.00	22,36,190.67	24.02%	6,21,569.00	115.05%	27.80%	978.20	(13.40%)
2003-04	11,20,976.00	27,65,793.24	40.53%	10,90,963.00	98.09%	39.44%	1,771.90	81.14%
2004-05	15,85,585.00	31,26,769.87	50.71%	11,40,969.00	71.90%	36.49%	2,035.65	14.89%
2005-06	28,13,201.00	35,80,502.74	78.57%	15,16,839.00	55.79%	42.36%	3,402.55	67. 1 5%
2006-07	33,67,350.00	41,45,961.59	8 1 .22%	19,40,094.00	57.77%	46.79%	3,821.55	12.31%
2007-08	48,58,122.00	47,23,502.19	102.85%	35,19,919.00	73.09%	74.52%	4,734.50	23.89%
2008-09	28,96,194.00	53,21,929.44	54.42%	27,49,450.00	95.02%	51.66%	3,020.95	(36.19%)
2009-10	60,09,173.00	71,79,418.16	83.70%	41,29,214.00	68.86%	57.51%	5,249.10	73.76%

Turnover Ratio = Value of Total Shares Traded/MC

Source — NSE Annual Fact Books. IISL, RBI Bulletin and NSE Settlement Statistics

** Value-Traded Ratio (VR) = Value of Total Shares Traded/GDP

*** Closing values of S&P CNX Nifty Index are as on last trading day **of the respective** years

Table III
Correlations

		VAR00001	VAR00002	VAR00003	VAR00004
Pearson Correlation	VAR0001	1.000	.658	.751	.377
	VAR0002	.658	1.000	.665	.172
	VAR00003	.751	.665	1.000	.268
	VAR00004	.377	.172	.268	1.000
Sig. (1-tailed)	VAR0001		.000	.000	.000
	VAR00002	.000		.000	.027
	VAR00003	.000	.000		.001
	VAR00004	.000	.027	.001	
N	VAR00001	126	126	126	126
	VAR00002	126	126	126	126
	VAR00003	126	126	126	126
	VAR00004	126	126	126	126

Table IV
Variabls Entered/Removed (b)

Model	Variables Entered	Variables Removed	Method
1	VAR00004 VAR00002 VAR00003		Enter

(a) All requested variables entered

(b) Dependent Variable : VAR00001

Table V
Multiple Regression Results (Model) Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.802(a)	.643	.634	12.71944	.643	73.169	3	122	.000	2.012

Table VI
Anova (b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35,512.509	3	11,837.503	73.169	.000(a)
	Residual	19,737.654	122	161.784		
	Total	55,250.163	125			

(a) Predictors : (Constant), VAR00004, VAR00002, VAR00003

(b) Dependent Variable : VAR0001

Table VII
Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	–.593	1.165		–.509	.612	–2.899	1.713
	VAR0002	.242	.061	.286	3.952	.000	.121	.363
	VAR0003	.410	.060	.509	6.875	.000	.292	.528
	VAR0004	.508	.149	.192	3.412	.001	.213	.803

(b) Dependent Variable : VAR0001

Conclusion

This study has tried to find out the most significant factors on total trading value of NSE Cash Segment out of many probable influencing factors. It has been a limitation of this study that many of such factors, such as domestic interest rates, inflation rates, natural and political factors, international factors, etc. have not been considered under this study.

From the initial information (see TABLE I), it has been observed that FIIs total trading value is much more significant than that of MFs total trading value. But, empirical results have shown that MFs total trading value is a much more significant contributor than FIIs total trading value in improving or decreasing total trading value of NSE Cash Segment.

Though in the existing relevant literature (as mentioned above) there has been mixed results in relating FIIs total trading value with S&P CNX Nifty Index returns, this study has found that FIIs total trading value has very little correlation with S&P CNX Nifty Index returns (see TABLE III). However, S&P CNX Nifty Index returns have significant impact on total trading value of NSE Cash Segment as resulted in this study.

One of the limitations of this study is that all monthly data has only been taken from Cash Segment of NSE. The NSE Debt Segment data and F&O data have been excluded from this study. Inclusion of those data could provide a more precise result and a new dimension on the above subject in the future studies. Not only that, daily data could also provide more authentic results. Time and resource constraints also have made this study less exhaustive. Future studies could also look into the BSE Cash Segment with the above variables. Each of the above influencing factors could be studied separately in a detailed manner to measure their precise impact on the total trading value of NSE Cash Segment. The interrelationships between all these factors could be studied in-depth. Also, fundamental factors, such as, P/E ratio, P/B ratio, etc. of S&P CNX Nifty Index for the study period could give some more interesting insights in this type of study.

In conclusion, it could be pointed out that total trading value of NSE Cash Segment—which is an evidence of market liquidity and size—has been significantly influenced by MFs' total trading value, FIIs' total trading value and S&P CNX Nifty Index returns in that order. ❐

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(contd. from page 1054)

What are the implications of this future evolutionary imperative for business and management?

First, **in the domain of vision, mission and values,** organizations have to discover a higher purpose which can inspire and trigger this higher evolution within the organisation.

Second, **in the domain of Human Resources Development**, there must be a greater attention to the development of the moral, aesthetic, intuitive and spiritual faculties and potentialities of employees which will lead to their higher evolution.

Third, **in the domain of Organisational Development,** creating a corporate environment and culture which felicitates this higher evolution among employees and also helps them to express this inner and higher growth in the outer life. In this task, building consciously an organizational community governed by the values of French Revolution—liberty, equality and fraternity—will be a great help. This means reinventing the values of de mocracy at the organizational level. In this task, the corporate world can perhaps do a better job than the political world because of two reasons: first, in our modern age the world of business is much more dynamic, efficient and innovative, with a much greater capacity for organisation and execution than the world of politics; second it is easier to implement or organise the triple values in the smaller space of an organization than on the larger scale in a nation. However, the key to a practical synthesis of the triple value lies in the third, Fraternity or more specifically an inner fraternity in the mind, heart and soul of people or in other words, unity of consciousness.

Fourth, **in the domain of corporate social responsibility,** there must be a greater integration of the corporation with the community, which means a more creative deployment of the expertise and resources of the corporation for the development of the surrounding community as a whole.

Fifth, **in the domain of sustainability** a more integral attunement of the corporate life with the laws and way of Nature in the physical as well as psychological and spiritual dimensions.

The management challenges presented by Gary Hamel provide a reasonably accurate guide for managers in understanding the problems and possibilities confronting the future of business and management. However, they have to be viewed in a more and evolutionary perspective. The challenges in the five domains which we have outlined earlier provide such a deeper and broader perspective. ❐

Strategic Pricing using Target Costing methodology —Case study of an Indian Auto ancillary company

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Setting of appropriate prices is one of manager's most difficult day to day decisions. The art of price setting depends on the manager's ability to read the market place and anticipate the customer's reaction to the product and its price.

The purpose of this article is to highlight by means of a case study the pricing mechanism adopted by a leading Indian Auto ancillary unit in its price negotiations with a global OEM.

Before venturing into the case study it would be helpful to have an insight into the following aspects

1. Fundamentals of pricing
2. Status of the Indian Auto components industry

Fundamentals of Pricing

Here are some basic principles to keep in mind when considering your pricing strategies :

- Prices must at least cover costs
- The best way to lower price is to lower costs
- Prices must reflect the environment in which they operate.

Any price, whether yours or your competitors', necessarily reflects the dynamics of cost, demand, market changes, competition, product utility, product longevity, maintenance, and end use.

- Prices must be within the range of what customers are prepared to pay
- Prices should be set at levels that will shift products and services and not to beat competitors alone
- The price you set should represent a fair return for your time, talent, risk and investment.

Status of Indian Auto component Industry

A great deal of interest is being shown by global automobile and auto component manufacturers to outsource components from Indian manufacturers. Auto component manufacturers in India are looking to replicate the success of the software sector. What are the reasons for such optimism?

The key trends that are shaping the fortunes of the auto components industry in the export market are :

- Strong engineering skills, high quality and relatively low cost of highly skilled man-power makes India a preferred destination for automakers
- Increasing competitive pressure on global automakers forces them to outsource from low cost manufacturers.

Automobile manufacturers in U.S. and Europe are facing pricing pressure and weak demand. To improve competitiveness, manufacturers are looking to outsource components from countries like India that produce comparable quality components at lower prices. As the global markets continue to face sluggish growth, discounts and attractive finance options are used to attract customers further bleeding the bottom line of automobile manufacturers. The only way to achieve sustained cost reduction is to outsource to countries like India, which has inherent cost advantages. Hence, this trend is expected to help Indian manufacturers in garnering more outsourcing contracts from global automakers.

The presence of leading automakers like GM, Ford, Toyota, and Volvo has also helped Indian auto component manufacturers to improve the quality of components supplied. These components meet global standards and Indian manufacturers are demonstrating that they have the necessary skills to work effectively with global manufacturers. The rising confidence level of global automakers has translated into large orders for components from auto ancillary companies. The strong engineering skills of India's workforce combined with high quality is expected to drive exports business.

