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Inside *December*

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"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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The Council in its 260th meeting held on March 27th, 2010 approved the overseas centre in Bahrain. It will be called as "Bahrain Overseas Centre of ICWAI".

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This edition focuses on the Indian telecom revolution. From the time when only one in 500 persons had access to the telephone, today every one in three persons has a mobile connection. In fact, a recent India Millennium Goals study reveals that today more people in India have a mobile connection than access to sanitation. The stupendous achievement of the sector also found a proud mention in the US president Mr. Obama's speech during the latter's visit to India, who narrated the famous case of how fishermen in Kerala have seen a rise in their livelihoods due to availability of live quotes of their catch through mobiles. Here are some statistics that indicate the magnitude of growth of this industry.

Total subscriber base (including multiple SIM users) stands at 19.26 crore with mobile penetration at nearly 58% as on date. With CAGR of 33%, India has registered the highest annual accretion to its subscriber base (at average two crore subscribers every year) and is today the second largest market in the world in wireless communication. Hike in FDI limits from 49% to 74% and the vast potential here has attracted large scale FDI flows with cumulative FDI in the sector pegged at Rs.33, 957 crore till date. Current investments by the telecom industry stand at 40 billion USD and export of hardware products stood at 4 billion USD during 2009-10. The industry generates nearly 43 billion US worth revenues for the exchequer.

In many ways, the Indian telecom story offers an interesting case study- of how the sector has flourished so much and in such a short time without explicit state support; of how the industry has been through low cost high quality infrastructure and innovative marketing able to win over the peculiarities that characterize the Indian market. In India 90% of the revenues accrue from non data services (namely voice and messaging services). Of this 85% revenues come from messaging. Again, a whopping 95% of the customer base is low-cost prepaid connections. India is also a country where the telecom service providers have to address the needs of the low spenders on one hand through provision of basic telephony and on the other hand cater to the demands of the technologically savvy clientele through provision of web enabled smart applications on the mobile.

Ever since the New Telecom Policy opened the doors to private players in 1999, falling tariff charges and smart strategies like Calling Party Pays (CPP) and Lifetime schemes have helped expansion of the customer base so rapidly. And once customers discovered the benefits from a mobile connection, they were hooked on. As per an UN study it has been estimated that a 10% rise in mobile penetration increases GDP by 1.2%.

However many challenges confront the industry. The foremost problem that the telecom companies need to tackle is that of falling average revenue per user (ARPU) from Rs.1299 in 1999 to Rs.164 for GSM and Rs.89 for CDMA mobiles in 2010, owing to stiff competition. While on one hand the companies are reducing the tariff charges to increase their subscriber base; huge sunk costs in setting up towers, in funding costly global acquisitions and in license payouts for additional spectrum are eroding the profitability of the companies. In such an unsustainable future scenario, the only way out is consolidation among the domestic players and more tie-ups with international companies which will enable the Indian companies to make inroads into untapped territories. However, such mergers need to be proceeded with caution since it is quite possible that the Indian growth chart might not be replicated in foreign lands owing to socio-cultural and economic differences.

This is not to suggest that all is lost. While average teledensity in urban areas might have reached 100%, in rural areas there is still immense potential. The Universal Service Obligation Fund set up to encourage private players to increase their rural presence (by incentivizing them through subsidies) has failed to achieve the desired results. Rural teledensity stands at a woefully low level of 18.37%. However as the experience in Kenya and Philippines shows, there is not only commercial sense in targeting the rural and economically backward areas, the mobile companies can also play an important role in 'cashless' financial inclusion through linkages with banks, MFIs and with the government for payments to beneficiaries of the latter's sponsored schemes. However, this should be precluded by issues relating to fool-proof security of the transmission mechanisms through which the monetary transactions will take place.

The companies also need to roll out next generation products and services for the customers on par with global standards. This will in turn require wider spectrum. In this respect, government needs to have clear cut and fast track policies for fairer allocation of the bandwidth to avoid congestion in network and to support higher end technological services.