Facts of the case

1. Customer Background

Company X is a leading OEM in Germany. Due to high costs in Germany the company is interested in finding an Indian auto ancillary unit for sourcing its Machined casting requirements.

Product

Machined Castings requiring high level of precision and strict dimensional specifications

The plan of Company X is to outsource 70% of its annual requirement and continue sourcing the remaining 30% from its existing German auto component supplier

Customer's Strategic Interest

Finding a low cost Auto component supplier without compromising on quality aspect.

2. Supplier Background

Company Y is one of the pioneers in India in the field of design and manufacturing of Fuel management systems. An impressive track record of over 19 years in this field and a leading supplier to all the 2 Wheeler and 4 Wheeler OEM's in India. State of art manufacturing and R&D facilities with high degree of quality consciousness

3. Company Y's global presence was negligible and, hence, it viewed this opportunity as a ideal platform to launch itself in the European market which till date it had not entered.

4. The product requirements of Company X were compatible with its existing product portfolio.

5. The Product is still in the early stages of its Life cycle and hence the potential over the next 4 – 5 years was immense [projected volume was around 9 lac pieces spread over a 4 year period]

6. Company X had shortlisted Company Y after a rigorous audit of its facilities and capabilities from over 8 companies in India. However, it did not restrict its options to an Indian source alone and was simulta-neously involved in parleys with Chinese companies too.

Given the above scenario the challenge for Company Y was to offer the Machined casting at a competitive price to Company X while, at the same time, not compromising on its quality. The additional challenge, of course, was the threat faced from the Chinese competitor—especially on the cost front.

As the drawing was supplied by the Company X the role of Company Y's R & D was negligible. The relevant departments of Company Y involved in this exercise were

a. Marketing

b. Engineering

c. Pressure die casting (PDC) & Machining

d. Costing

Based on the inputs furnished by PDC & Engineering departments the Initial offer price for the product was fixed at Euro 4.67/piece. The above price was arrived at after providing for a year-on-year reduction of 5% for 3 consecutive years. The cost break up was :

EURO [at Rs 57.50]

			% of SP
1.	Material cost	0.874	18.70
2.	Process costs [Die casting & mc]	1.360	29.10
3.	Tooling cost	0.463	9.90
4.	Interest on Term loan	0.203	4.35
5.	Interest on Working Capital	0.202	4.30
6.	General Overheads	0.295	6.30
7.	Packing	0.130	2.80
8.	Logistics cost	0.696	14.90
	TOTAL COST	4.220	90.35
	PROFIT	0.450	9.65
	INITIAL PRICE QUOTED	4.670	100.00

The customer had not indicated his expected price initially. However post submission of offer from Company Y the customer indicated a **Target Price of Euro 3.85 [on DDP basis]**

Now the communication from the customer's end triggered a series of events that resulted in a combined endeavour of all the concerned departments through formation of a **CROSS FUNCTIONAL TEAM** to identify ways and means to achieve the Target cost.

The following were the results of **GAP ANALYSIS**

1. 3 potential areas were identified for Cost reduction

a. Machining

b. Tooling

c. Logistics

A. Machining

During the course of discussions with the customer it was observed that his current projected costs of machining were high due to use of very advanced Machines. Company Y's cost workings were also based on machining using such advanced technology. However, customer made it abundantly clear that his expectations were for same quality of machining at Lower cost. The challenge before Company Y's engineering team was to find ways and means of achieving the same. The Engineering team was able to come up with a solution that resulted in reducing the Investment required by nearly 75 lacs while at the same time not compromising on the quality front.

Here it is pertinent to note that they did not achieve the reduction by going in for SPMs (Special purpose machines).They managed to reduce cost despite going in for CNC/VMC machines. This was particularly important as it gave Company Y the desired flexibility in operations. (One of the terms of contract was that the customer can change the supplier at 120 days' notice. This being the case and also the end product not being a technologically driven one the management of Company Y decided against investing in SPMs despite the huge projected volumes).

Qualitative & Cost Issues

Particulars	Option 1 Chiron Mc based line	Option 2 Line with minimum use of SPM/cs for Line Line balancing	Option 3 Full fledged SPM Line
Qualitative Factors			
Operational flexibility	Maximum – multiple uses	Flexible – except for a SPM machine	Product specific – least flexible
Quality	Very fine finish minimum tolerance	Good finish – reasonable tolerance	Reasonable finish – provision for tolerance
Cost Issues			
Depreciation	Very high	High	Very low
Interest on capex	Very high	High	Very low
Labour Cost	Least	Less	Higher
Power Cost	High	Medium	Lowest
TOTAL COST OF INVESTMENT	Rs 25 million	Rs 15 million	Rs 6 million

The above exercise resulted in **net reduction of cost by 0.265 Euro.**

B. Tooling

The life of the tool was initially considered at 1 lac shots. The PDC team was assigned the task of increasing the life by at least 25% without significant additional investments or addition to costs. The life of the Tool was increased by 20% & also the rejection levels was reduced significantly by deciding to employ a cost effective method of Vaccum die casting. The increase in number of shots and reduction in rejections more than compensated for the proposed addition of Vaccum die casting technique.

The above exercise resulted in reduction of **0.050 Euro.**

C. Logistics & Packing

The logistics preposition posed a significant challenge to Company Y. This was partly due to the fact that till date all of Company Y's exports were on FOB (Free on Board) basis.

The customer wanted Company Y to quote on DDP basis. [Delivery duty paid]

It was unanimously decided that Company Y would at best settle for DDU [Delivery duty unpaid] basis but not accept DDP basis (This was due to the fact that it would be difficult to envision changes in tax structure of buyer country and provide for the same in the price]

The costing and marketing departments embarked upon extensive negotiations with potential Logistics service providers. Through this a reduction in cost of Logistics to the tune of **.15 EURO** was achieved

However, packing cost reduction was not possible due to extremely stringent requirements of customer.

The net result of the exercise enabled Company Y to achieve a total reduction in cost to the tune of 0.46 EURO [Revised offer price 4.21 EURO]

The stage was set for another round of tough negotiations with the customer. As was to be expected the customer was pretty firm on his stated position of Euro 3.85.

While retaining the lines of communication with the customer it was decided by Company Y to gather some market intelligence about the customer and the rationale behind the price of 3.85 Euro. The local liasoning office of Company X and its personnel were of great help in this regard. The excellent working relationship established by the Marketing team of Company Y proved to be of immense value.

The inputs gathered by the marketing team were

i. The customer was sourcing the part in Germany at 4.68 Euro
ii. His target was to reduce the cost of sourcing by at least 20% which meant a price of 3.90 Euro
iii. Also though he was using the threat of Chinese competitor as a bargaining chip, in reality

Company X was wary of sourcing from him due to Quality issues.

Armed with the above inputs the stage was set for another round of gruelling negotiations.

Further reduction in price was to be decided only in consultation with Top Management.

Additionally the following were identified as potential critical areas for discussions :

I. Safeguards against adverse fluctuation in the price of Raw Material—Aluminium
II. Providing for a mechanism to safeguard against adverse exchange rate fluctuations
III. Cajoling the customer to agree for an annual price reduction of 3% on Selling Price or 5% on Value Addition as against 5 % for 3 years.

The Top Management of Company Y decided on limiting its profit & recovery of general Overheads to 12.5% of SP. This was a conscious decision taken considering the following aspects into account.

1. It offered the company a **chance to penetrate European market** which was in tune with its avowed objective of positioning itself as a global supplier of auto components

2. The product on offer was in tune with its existing technical capabilities

3. The **possible spin-offs** of entering into an agreement with Company X which happens to be a world renowned OEM [long term strategic tie up/ JVs and the chance of entering US markets through the same buyer]

This helped in further reducing the price to EURO 4.06.

Further possibilities of reduction in price by Cycle time improvements and operating on 3 shift basis were considered. However it was decided to not pass on the same to the tune of 0.15 Euro to the customer at this stage.

The customer at this stage agreed to the first 2 proposals of compensating for adverse RM and Exchange rate fluctuation. However, he differed on the quantum of fluctuation. Company Y insisted on +/- 5% as against the offer of +/-10% offered by Company X

Company X, however, flatly refused to negotiate on the question of Year-on-Year price reduction of 5%.

The Management of Company Y decided on sticking to its current position of offer price of 4.06 EURO & a compensatory mechanism for fluctuations beyond 5%. However, it decided to agree for an annual price reduction clause of 5% on SP.

At this stage Company X decided to shift its attention to the potential Chinese supplier.

However, the team at Company Y was pretty confident that the order would be bagged and that this act of negotiating with the Chinese supplier was merely a last throw of the dice to squeeze further concessions from Company Y.

After a further round of negotiations the following was agreed to upon by Company X & Y :

1. FINAL PRICE—EURO 4

2. Compensatory Mechanism for RM & Exchange rate fluctuations : +/- 5% on a Quarterly basis

3. Reduction in terms of payment by 1 month (from 3 to 2 months) by Company X

This round of negotiations was preceded by an in-depth analysis of following factors by Top management team of Company Y :

a. The final Projected investment required for the project

b. Sensitivity analysis — change in volumes, exchange rate & raw material & Logistic cost increases

c. Scenario analysis

d. Payback period of proposed project

Key Learning Outcomes

1. Use of TARGET COSTING as a tool for Pricing Decisions

2. GAP ANALYSIS and its significance

3. Need for interdepartmental cohesion and importance of forming CROSS FUNCTIONAL TEAMS in handling issues

4. Role of MARKET INTELLIGENCE in decision making and need for instituting a mechanism for gathering the same

5. Financial Considerations
a. Projected Investment
b. Payback period & IRR
c. Sensitivity Analysis
d. Scope for continuous cost reduction through VA/VE

6. The relevance of Non-financial decision drivers in the form of
a. Future Expansion plans
b. Flexibility of manufacturing set up
c. Possibility of future orders

7. Possibility of **Niching**—positioning itself as highly Quality-conscious supplier.

8. Importance of Raw material and Ex-fluctuation clauses in final agreement with buyer to cover adverse Cost and Exchange rate fluctuations. ❒

Profitability Analysis of Public Sector Undertaking : A case study of Hindustan Newsprint Limited (HNL)

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Justification of the Topic

News printing paper is an important commodity in the present globalized world. The newspaper printing industry has experienced major changes in the recent years due to the implementation of modern technologies. The Newspaper printing industry plays an important role in Indian industry. Presently India is exporting News printing papers to countries like Singapore, Malaysia, Sri Lanka etc. This industry uses mainly two raw materials, old papers and woods. Due to the implementation of modern technologies like internet, 2G, 3G etc. the rate of increase of use of Newspapers have decreased compared to the rate of increase of population. It will effect the profitability position of these industries. Finance is the base for every activity. So it is very essential to analyze the financial position of News printing paper industry. Against their background a study was conducted about the profits earning capacity of HNL.

Review of literature

The profitability study conducted for 21 U.K. manufacturing companies by Dr. Bhimani (2, 1994) concludes that though performance measures vary according to condition, most of the companies have a tendency to follow financial performance indicators. Moreover investors, lenders, bankers, board members etc rely on financial measures like profit, returns on capital, turnover, cash flow etc. In other words, variety of financial and non-financial performance measures, constitutes an important element of decision making, and need to be used appropriately by the manufacturing sector. Considering the difference in the adoption and availability of technologies in India and U.K. the present study has opted to rely on most popular financial measure of performance of an industry, viz. Rate of return.

Objectives of the Study

This study has the following objectives :

- To study the significance of profitability by selecting a few important parameters such as Gross Profit, Net Profit, Operating Profit (EBIT), Return on Investment (ROI), Return on capital employed (ROCE), and Earnings per share (EPS).
- To examine the earning capacity of a sample company and testing significance of correlation by students T-test.
- To assess the critical factors which affect the profitability of HNL.
- To give some suggestions for the betterment of the earnings on the basis of findings of the study.

Company Profile

Hindustan Newsprint Limited (HNL), located at Velloor in Kottayam District in Kerala, is a Government of India (Central Public Sector) Enterprise under the administrative jurisdiction of the Department of Heavy Industry, Ministry of Heavy Industries and Public Enterprises. HNL was incorporated as a wholly owned subsidiary of the Hindustan Paper Corporation limited (HPC) on June 07, 1983.

HNL produces exceptional quality newsprint for the Indian and International market, which is comparable with the best in the global market. The company has an installed capacity of 1,00,000 MT per annum for producing 49 and 45 GSM newsprint. HNL, with its state-of-the-art technology, has emerged as a company that is truly contemporary, within a short span of operation, and today caters to the requirement of all major News Dailies.

In 1998, HNL became one of the first newsprint manufacturers in the country to achieve the coveted ISO-9002 certification. The Quality Management System has been recertified to ISO 9001: 2000 in November 2002. HNL is also certified to ISO 14001: 1996, in October 2000 for its Environment Management System. The EMS was recertified in 2003. HNL has been awarded with Occupational Health and Safety Assessment System(OHSAS 18001:2007) certification from Bureau Veritas Certification (India) Private Limited in July 2008.

Limitations of the Study

The following are the limitations of the study :

1. The study covers only 10 years' period i.e. 1999-2000 to 2008-2009 for the profitability analysis of HNL Ltd.
2. The secondary data used in this study have been taken from published annual reports only.
3. As per the requirement and necessity some data have been grouped and sub-grouped.
4. For making the analysis of profitability position of HNL, ratio analysis techniques of Financial Management have been used.

Research Design and Methodology

In this study the sample company named HNL has been taken for analysis of profitability. Present study is based on secondary data i.e. Published Annual Reports of the company. These financial data are classified, tabulated and edited as per the requirement of the profitability analysis of the company. This study has covered 10 years' data from 1999-2000 to 2008-2009 for the analysis of profitability position of HNL.

The profitability position and earning capacity of HNL have been analyzed by financial techniques i.e. Ratio Analysis. The collected data have been analyzed by the following ratios :

Analysis of Profitability :

- Gross Profit Ratio
- Operating Profit Ratio
- Net Profit Ratio
- Return on Investment (ROI)
- Productivity Ratio
- Return on Net Worth (RONW)
- Earning Per Share (EPS)
- Operating Cost Ratio (OCR)

For assessing the behavior of above ratios, **Statistical techniques** have been used i.e. Arithmetic Mean, Standard Deviation, Coefficient of Correlation and Student t-test.

Hypothesis of the Study

This study is based on the following hypotheses :

- The profitability position of HNL is similar during the study period.
- The profitability position will depend upon the total investment of the company instead of their turnover.

Analysis of Profitability Position of HNL

The profitability of HNL haves been analyzed by ratio analysis techniques. In these techniques, we have used various ratios for judging the overall efficiency and profitability position of the company. In this regard we have to calculate the following ratio :

Gross Profit Ratio
Net Profit Ratio
Operating Profit Ratio
Productivity Ratio
Return on Investment (ROI)
Return on Net Worth (RONW)
Earning Per Share
Operating Cost Ratio (OCR)

Gross Profit Ratio

The gross profit ratio reflects upon the efficiency with which a management produces each unit product. The difference between the net income from sales and costs directly involved in goods sold on the cost of sales in known as gross profit. A higher ratio is a sign of good management as it means that the cost of production is relatively lower as compared to the income.

The Gross Profit is calculated as

$$= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

Table 1

Statement of Gross Profit to Net Sales (Rs in lakhs)

Year	Gross Profit (Rs.)	Net Sales (Rs.)	Gross Profit Ratio (%)
1999 – 2000	10723.43	21249.06	50.47
2000 – 2001	13774.60	25335.59	54.37
2001 – 2002	14173.25	23375.95	60.63
2002 – 2003	10495.16	21457.00	48.91
2003 – 2004	15666.56	25267.61	62.00
2004 – 2005	16559.92	27393.28	60.45
2005 – 2006	18647.71	30296.34	61.55
2006 – 2007	19696.62	31519.50	62.49
2007 – 2008	16885.69	29860.84	56.55
2008 – 2009	20313.86	29767.37	68.24
Mean	15693.68	26552.25	**58.57%**
Growth Rate	89.43%	40.08%	**35.21%**
Annual Growth Rate	8.94%	4.01%	**3.52%**

Source : Annual Reports of HNL from 1999-2000 to 2008-2009

The above Table 1 shows the Gross Profit Ratio was between 50% - 70%. The highest Gross Profit Ratio 68.24% was in the year 2008-2009 and the least ratio of 48.91% was in the year 2002-03. The Gross Profit Ratio increased constantly with a 5% increase in the first three years. Then it decreased by 12% to 48.91%. The year 2004-2007 showed a consistency of around 61%. In the year 2007-2008 it decreased to 56.55% and it increased to the maximum in the year 2008-09. So HNL is in a good position with an average Gross Profit Ratio of 58.57%.

Operating Profit Ratio (OPR)

Operating Profit Ratio shows the percentage of pure profit earned on every rupee of sales made. Operating profit ratio is calculated before considering any financial charge, non-operating income/loss and tax liability etc.

Operating profit ratio can be calculated as :

$$= \frac{\text{Earnings before interest and tax (EBIT)}}{\text{Net Sales}} \times 100$$

Table 2

Statement of Operating Profit to Net Sales (Rs in lakhs)

Year	EBIT (Rs.)	Net Sales (Rs.)	Operating Profit Ratio (%)
1999 – 2000	720.65	21249.06	3.39
2000 – 2001	3035.38	25335.59	11.98
2001 – 2002	644.80	23375.95	2.76
2002 – 2003	–754.51	21457.00	-3.51
2003 – 2004	822.69	25267.61	3.26
2004 - 2005	954.00	27393.28	3.48
2005 - 2006	2736.54	30296.34	9.03
2006 - 2007	4507.95	31519.30	14.30
2007 - 2008	1809.93	29860.84	6.06
2008 - 2009	2109.53	29767.37	7.09
Mean	1658.69	26552.23	**5.78%**
Growth Rate	65.84%	28.67%	**109.1%**
Annual Growth Rate	6.58%	2.87%	**10.91%**

Source : Annual Reports of HNL from 1999-2000 to 2008-2009

The above Table 2 gives the relationship between Operating Profit and Net Sales. During the period of study highest ratio of 14.30% was in the year 2006-07 and the least of -3.51 was in the year 2002-03. Highest increase of 8.59% was in the year 2000-01. In 2001-02 operating profit ratio decreased by 9.22%. Then it increased to 9.03% and 14.30% in the years 2005-06 and 2006-07, respectively. During the last two years it decreased to 6.06% and 7.09%, respectively. During the period of study, Operating Profit Ratio had an average of 5.78%.