The issue of Mobile Number Portability (MNP) has been hanging fire for quite some time and requires to be resolved early for better customer convenience. Similarly, the mobile companies should on their own show resolve as part of ethical practices to tackle the menace of 'telemarketing' unleashed through unsolicited calls and messages; since it is evident that regulatory diktat in this regard through the 'Do Not Call' guidelines has failed. It is equally important for the mobile companies to cooperate with the authorities and do their bid to check misuse by terrorists through due diligence.

Taxes, levies and duties on manufacture of mobile handsets are one of the highest in the world and the government should consider rationalizing them. This will provide a level playing field for the indigenous manufacturers of equipment and also arrest the growth of the widespread gray market (estimated to be about 13% of the legitimate handset industry) by making the handset costs more accessible. Stricter auditing will ensure that there are no leakages of revenues to the government through creative accounting practices deployed by some telecom companies.

We hope readers will find our special on Telecom Industry useful and interesting.

"Work hard to get what you like; otherwise you will be forced to like what you get."
Anonymous

B. M. Sharma, President

Dear professional colleagues,

In these exciting times, when prowess of Indian economy has been acknowledged by no less a person than the President of USA in his momentous address to Hon'ble members of Parliament amidst Diwali celebrations, new vistas may be opened for Indian professionals across the world. Indian economy has posted 8.9% growth in GDP during second quarter of 2010-11, proving the statement of the US President, buoyed by impressive performance in agriculture, industrial growth and infrastructure. With this, India is among few countries of the world having three continuous quarters with a growth rate of more than eight percent. In addition, the giant corporations in USA like Microsoft, Google, Apple, Cisco, etc have a large cash holding which on the back of low interest rates and debt crisis in US & European Union may see the enhanced activity for either payment of dividends or huge spends on mergers and acquisitions particularly in economy friendly regimes like India. My assessment is major portion of these funds will find its way to increased flow of FDI in India in the coming years. This would definitely lead to umpteen number of opportunities for professionals led by Cost Accountants, who have to evaluate the investment avenues in industry and service sector and provide advice to corporate sector.

Word Congress of Accountants

ICWAI was represented at the World Congress of Accountants held at Kuala Lumpur, Malaysia during 8th to 11th November, 2010 by a delegation comprising Central Council Members being Mr. A N Raman, Mr. A S Durgaprasad, Mr. Hari Krishan Goel and me. During this congregation of best minds of the world of accounting, we had fruitful discussions with representatives of different Accounting Institutes, Academia, Industry and Bureaucracy from various countries. I hope this would result in tangible benefits for the Institute. The main theme of the WCOA veered around "sustaining value creation" which have been our main theme in our presentations in various forums, this year. It is heartening to note that World Congress of Accountants have also recognized the need for going beyond conformance and to lay a road map for professional accountants on the performance management also.

Meeting of National Foundation of Corporate Governance

Members may be aware that ICWAI was admitted as a member of National Foundation of Corporate Governance (NFCG) last year. Since then ICWAI has made contribution to the various programmes organised by the NFCG. I attended the meeting of its Council presided over by Shri Salman Khurshid, Hon'ble Minister of Corporate Affairs and Minority Affairs (I/C), Government of India having participation from various stakeholders, Senior Officials of Ministry of Corporate Affairs headed by Shri R Bandyopadhyay, IAS, Secretary. The outline of this year's India Corporate Week being organised from 14th to 21st December, 2010 was finalised. I am glad to inform you that Shri Manmohan Singh, Hon'ble Prime Minister, Government of India would be the Chief Guest in the inaugural function to be held at Vigyan Bhawan, New Delhi on 14th December, 2010. I urge my fellow members, Regional Councils and Chapters of ICWAI to organise maximum programmes in this week and surpass the number of programmes organised by the ICWAI last year.