Net Profit Ratio

Net Profit Ratio establishes a relationship between Net Profit and Net Sales. A high net profit ratio will reveal an advantageous position in the face of falling sale price, rising cost of production or declining demand for product.

Net Profit Ratio can be calculated as :

$$= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Table 3

Statement of Net Profit to Net Sales (Rs. in lakhs)

Year	Net Profit (Rs.)	Net Sales (Rs.)	Net Profit Ratio (%)
1999 – 2000	317.13	21249.06	1.49
2000 – 2001	1619.98	25335.59	6.39
2001 – 2002	407.23	23375.95	1.74
2002 – 2003	– 488.91	21457.00	– 2.27
2003 – 2004	502.46	25267.61	1.99
2004 – 2005	421.55	27393.28	1.54
2005 – 2006	1568.11	30296.34	5.18
2006 – 2007	3192.31	31519.30	10.13
2007 – 2008	1153.69	29860.84	3.86
2008 - 2009	1263.56	29767.37	4.24
Mean	995.71	26552.23	**3.43%**
Growth Rate	298.44%	40.09%	**184.56%**
Annual Growth Rate	29.84%	4.01%	**18.46%**

Source : Annual Reports of HNL from 1999-2000 to 2008-2009

The above Table 3 shows the ratio of Net Profit as a percentage of Net Sales. The highest Net Profit Ratio of 10.13% is in the year 2006-07 and the least was in the year 2002-03 with a Net Profit Ratio of –2.27%. In 2002-03 the ratio turned to negative value from 1.74. The highest increase of 5% was observed in the years 2001 and 2007, respectively. HNL showed a fluctuating Net Profit Ratio with an average Net Profit of 3.43%.

Return on Investment (ROI)

It indicates the percentage of return in the business. A high Return on Investment shows the company is having a higher rate of profit as percentage of capital employed. It is calculated as :

$$= \frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$$

Table 4

Statement of Operating Profit to Capital Employed (Rs. in lakhs)

Year	Net Operating Profit (Rs.)	Total Capital Employed (Rs.)	Return on Investment (%)
1999 – 2000	720.65	21507	3.35
2000 – 2001	3035.38	21792	13.99
2001 – 2002	644.80	19379	3.33
2002 – 2003	–754.51	23989	– 3.15
2003 – 2004	822.69	25576	3.22
2004 – 2005	954.00	25608	3.73
2005 – 2006	2736.54	26605	10.29
2006 – 2007	4507.95	26295	17.14
2007 – 2008	1809.93	26857	6.74
2008 – 2009	2109.53	28775	7.33
Mean	1658.69	24638.3	**6.58%**
Growth rate	192.73%	33.79%	**116.86%**
Annual Growth Rate	19.27%	3.38%	**11.69%**

Source : Annual Reports of HNL from 1999-2000 to 2008-2009

The aboveTable 4 indicates the relationship between Net Operating Profit before Interest and Tax as a percentage of Total Capital employed. HNL showed a fluctuating Return on Investment ratio throughout the years. The highest Return on Investment of 17.14% was in the year 2006-2007 and the least ratio of -3.14% in the year 2002-03. During the study period highest three ROCE was observed in the years 2000-2001, 2005-2006 and 2006-2007. The ROI showed a consistency of around 3.2% in the years 1999-00, 2001-02, and 2003-04. During the study period HNL showed an average ROI of 6.58%.

Productivity Ratio

This ratio is ascertained to find out the profit-earning capacity of the companies. The ratio indicated that whether the profit earned is satisfactory or not looking to the total assets of the business. The ratio is calculated as :

$$= \frac{\text{Gross Profit}}{\text{Total Assets}} \times 100$$

Table 5

Statement of Gross Profit to Total Assets (Rs. in lakhs)

Year	Gross Profit (Rs.)	Total Assets (Rs.)	Productivity Ratio (%)
1999 – 2000	10723.43	21598.48	49.65
2000 – 2001	13774.60	22506.82	61.20
2001 – 2002	14173.25	22245.62	63.71
2002 – 2003	10495.16	24795.04	42.33
2003 – 2004	15666.56	26395.31	59.35
2004 - 2005	16539.92	26437.71	62.64
2005 - 2006	18647.71	26795.96	69.59
2006 - 2007	19696.62	26578.82	74.11
2007 - 2008	16885.69	28133.71	60.10
2008 - 2009	20313.86	30487.51	66.63
Mean	156916.8	255975	**60.92%**
Growth Rate	89.43%	41.16%	**34.20%**
Annual Growth Rate	8.94%	4.17%	**3.42%**

Source : Annual Reports of HNL from 1999-2000 to 2008-2009

The above Table 5 indicates the relationship between Gross Profit as a percentage of Total Assets (fixed assets and current assets) of the company. The highest Productivity ratio of 74.11% was in the year 2006-2007 and the least ratio of 42.33% in the year 2002-03. The highest increase of 17% was in the year 2003-2004. The company showed a production ratio of 49% to 74% during the period of study, except 42.33% in the year 2002-2003. It shows a better utilization of the assets of the company for production of units. The ratio showed a decreasing trend towards the last two years. Compared to other ratio production ratio showed a lower fluctuation tendency with an average ratio of 60.92%.

Return on Net Worth (RONW)

Return on Net Worth is the relationship between Net Profit (after tax and Interest) with share holder's fund. Net worth includes equity share capital, preference share capital, and free reserves – accumulated losses. This ratio is one of the most important ratios used for measuring the overall efficiency of firm

$$= \frac{\text{Net Profit after Interest and Tax}}{\text{Net Worth}} \times 100$$

Table 6

Statement of Net Profit to Net Worth (Rs. in lakhs)

Year	Net Profit after Interest and Tax (Rs.)	Net Worth (Rs.)	RONW (%)
1999 – 2000	317.13	20950.00	1.51
2000 – 2001	1619.98	21620.00	7.49
2001 – 2002	407.23	18920.00	2.65

(contd.)

(contd.)

Year	Net Profit after Interest and Tax (Rs.)	Net Worth (Rs.)	RONW (%)
2002 – 2003	–488.91	18300.00	–2.67
2003 – 2004	502.46	18701.00	2.69
2004 - 2005	421.55	19016.00	2.22
2005 - 2006	1568.11	19762.00	7.93
2006 - 2007	3192.31	21569.00	14.80
2007 - 2008	1153.69	23884.00	4.83
2008 - 2009	1263.56	23977.00	5.27
Mean	995.71	20669.9	**5.16%**
Growth Rate	298.44%	14.45%	**249%**
Annual Growth Rate	29.84%	1.45%	**24.9%**

Source : Annual Reports of HNL from 1999-2000 to 2008-2009

The Table 6 indicates Net Profit as a percentage of Total Net Worth. The highest ratio of 14.80% was observed in the year 2006-2007 and the least of -2.67% in the year 2002-2003. The highest increase of 6.73% was in the year 2006-2007. The ratio turned negative by decreasing to -2.67% in 2002-03. During the period of study Return on Net Worth showed a high degree of fluctuation. Return on Net Worth show as a consistency of 2.65% during the period 2003 -2004 and 2004-2005. The average value of Return on Net Worth was 5.16% during the period of study.

Earning Per Share (EPS)

The EPS is used for determining the market price of the equity shares of the company. A comparison of earning per share of the companies with another will help in deciding where the equity share capital is being effectively used or not. It helps in estimating the company's capacity to pay dividend to its equity share holders. The EPS can be calculated as :

$$= \frac{\text{Net Profit after tax, Interest and Preference dividend}}{\text{No. of Equity Shares}}$$

Table 7

Statement of Earning per Share (Rs in lakhs)

Year	Net Profit after Tax (Rs.)	No of Equity Shares	EPS
1999 – 2000	317.13	1650.80	0.19
2000 – 2001	1619.98	1650.80	0.98
2001 – 2002	407.23	1650.80	0.25
2002 – 2003	– 488.91	1650.80	– 0.29
2003 – 2004	502.46	1650.80	0.30
2004 – 2005	421.55	1650.80	0.26

(contd.)

(contd.)

Year	Note Profit after Tax (Rs.)	No of Equity Shares	EPS
2005 – 2006	1568.11	1650.80	0.95
2006 – 2007	3192.31	1650.80	1.93
2007 – 2008	1153.69	1000.00	1.15
2008 – 2009	1263.56	1000.00	1.26
Mean	995.71	1520.64	**0.756**
Growth Rate	298.44%	–39.42%	**563.16%**
Annual Growth Rate	29.84%	–3.94%	**56.32%**

Source : Annual Reports of HNL from 1999-2000 to 2008-2009

The above Table 7 shows the relationship of Net Profit to the Number of Equity shares. In the year 2000-01 it increased to 0.98 from 0.19 in 1999-2000. The highest EPS of 1.93 was in the year 2006-2007 and the least of –0.29 was in the year 2002-2003. EPS was in the range 0.25–0.30 from 2001–2002 to 2004–2005. EPS of above 1 per share was in the year 2007-08 and 2008-09. During the period of study, EPS had an average of Rs. 0.76 per share.