ASSOCHAM Seminar on Companies Bill, 2009

I am happy to share with the members that Mr. Chandra Wadhwa, Past President of ICWAI made a presentation on the "Role of Cost Auditors and maintenance of Cost Accounting Records" in the regime of proposed Companies Bill, 2009. This seminar was attended by the Industry Representatives, Business Associations, etc. Ms. Renuka Kumar, Joint Secretary to the Government, Ministry of Corporate Affairs was the Chief Guest in this seminar.

International Conference on Competition Law

It is a matter of pride that ICWAI was represented in the 2nd International Conference on Competition Law during 12-13th of November 2010 at the India Habitat Centre, New Delhi by Shri M Gopalakrishnan, Vice President, ICWAI. This was organized by the International Academy of Law, New Delhi and the World Council for Corporate Governance, London in association with the Competition Appellate Tribunal. During the two day event, leading luminaries from the world of Competition Law including Central Government Ministers and high level Bureaucracy participated. Mr. M. Gopalakrishnan made his presentation on "Enforcement of Competition Law - Enhancing institutional framework with powers of investigation and punishment" with a special focus on contribution of Cost Accounting Standards of ICWAI to the "The Competition Commission of India (Determination of Cost of Production) Regulations, 2009.

Continuing Education Programme

ICWAI has always taken lead in organising industry relevant initiatives. Towards meeting its social responsibility of better governance in accounting ICWAI has been organising various programmes on IFRS to acclimatize the members about its requirements. Now I am privileged to announce ICWAI has started implementation of IFRSs for corporate clients. Towards this end, ICWAI has been approached by some of the leading Public Sector Undertakings to assist them in adoption of IFRSs. This would help Cost Accountants in service to be in the forefront for use of IFRSs. I strongly recommend to our members once again to participate in large numbers in the Certificate Course on IFRSs started by ICWAI for equipping themselves with the latest techniques for their respective organisations.

Guidance Note on Cost Accounting Standard-6 (Material Cost)

In a series of providing guidance to members, ICWAI has hosted the draft Guidance Note on Cost Accounting Standard – 6 on Material Cost on the website of the institute. I request all of you to kindly give your valuable feedback on the Guidance Note within the stipulated time to enable us to finalise the note at the earliest for the use by the industry, members and other stakeholders.

National Cost Convention 2011 — 6th to 8th Januray 2011, Chennai

As informed to you in my earlier communication, full efforts are being taken up by the Convention Committee to organize the Convention in a grand manner. The Student's Convention and the Practitioner's Convention is being organized on 5th January, 2011. The Chapter's meet has been slated on 7th January, 2011 at 6.00 PM at the Convention Venue. The details have been published elsewhere in the journal.My best wishes to members and their families for Christmas and New Year.

Yours sincerely,

(B.M. Sharma)
President
Date : 1st December, 2010

Telecom Sector : Business Risks and Management

CMA Dr. P. K. Sinha*

Sanchari Sinha**

The Indian telecom industry is one of the fastest growing in the world. The rapidly evolving challenges and opportunities facing telecom companies domestically as well as globally are driving ongoing change in the industry's risk universe. As companies develop and implement their strategies to sustain and create value, they must ensure that their understanding and management of risk also keeps pace.

This article brings about the current scenario of the Indian Telecom sector, the risk radar by Ernst and Young which presents a snapshot of top 10 business risks faced by any industry sector. This risk radar divides risks into four quadrants – strategic, compliance, operational, and financial threats. Companies should conduct an annual risk assessment in order to inculcate ways to mitigate, and manage risks.

Profile of the Indian Telecom Sector

Indian telecom industry is one of the fastest growing in the world.