Operating Ratio (OCR)

The ratio indicates operational efficiency of a concern. The object is to establish relationship between Cost of Goods Sold (COGS) to Net Sales in controlling the production costs. The ratio can be calculated as :

$$= \frac{\text{Operating Costs}}{\text{Net Sales}} \times 100$$

Table 8

Statement of Operating Cost to Net Sales (Rs. In lakhs)

Particulars	Operating Cost (Rs.)	Net Sales (Rs.)	OCR (%)
1999 – 2000	19656.50	21249.06	92.50
2000 – 2001	23448.25	25335.59	92.55
2001 – 2002	24265.48	23375.98	103.81
2002 – 2003	21985.90	21457.00	102.46
2003 – 2004	24725.94	25267.61	97.85
2004 – 2005	26754.37	27393.28	97.66
2005 – 2006	27812.92	30296.34	91.80
2006 – 2007	27323.88	31519.30	86.69
2007 – 2008	28572.04	29860.84	95.68
2008 – 2009	32619.45	29767.37	109.58
Mean	25716.47	26552.24	**97.06%**
Growth Rate	65.95%	40.09%	**18.46%**
Annual Growth Rate	6.595%	4.01%	**1.85%**

Source : Annual Reports of HNL from 1999-2000 to 2008-2009

The Table 8 indicates the relationship between Operating Costs as a percentage of net sales. A higher ratio indicates lower efficiency in production and lower rate indicates higher efficiency in production. HNL had a highest OCR ratio of 109.58% in the year 2008-09 and lowest of 91.80% in the year 2005-06. OCR of above 100% was observed in the years 2001-02, 2002-03 and 2003-09, respectively, which shows higher production cost than the amount of sales.

Standard Deviation, Co-Variance and Arithmetic Mean

Arithmetic Mean (AM) is one of the most popular and widely used measure of representing the entire data by one value i.e. average.

Standard Deviation (SD) is a popular measure of dispersion. The Standard Deviation measures the absolute dispersion or variability of distribution. A small standard deviation means higher uniformity among the observation.

Coefficient of Variation (CV) is the relative measure of dispersion. Coefficient of variation is used when the variability of two or more series has to be compared. A high value of coefficient of variation indicates high variability and viceversa.

Table 9

	GPR	NPR	OPR	ROCE	RONW	Prod. Rate	EPS
SD	5.95	3.37	5.92	9.69	7.05	9.24	0.59
CV	10.15	98.4	8.91	1.00	9.26	15.17	77.6
AM	58.57	3.43	6.65	9.73	7.73	60.92	0.76

The Table 9 indicates the AM, SD and CV of the observations. Highest mean of 60.92 was observed in production ratio and the least in EPS. Highest variability of 9.69 was observed in ROCE, which means a higher degree of variability and the lowest variability of 0.59 was observed in EPS. The CV of NPR was the highest with 98.36 and the lowest variability of 1.00 in ROCE.

11. Correlation(r) and Student t-Test

Coefficient of Correlation (r) is a mathematical method of measuring correlation. It gives the degree of relationship between two variables. The values of r lies between + 1 and – 1 when r = 1, means perfect positive correlations, r = –1 means perfect negative correlation, r = 0 means no relationship between the variables. r can be calculated as :

Student's t–Distribution is a small test used for testing of hypotheses of sample size less than 30. If the calculated value of t is less than the table value. The null hypotheses will be accepted and viceversa; for a given significance level. It can be calculated as :

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

r = Coefficient of Correlation

n = No. of Observations

Table 10

Significance of Co-efficient of correlation "r" and Student's t-Test

Particular	N.P. to N.S	O.P. to C.E.	N.P. to N.W.
Correlation	0.78	0.34	0.51
Calculated value of t	3.56	1.02	1.68
Table Value of t	3.35	3.35	3.35
Significant	No	Yes	Yes
Level	1%	1%	1%

The Table 10 indicates the Correlation and student t-test value. Highest positive correlation of 0.78 is between Net Profit and Net Sales and least positive correlation of 0.34 is observed between O.P. and C.E., N. P. and N.W. showed only an average positive correlation. When student's t-test was applied at 1% of significant level, calculated value was more than table value, i.e. alternative hypothesis was accepted.

Findings and Conclusions

Following are the main conclusion of profitability analysis of HNL :

1. Gross Profit Ratio of the company was positive and showed a increasing trend throughout the study period. The rate of increase was lesser in the middle years. It was found that the Gross Profit Ratio was sound of HNL. An average Gross Profit Ratio of 58.57% indicates that the company was able to control on direct expenses of the business.

2. Operating profit ratio of the business is not satisfactory, because the average ratio of 5.78% is much below the nominal rate or the bank rate. Increase in Indirect expense and decrease in Sales is responsible for lower Operating Profit Ratio. The rate of increase expenses was higher compared to increase in sales, which is not a sign of good operational efficiency.

3. HNL's Net Profit Ratio is not satisfactory for the business, because its average of 3.48% is not worthwhile for the organization. The rate of increase of Net Profit Ratio to Turnover was less during the last five years, which indicates lesser return on investment inside and outside the business. The increase in production cost had a major impact on

the Net Profit Ratio of the company. But Net Profit position were not found good, due to uncontrolled on indirect expenses like power and fuel, repair and maintenance etc

4. HNL did not have a good return on investment, as its average ROI of 6.58% is much lower than the nominal rate or the bank rate. Increase in production cost had a great impact on the ROI of the business. Uncontrolled use of indirect expense has resulted in lower return on investment.

5. Productivity ratio was positive throughout the study period. It had a range of 50%-60% for the first 9 years and the highest ratio of 74% was in the last year 2008-2009. HNL had a better utilization of Total Assets during the study period. Production ratio had a good average of 60% during the period of study. It shows a better utilization of the assets of the company for production of units, but it should be more strengthened to increase earnings capacity of HNL.

6. RONW had a positive trend except in the year 2002-2003. 2002-2003 showed a negative indication to the shareholders, whereas 2006-2007 showed a good indication to the shareholders with the highest value of 14.8%. In the last two years had a decreasing trend. RONW is very much below nominal expectation of the shareholders of HNL. During the period of study RONW had an average value of 5.16%, which is not a good sign for the shareholders of the company.

7. EPS had a positive trend except in the year 2002-2003. Equity shareholders had an EPS of above Re. 1 per share during the last three years. During the last years EPS showed an increasing trend, but value of EPS is very much below the expectation of shareholders. Average EPS of Re 0.78 per share shows that shareholders are not getting even Re.1 per share they invested, which is very dangerous.

8. Operating Cost Ratio of HNL was high with an average of 97.06% throughout the period of study. In the last year 2008-09 production cost ratio was highest with 110%. High Operating Ratio is very dangerous for the survival of the company. HNL had an continuously increasing production ratio, due to uncontrolled cost and expenses like Selling and Distribution Expense, Administrative Expense, Cost of Production etc. Operating Cost Ratio had a great impact on decrease in value of other ratios. Production cost should be controlled to increase the profitability.

9. SD showed highest variability in ROCE with 9.69 and the least 0.596 in EPS. It shows a good sign to the equity shareholders and a lesser uniformity in ROCE. Productivity of investment showed a fluctuating trend during study period. Among all profitability Ratios' highest variability was shown by Net Profit Ratio with covariance of 98.36 and least by ROCE with CV of 1.00.

10. Correlation between N.P. to N. S., N.P. to RONW and O.P to C.E was positive. It shows a positive correlation. Highest correlation of 0.78 was observed between N.P. to Net Sales, which is a sign of good degree of relation between N.P. and N.S. Low positive correlation of 0.34 was observed between O.P and capital employed. Student's t-test at 1% significant level showed significance in O.P. to C.E. and N.P. to RONW. The calculated value of t in O.P. to C.E. was 1.02 which is less than table value of 3.35. Hence, null hypothesis accepted i.e. no relation between O.P. and C.E. Also the calculated value of t in N.P to RONW is less than table value. Hence, null hypothesis is accepted i.e. no relation between Net Profit and RONW. In case of N.P to N.S., calculated value of t was more than table value. Hence, the alternate hypothesis was accepted i.e. there is relation between Net Profit and Net Sales.

By the observations of this study, it is found that the Gross Profit was sound of HNL and the Company was able to control direct expenses of the business. But Net Profit position was not found good, due to uncontrolled indirect expenses like power and fuel, repair and maintenance etc. The overall position of HNL is not satisfactory and it gives indication of alar—it should be improve its overall performance by reducing expenses, increasing sales and adopting advanced new technology. HNL requires a strong control on Cost of production, Administrative expenses and Selling and Distribution expenses of the company. In global market it is very difficult to compete with similar companies. It can compete by reduction in cost of production. Although the profitability position of HNL is good, there is a need of improvement. HNL is a PSU organization and, not only PSU, it is also a Miniratna company among PSU. It can improve its efficiency only by control and cost reduction of its business. After the analysis of various data, it is clear that profitability more or less depends upon the better utilization of resources and to manpower. It is worthwhile to increase production capacity and use advance technology to cut down cost of production and wage cost in order to increase profitability, not only against the investment, but also for investors' return point of view. These programs are helpful to increase profitability of the company in future prospects. If the management or government does not look into it seriously, it can result in loss of jobs and the company will become a sick unit. ❐

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In case of any **change in the professional address and other particulars**, the same is to be intimated by furnishing a duly filled in and signed Professional Development Information Form given below to :

Shri Vivek Agarwal
Deputy Director
The Institute of Cost and Works Accountants of India
12, Sudder Street, Kolkata – 700 016.

The signed intimation may also be sent by fax to no. 033-22521723.

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Date………………..

Please return this Form duly filled in and signed to :

Shri Vivek Agarwal
Deputy Director
The Institute of Cost and Works Accountants of India
12, Sudder Street
Kolkata – 700 016.

for inclusion in the **"List of Members Holding Certificate of Practice."**

Name ……………………………………………………………………………………

……………………………………………………………………………………

Qualification ……………………………………………………………………………………

Professional ……………………………………………………………………………………

Address ……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

Telephone
Number(s) Office : ……………………………………………………………………………

Residence : ……………………………………………………………………………

Mobile : ……………………………………………………………………………

Fax Number ……………………………………………………………………………………

E-mail Address ……………………………………………………………………………………

(Signature of Member)

Membership No ……….…..

FOR ATTENTION OF MEMBERS

PROCEDURE FOR CHANGE OF ADDRESS & OTHER PARTICULARS

Members are requested to check their status from the option **Members -> Login (by giving your user name and password)** from the website www.icwai.org and inform the Institute with respect to the following:

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

ANNEXURE I

Format "A"

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

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

FORMAT "B"

	CHANGE OF ADDRESS IN THE JOURNAL MAILING LIST			
IN BLOCK LETTERS	NAME IN FULL :			
	MEMBERSHIP NO. :			
	QUALIFICATION :			
	ADDRESS :			
	CITY :			
	STATE			
	PIN CODE :			
	SIGNATURE OF MEMBER :		DATE :	

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

Guidelines for Payment of Membership Fee at Reduced Rate

Eligibility :

A member of the Institute may obtain approval for payment of membership fee at a reduced rate by making an application to the Secretary in plain paper declaring that :

1. His age is 60 years or above.
2. He is not engaged in any gainful employment or not in practice.

Evidence :

The member concerned is required to produce evidence to the satisfaction of the Institute of his age and retirement.

Fees :

Upon approval from the Institute to pay membership fee at reduced rate, the member concerned shall pay a reduced annual membership fee as under :

Associate Member : One fourth of annual membership fee, i.e. Rs. 125/-.

Fellow Member : One fourth of annual membership fee, i.e. Rs. 250/-.

Members who have attained 60 years of age or above may send a signed application in plain paper to the Secretary, The Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700 016 with the following declarations in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959 to the effect that they :

1. Have attained the age of 60 years or above;
2. Are not engaged in any gainful employment or not in practice.

The following clarifications are given in this context :

1. If a member is engaged in any occupation during a part of a financial year (i.e. 1st April of a year to 31st March of the next year) by way of employment, practice or any other manner, he will be required to pay full amount of membership fee pertaining to that financial year.

2. A member desirous of paying membership fee at reduced rate with retrospective effect shall be permitted to do so subject to fulfillment of other conditions in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959. If the name of a member is removed from the Register of Members for non-payment of fees but otherwise fulfils the conditions in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959, he shall also be permitted to pay membership fee at reduced rate with retrospective effect, but will have to pay additional fee of Rs.500/- for restoration and submit appropriate form in terms of Regulation 17 of the Cost and Works Accountants Regulations, 1959.

For Attention of Members & Applicants

The following application forms have been revised by the Council :

1. Form of Application for Admission as Associate/Fellow Member.
2. Form of Application for the Issue or Renewal of a Certificate of Practice.
3. Form of Application for Particulars of Offices and Firms.
4. Form of Application for Restoration to Membership of The Institute of Cost And Works Accountants of India.

The members and applicants concerned are requested to visit our website www.icwai.org and download the aforesaid forms from the link: http://www.members.icwai.org/members/members-forms.asp.

Your Heath And Convenience Is Paramount – ICWAI join hands with SRL

Now You Do Not Have To Fast For Your Health Screen And Do Not Have To Go To Lab For Your Health Check.

SRL Brings Non-Fasting Package @ Your Premises On Discounted Rates.

xcept for the first hours in the early morning, most individuals are in the non fasting state most of the me. The requirement for fasting, or the protocol of not eating or drinking anything for 8 to 12 hours before king the test, sometimes becomes a restriction, and makes us avoid taking the test and we usually avoid aring for our Health – Our Biggest Asset. ***SRL - Non Fasting Package*** has been designed keeping the onvenience in mind and with a focus on the utility of the selected investigations in screening for commonly prevalent diseases. References are available and have been thoroughly evaluated by our expert team of doctors.

Why Non Fasting Package?

- You don't have to get up early morning
- You don't have to be fasting
- You can give the samples at any time of the day
- Relevant and researched parameters are included in this package
- This package screens for all major organs of the body
- This package can be done while you are working, at college or at office

RELIGARE SRL Diagnostics
Super Religare Laboratories
Trusted by Millions

Either/All of the following reasons would support the choice of the tests included:

- Tests for which the already existing accepted protocol is either the non - fasting or fasting state.
- Tests whose efficacy is relatively unaffected when conducted non - fasting. (Supported by studies and research papers)
- One specific test (Triglyceride) has been included because of the growing body of research supporting the utility of post meal or non fasting triglyceride levels in being an independent marker for the risk of developing cardiovascular disease.
- Tests which have a specific screening & preventive nature
- Tests which have medical literature available which specifically supports either or all of the above

Non Fasting Package-Over 35 Tests
General : CBC (Red Blood Cell Count, Haemoglobin, Haematocrit, Mean Corpuscular Vol, Mean Corpuscular Hb, Mean Corpuscular Hemoglobin (Concentration. Red Cell Distribution Width, Platelet Count, Mean Platelet Volume, White Blood Cell Count. WBC Differential Count, Neutrophils, Eosinophils, Lymphocytes. Monycytes, Basophils, Band (Stab Cells), URINE R. BLOOD GROUP ABO & RH, VDRL
Diabetic Screen : RBS, HBAIC
Cardiac Screen : DIRECT LDL, HsCRP, TRIGLYCERIDE (NF)
Renal Screen : BUN, SCREATININE, S CALCIUM, S PHOSPHOROUS
Liver Screen : SGOT, SGPT, GGT, HBsAG, S BILIRUBIN
Thyroid Screen : T3, T4, TSH

SRL offers special discounted rates for members, employees, students and families of ICWAI.

SRL will be happy to organize onsite camps at your locations
For bookings, please contact:

Prem Saran Seth
9818816774
Premsaran.seth@srl.in

Best Cost Management Practices Adopted

Our esteemed readers are perhaps aware that "ICWAI 8th National award for Excellence in Cost Management – 2010" was organized at Vigyan Bhawan, New Delhi on 18th July 2011 to recognize the qualitative cost management practices adopted by the industry. The award has successfully propagated the potentials of the tools and techniques of cost and management accountancy in the challenging global economic environment which is fiercely competitive and ever changing.

ICWAI 8th National Awards for Excellence in Cost Management 2010
(Awards Recipients)

Category I :	**Private-Manufacturing : Organisation (Large)**	
	1. LG Electronics India Pvt. Ltd.	First
	2 HV Axles Limited	Second
	3 Amara Raja Batteries Ltd.	Third
Category II :	**Private-Manufacturing : Organisation (Medium)**	
	4 WABCO - TVS (India) Ltd.	First
	5 PME Power Solutions (India) Ltd.	Second
Category III :	**Private-Manufacturing : Units (Large)**	
	6 Shree Cement Ltd. Unit : Beawar	First
Category IV :	**Private-Manufacturing : Units (Medium)**	
	7 Greaves Cotton Limited, Light Engines Unit-II	First
Category V :	**Private-Manufacturing : (Small)**	
	8 Jenburkt Pharmaceuticals Ltd	First
Category VI :	**Public Manufacturing : Organisation (Large)**	
	9 National Fertilizers Limited	First
	10 Steel Authority of India Ltd.	Second
Category VII :	**Public Manufacturing : Organisation (Medium)**	
	11 Gujarat Alkalies and Chemicals Ltd.	First
Category VIII :	**Public-Manufacturing : Unit (Large)**	
	12 Bharat Heavy Electricals Limited, Unit : Tiruchirappalli	First
	13 Oil and Natural Gas Corporation Limited, Unit : Ankleshwar	Second
	14 Bharat Heavy Electricals Limited Unit : Boiler Auxiliaries Plant, Ranipet	Third
Category IX :	**Public-Manufacturing : Unit (Medium)**	
	15 GAIL (India) Ltd, Unit : KG Basin, Rajahmundry	First
	16 GAIL (India) Ltd, Unit : Vizag-Secundrabad	Second
	17 Bharat Heavy Electricals Limited, Unit : Jhansi	Third
Category X :	**Private-Service Sector (Large)**	
	18 ICICI Prudential Life Insurance Company Limited	First
	19 BSES Yamuna Power Limited	Second
Caterogy XI :	**Private-Service Sector (Medium)**	
	20 Yamuna Power and Infrastructure Limited	First
	21 B. E. Billimoria & Co. Limited	Second
Category XII :	**Public-Service Sector (Large)**	
	22 Engineers India Limited	First
	23 Paschim Gujarat Vij Company Ltd.	Second
Category XIII :	**Public-Service Sector (Medium)**	
	24 RITES Limited	First
	25 Transmission Corporation of Andhra Pradesh Limited	Second