- According to the Telecom Regulatory Authority of India (TRAI), the number of telephone subscriber base in the country reached 653.92 million as on May 31, 2010 and wireless subscriber base 617.53 million.
- Mobile value added services (VAS) which comprises of text or SMS, menu based services, downloading of music or ring tones, mobile TV, videos and sophisticated m-commerce applications accounts for 10-12% of telecom operators' revenue and is expected to reach 20% growth by 2013.
- Domestic telecom market has been attracting huge amounts of investment which is likely to accelerate with the entry of new players and launch of new services.
- The sector is expected to witness investment of around USD 40 billion during 2010-11. With development of 3G, expansion of current networks and widening of Broadband Wireless Access (BSA) network, the investment in the sector is likely to increase from USD 20 billion in 2009-10.
- The industry manufactures a vast range of telecom equipment using state-of-the-art technology. The production of telecom equipment in value terms has increased from USD 9 billion in 2007-08 to USD 10.53 billion in 2008-09 and around USD 12.4 billion in 2009-10.
- Telecom equipment Major Nokia Siemens is planning to source components worth USD 28.5 billion from India in 2010-11. In 2009, the company sourced components worth USD 20 billion from India.
- According to a report by technology researcher Gartner Inc, India ranks fourth in manufacturing telecom equipment in the Asia-Pacific (Apac) region.
- The Road Ahead
  - The total mobile services revenue in India is projected to grow at a compound annual growth rate (CAGR) of 12.5% from 2009-2013 to exceed USD 30 billion.
  - The India mobile subscriber base is set to exceed 771 million connections by 2013, growing at a CAGR of 14.3% in the same period from 452 million in 2009. This growth is poised to continue through the forecast period, and India is expected to remain the world's second largest wireless market after China in terms of mobile connections.
  - The Indian mobile industry has now moved out of its hyper-growth mode, but it will continue to grow at double-digit rates for next three years as operators focus on rural parts of the country. Growth will also be triggered by increased adoption of value-added services, which are relevant to both rural and urban markets.
  - Mobile market penetration is projected to increase from 38.7% in 2009 to 63.5% in 2013.

Risk Radar – Ernst & Young

Risk Radar of **Ernst & Young** presents a snapshot of top 10 business risk in an industry sector by dividing the risks into four quadrants:

1. *Strategic threats:* Related to customers, competitors and investors
2. *Compliance threats:* Originating in politics, law, regulation or corporate governance

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3. *Operational threats:* Affecting processes, systems, people and overall value
4. *Financial threats:* Arising from market volatility and the real economy

The diagram below plots the top 10 risks for telecom operators on the Risk Radar and lists the risks that are currently just "below the radar"

Source : *Top 10 risks in Telecommunications 2010, Ernst and Young*

Top 10 Business Risks faced by the Telecom Industry & Risk Management

1. Losing client ownership

— Telecom operators share their customers with other players both in the consumer as well as enterprise market.

— Client ownership can be re-established by changing the customer's mindset about the value of the network through clear communication and rates.

Steps to respond :

— Inculcate a change in customer's mind set in order to reflect the real and substantial contribution made by telecom companies to the overall service experience.

— Process of changing the customer's mind set takes place in 2 stages :

a) Creating awareness and value of the network
b) Innovating to capture more value from the network and ensure it means more to customers

— Operators that succeed in winning back ownership of the customer will be those that provide the right combination of differentiated customer experience and value, thereby convincing the customers to continue using and paying for their particular network service. This, however, demands investment, from which the financial returns remain uncertain.

2. Failure to maximize customer value

— Operator's current strategies in many cases for retaining customers end up in destroying value. For example: By widening product scope at the expense of revenue and profitability.

— Operators need to realize the full value of customers by recognizing and leveraging their own transformation power.

Steps to respond :

— Telecom companies need to reorganize themselves along customer lines (such as consumer and enterprise divisions) rather than technology lines (such as fixed and mobile).

— Identify and try out new models such as selling smartphone applications in return for a proportion of revenues and innovating in partnership with device and application developers to create differentiated experiences.