Award Winning Co's

In the Private Manufacturing Units (Small) category, **Jenburkt Pharmaceuticals Ltd**. bagged the first prize. Since its inception, Jenburkt Pharmaceuticals Ltd., a WHO-GMP certified company, follows cost consciousness philosophy. Various cost management approaches adopted by the companies are in the areas of :

- Production,
- Energy,
- Stores and spares,
- Raw materials and packing materials,
- Factory overheads,
- Water harvesting,
- Research and Development,
- Finance

The company constantly follows various cost management tools and techniques like; cost-benefit analysis, standard costing, inventory management etc. for its improvement in performance.

In the Private Service Sector (Large) category, **ICICI Prudential Life Insurance Company Ltd**. bagged the first prize. The approach the company has adopted for their cost management revolved around three pillars viz. ownership, visibility and review, which established a robust platform to drive cost management across the company. ICICI Prudential Life Insurance Co. believes that the journey of cost management is one where significant care needs to be taken to ensure that the potential for growth is not compromised. The key objective of the company, therefore, is to setting the standard which will drive their cost agenda not so much as a cost cutting exercise but to free up capital to invest in growing the business.

In the Private Sector (Medium) category, **BSES Yamuna Power Ltd.** has won the first prize. BSES Yamuna Power Ltd., which is a joint venture between Reliance Company, ADAG and Govt. of NCTD with a majority stake being held by Reliance Infrastructure Ltd., Cost Management is an inherent part of BYPL's management. It is the key to manage costs and when properly implemented, cost management translates into reduced cost of production for products and services as well as increased value being delivered to the customer. The company is committed towards continual improvement in its quality and reliability by setting new benchmarks in standards of corporate performance and governance through the pursuit of Cost Management Practices.

In the Public-Service Sector (Medium) category, **RITES Ltd**. bagged the first prize. RITES has developed and implemented cost management system, procedures, techniques to increase productivity and efficiency. For costing system development and integration, company has established profit centres / Strategic Business Units (SBUs) to leverage optimum utilization of core expertise developed by the company, identified major cost drivers for each business segment, segregated total cost into measurable units, captured information at four tier levels i.e. project, SBU, division and corporate level. The company has an online integrated project costing system to ascertain the actual cost of each project since inception to the completion stage for comparison with the project estimates to keep controls and checks over the expenditure within the estimates. The robust costing system is helping the company in submitting bids for various projects based on clear policy on direct costs, overhead allocation and profitability benchmarks.

MANAGEMENT DEVELOPMENT PROGRAMMES 2011-12

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament)

Management Development Programmes 2011-12

Dates	Topic	Venue	Status & Fee (Rs.)	
			Non-Residential	Residential
	November, 2011			
02 - 06	Certificate Course on IFRS and Converged Indian	Kolkata	25,000	
	Accounting Standards			33,000
15 - 18	Advance Tax, TDS & Tax Planning	Hyderabad	15,000	33,000
15 - 18	Recent Trends in Financial Management including IFRS	Hyderabad	15,000	
	and new Schedule VI of Companies Act.	Singapore		2,50,000
15 - 25	International Programme on 'Emerging Trends in	Kualalumpur		
	Financial Management.	& Bangkok		
	December, 2011			
13 - 16	Finance for Jr. Finance and Accounts Officers and Non-	Shirdi		33,000
	Executives (F & A)			
13 - 16	Management of Taxation – Service Tax, VAT, Excise &	Shirdi		33,000
	Customs, TDS and Proposed GST & DTC		4,000*	
22nd	Proposed DTC	Kolkata	4,000*	
23rd	Proposed GST	Kolkata		
	January, 2012			
03 - 06	Internal Auditing for Effective Management Control	Mahabaleshwar		33,000
03 - 06	Recent Trends in Financial Management including IFRS	Mahabaleshwar		33,000
	and new Schedule VI of Companies Act.		4,000*	
5th	Proposed DTC	Hyderabad	4,000*	
6th	Proposed GST	Hyderabad		
17 - 20	Strategic Financial Management	Agra		33,000
17 - 20	Advance Tax, TDS & Tax Planning	Agra		33,000
	February, 2012			
09 - 10	Valuation Management	New Delhi	15,000	
21 - 24	Corporate Tax–Planning, Compliance and Management	Bhubaneshwar		33,000
21 - 24	Strategic Cost Management	Bhubaneshwar		33,000
23 - 24	Financial Risk Management	New Delhi	15,000	

Note : * Rs. 7000/- if any nomination is for both the programmes together.

For Non-Residential Programmes — **Fee includes course fee, course material, lunch, tea/ coffee etc.**

For Residential Programmes — **Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.**

CEP Credit Hours — [For 1 Day Prog. – 4 Hours] [For 2 Days Prog. – 6 Hours] [For 3 Days more Prog. – 10 Hours]

For Kind Information

- For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
- For residential programmes normally the first day check-in at 12.00 noon and last day check-out at 12.00 noon.
- For International programmes, Faculty will be from the respective countries apart from the Indian Faculty.
- The Payment of the Fee is to be made by Cheque / DD in favour of 'The Institute of Cost and Works Accountants of India' payable at New Delhi.
- Details for ECS Payment: State Bank of India (60321), Andhra Association Building, Institutional Area, Lodhi Road, New Delhi -110003 Current A/c No.: 30678404793 MICRCode : 110002493 IFSCCode : SBIN0060321

For further details and Registration please contact :

Shri D. Chandru, Director (CEP)
The Institute of Cost and Works Accountants of India
ICWAI Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003
Phones : 011-24622156-57-58, 24618645 (D) 011-24643273 (M) 09818601200
Tele-Fax : 011-43583642/24622156/24618645
E-mail : mdp@icwai.org, cep.chandru@icwai.org Website : www.mdp.icwai.org, www.icwai.org

President
Shri M. Gopalakrishnan

NOTIFICATION

F. No. 137/99/2011 Service Tax
Government of India
Ministry of Finance Department of Revenue
Central Board of Excise and Customs

New Delhi dated the 20th October 2011

ORDER NO. 1 /2011 Service Tax

In exercise of the powers conferred by Rule 7(4) of the Service Tax Rules 1994 read with notification No. 48/2011-Service Tax dated 19th October 2011, Central Board of Excise and Customs hereby extends the date of submission of half yearly return for the period April 2011 to September 2011 from 25th October 2011 to 26th December 2011.

This is being done in view of the fact that the e-filing of service tax returns for all class of service tax assesses has been made mandatory for the first time vide notification no. 43/2011- Service Tax dated 25.8.11, as such leaving less time for the trade to adjust to the requirement of e-filing.

Director (Service Tax)
CBEC, New Delhi

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by an Act of Parliament)

Examination Time Table & Programme – December 2011

Certificate In Accounting Technicians (CAT)

Day & Date	Time	Foundation Course (Entry Level) Part - I
Wednesday, 14th December 2011	02.00 P.M. to 05.00 P.M.	Organisation and Management Fundamentals
Thursday, 15th December 2011	02.00 P.M. to 05.00 P.M.	Accounting
Friday, 16th December 2011	02.00 P.M. to 05.00 P.M.	Economics and Business Fundamentals
Saturday, 17th December 2011	02.00 P.M. to 05.00 P.M.	Business Mathematics and Statistics Fundamentals

Day & Date	Time	Competency Level Part - II
Saturday, 10th December 2011	09.30 A.M. to 12.30 P.M.	Financial Accounting
Monday, 12th December 2011	09.30 A.M. to 12.30 P.M.	Applied Statutory Compliance

Examination Fees

Inland Centres	**Foundation Course (Entry Level) Part – 1**	**₹ 730/-**
	Competency Level Part – II	**₹ 730/-**

1. Application Forms for CAT Examination can be down loaded from Institute's website **www.icwai.org** and filed **online** also.
2. Last date of receipt of Examination Application Forms without late fee is **10th October, 2011** and with late fee of ₹ 100/- is **20th October, 2011**.
3. Examination Fees to be paid through Bank Draft of requisite fees drawn in favour of **"ICWAI A/C CAT"** payable at **New Delhi**.
4. Students will send their Examination Application Forms along with the fees to Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, New Delhi – 110003.
5. Examination Centres : Agartala, Ahmedabad, Akurdi, Allahabad, Alwar (Rajasthan), Asansol, Aurangabad, Bangalore, Baroda, Berhampur (Ganjam), Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, 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, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Raigarh(Chattisgarh), Rourkela, Salem, Shillong, Solapur, Surat, Sahajahanpur, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, and Waltair.
6. A candidate who is fulfilling all conditions will only be allowed to appear for examination.
7. Probable date of publication of result : Foundation Course (Entry Level) Part – I is 1st February, 2012 and Competency Level Part – II is 20th February, 2012.

C. Bose
Sr. Director (Examination)

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Established by An Act of Parliament)

Examination Time Table & Programme – December 2011

Programme for Syllabus 2008

Day, Date & Time	Intermediate 09.30 A.M. to 12.30 P.M.	Final 02.00 P.M. to 05.00 P.M.	Foundation 02.00 P.M. to 05.00 P.M.
Saturday 10th December, 2011	Financial Accounting	Capital Market Analysis & Corporate Laws	
Sunday 11th December, 2011	———	Financial Management & International Finance	
Monday 12th December, 2011	Commercial and Industrial Laws & Auditing	Management Accounting–Strategic Management	
Tuesday 13th December, 2011	Applied Direct Taxation	Indirect & Direct–Tax Management	
Wednesday 14th December, 2011	Cost & Management Accounting	Management Accounting–Enterprise Performance Management	Organisation and Management Fundamentals
Thursday 15th December, 2011	———	Advanced Financial Accounting & Reporting	Accounting
Friday 16th December, 2011	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Saturday 17th December, 2011	Applied Indirect Taxation	Business Valuation Management	Business Mathematics and Statistics Fundamentals

Programme for Management Accountancy — December 2011 Examination

Saturday 10th December, 2011 09.30 A.M. to 12.30 P.M.	Saturday 10th December, 2011 02.00 P.M. to 05.00 P.M.	Sunday 11th December, 2011 09.30 A.M. to 12.30 P.M.	Sunday 11th December, 2011 02.00 P.M. to 05.00 P.M.	Monday 12th December 2011 09.30 A.M. to 12.30 P.M.
Management Accouuntancy	Advanced Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

Examination Fees

Group (s)	Final Examination	Intermediate Examination	Foundation Course Examination	Management Accountancy Examination
One Group (Inland Centres) (Overseas Centres)	₹ 1250/- US $ 100	₹ 1000/- US $ 90	₹ 1000/- US $ 60	Per Group ₹ 2500/-
Two Groups (Inland Centres) (Overseas Centres)	₹ 2250/- US $ 100	Rs. 1600/- US $ 90		

1. (a) Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
   (b) Students can also download the Examination Form from ICWAI Website at www.icwai.org. In case of downloaded form ₹ 50/- should be added extra towards the cost of the form.
   (c) Students can also submit the form online.
2. Last datefor receipt of Examination Application Forms without late fees is 10th October, 2011 and with late fees of ₹300/- is 20th October, 2011.
3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of the Institute and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICWAI, 12 Sudder Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query can be sent to Sr. Director (Examination) at H.Q.
5. Finance Act 2010, involving Assessment Year 2011-2012 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct – Tax Management (Final) for the purpose of December 2011 term of Examination under Revised Syllabus 2008.
6. Examination Centres: Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Solapur, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Dubai and Muscat.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Foundation – 1st February 2012 and Inter & Final – 20th February 2012.

C. Bose
Sr. Director (Examinations)

WIRC

New Mechanism of Cost Audit & Cost Records

The Western India Regional Council (WIRC) of ICWAI organized a two day seminar on 16th & 17th September, 2011 at Mumbai on the new mechanism of Cost Audit Report Rules and Cost Accounting Record Rules issued by the Ministry of Corporate Affairs.

Present in the seminar were dignitaries Shri B. B. Goyal, Advisor (Cost), Ministry of Corporate Affairs who was the Chief Guest, Shri Rakesh Singh, Vice President of ICWAI, Shri Dhananjay Joshi, Former President of ICWAI and Keynote Speaker, Shri Vijay P. Joshi, Chairman of WIRC, and other officials of WIRC. The dignitaries inaugurated the seminar by lighting the lamp. Shri Vijay Joshi, Chairman, WIRC welcomed the dignitaries, speakers and the delegates of the seminar. Shri Neeraj Joshi, Treasurer of WIRC introduced the dignitaries on the dais and felicitated them.

Shri Rakesh Singh, Vice President, ICWAI in his speech expressed the need of such seminars to create awareness of the new mechanism of Cost Audit Report Rules and Cost Accounting Record Rules amongst industry. He also expressed the need for the members to gear up and update themselves with the required skill sets so as to meet the growing needs of the industry.

Shri B. B. Goyal, the architect of this new mechanism in his address explained that the new mechanism is an outcome of a detailed and deliberated study by all the stake holders and is aimed at empowering India with the required cost competitiveness and cost awareness.

Shri Dhananjay Joshi, past President, ICWAI, in his key note address appreciated the foresight of the MCA in revamping the existing system which will go a long way in benefitting the Indian economy for its continued growth. He expressed the need for issuance of suitable clarifications and guidance from ICWAI and MCA from the perspective of Industry and professionals and appealed that such guidelines be issued for the use and benefit of the stakeholders.

The seminar was well attended by participants from Industry and practicing professionals alike. Shri Kalyanaraman, Shri J K Puri, Shri V.V.Deodhar, Shri P. D. Phadke (all former Presidents of ICWAI), Smt. Aruna Vilas Soman and Shri Sanjay Gupta, Council Members, ICWAI graced the seminar with their august presence.

SIRC

Campus Recruitment Programme

The Southern India Regional Council of ICWAI has recently completed its 12th campus recruitment programme at Chennai, on Sunday the 16th October, 2011. Shri M. Gopalakrishnan, President, ICWAI lauded the efforts of the Institute in enabling candidates to secure good placement through campus recruitment programme organized by the Institute. Earlier, Shri P. Raju Iyer, Secretary, SIRC welcomed the distinguished Members and the students. Shri T.C.A. Srinivasa Prasad, Council Member, ICWAI addressed the students and briefed them on the nuances of 'Interview Techniques' and 'Industry Expectations from students'. Later on soft skill training programme was conducted for the students which included mock interviews also.

The highlights of the SIRC Campus recruitment programme was the visit by Coal India Limited, a giant PSU which selected 55 candidates and intimated the same immediately to the candidates. Sundaram Clayton, a nationally renowned company, has selected 4 candidates on the same day. At the end of the day, out of 250 candidates (approx.), around 90 candidates were shortlisted by various companies, apart from the selections made by Coal India and Sundaram Clayton.

All the candidates who took part in the Campus Recruitment expressed their happiness and gratefulness to the Institute for organizing the Campus Recruitment in such a professional manner and for enabling them to take up gainful employment in reputed Corporates. On the same day, a press meet was organized and an excellent coverage was given by the media which included the National Daily 'The Hindu' and Doordarshan Kendra, Chennai, Sun TV Network etc.

NIRC

Seminar on Extensible Business Reporting Language (XBRL)

The Northern India Regional Council of The ICWAI, organized a programme on extensible Business Reporting Language (XBRL) on 14th October, 2011, at India International Centre, New Delhi.

The programme was inaugurated by lighting of the lamp by Shri M. Gopalakrishnan, President, ICWAI and Shri Rakesh Singh, Vice President, ICWAI, along with Shri Sanjay Gupta, Council Member, ICWAI, Shri B.L. Jain, Chairman, NIRC of ICWAI, Shri Vijender Sharma, Secretary and Shri. K.L. Jai Singh, past President ICWAI.

Shri Vijender Sharma, Secretary NIRC of ICWAI coordinated the Programme and Shri B.L. Jain, Chairman, NIRC of ICWAI welcomed eminent personalities and participants. The key note speaker Shri. Vijay Sahni, and Shri Rajeev Khandelwal, from Webtel Electrosoft Pvt. Ltd., received a warm welcome from the NIRC Team.

The session was an interactive one and at the end of the programme, queries were invited from the members. The speakers clarified and discussed the various issues raised by members and replied to their full satisfaction.

EIRC

Orientation Programme

EIRC organized an orientation program for students on 16th October, 2011 at EIRC premises. Shri T C A Srinivasa Prasad, Council member, Shri S.P. Padhi, Chairman, PDRS Committee, EIRC Addressed the students. They explained lucidly about the nitty-gritty of group discussion and the importance of good communication skill. Shri Ashok Mukherjee, Vice-Chairman, EIRC and Shri Mrityunjay Acharjee, Sr. Manager (Corporate Tax and Internal Audit), Balmer Lawrie & Co. Ltd. held mock interview of the students. Participants appreciated the value addition and admitted that the program would help them to face interviews in the coming days.

Campus Recruitment Programme

Four organizations namely Vedanta Aluminium Ltd., Coal India Ltd., Jindal Steel & Power Ltd., and NMDC Ltd. attended EIRC on 17th, 18th, 19th & 20th October 2011 for campus recruitment. A total 38 candidates were selected for recruitment by these four organizations. Special mention may be made of Coal India Ltd which selected all the 21 candidates who appeared for the interview signifying cent percent success rate.