— Operators may go beyond meeting demand for services such as mobile data and instead actively seek to build or create new demands.

3. Rising regulatory pressures

— Network neutrality is dominating the global regulatory agenda.

— Diverse regulations are evolving across different segments and governments are looking to boost tax revenues.

— Overall need is for greater regulatory certainty.

Steps to respond :

— Operators need to develop a clearer understanding of the increasing interrelationship between fixed and mobile policies, regulatory landscape in adjacent markets and considerations surrounding customer's "digital rights".

4. Ineffective infrastructure investment

— Advancing technology and uncertain returns mean operators face new choices and considerations in their network capex strategies against a background of evolving national policies.

— The timing of investment is also crucial with decisions to "leapfrog" technology platforms raising both risks and opportunities.

Steps to respond :

— Operators must take long-term business critical judgment calls.

— To mitigate risks around infrastructure investment, operators need to take into account the wide array of related issues and risks that arise when making technology changes. However given the intense competitive pressures to minimize time to market for new services, there are also risks in delaying until things are clearer.

5. Inability to contain and reduce costs

— With operators already having capitalized on their "low hanging" cost cutting opportunities, the next wave of reductions will be harder to achieve.

— Companies need to balance innovation and rationalization to control costs while supporting rising traffic volumes.

Steps to respond :

— Cost challenges are no longer regarded as a matter of only cutting expenditure. Instead, a holistic perspective that assesses cost control across businesses is vital. For example, there are opportunities in network and IT, from general and administration to marketing and distribution.

— Network sharing and development of sub-brands require very different competencies but their motivations are similar.

— To seize control of cost base in a robust and sustainable way, operators need to increase their efficiency and scalability by rationalizing operations and infrastructure to support and monetize high volumes of traffic. They should also simplify their service creation processes to focus more on customer need and make the most of new network architectures.

— Progress of cost program should be benchmarked continually against the business strategic objectives in terms of operational efficiency, organizational capabilities and customer experience.

6. Lack of talent and innovation

— Technology and handset developers have seized the initiative in industry innovation with telecom operators currently relegated to a secondary role.

— To regain the lead, operators need to make the most of external talent and internal assets, including real time and location sensitive customer data.

Steps to respond :

— Operators need to energize their workforce by prioritizing R&D and reasserting their ability to innovate for consumers.

— The right kind of talent has a pivotal role to play, i.e., strategic hires from the technology and media sectors are increasingly a "must have".

7. Inability to manage investor expectations

— Need for change from short term cash generation to long term growth and innovation.

Steps to respond :

— To fight back and manage investor's expectations more effectively and successfully, telecom companies need to identify, seize and communicate the right value creating role and positioning in a new value chain.

— Mission statements based around cost control now actually undermine the credibility of telecom infrastructure renewal as "transformational". Mobile operators are losing credibility when playing down the effects of capacity crunch.

— The sector's threats and opportunities require greater and more transparent articulation for telecom companies to win over investors.

— External key performance indicators (KPIs) also need to evolve accordingly along with the operator's relationships with government's and other suppliers.

8. Inappropriate systems and processes

— Different parts of the business have different needs in terms of systems and processes and effective management of legacy business has become even more important.

— New platforms and policies to support both legacy services and new offerings or models are vital.

Steps to respond :

— New types of efficiencies need to be assessed at the network level including enhanced policy control and traffic offload strategies such as femtocells, which are small cellular base stations typically designed for usage at home.

— Many operators also need to re-evaluate their internal KPIs in the light of changing business models and investor demands and to coordinate their responses across their footprints and geographies to reap the benefits of group-wide consistency and alignment.

9. Poorly managed M&A and partnerships

— Current industry dynamics are favoring various forms of inorganic expansion, ranging from revenue sharing partnerships to full in-country partnerships.

— Operators need to develop new competencies and discriminate clearly between situations and requiring partnerships or M&A.

Steps to respond :

— Holistic view of inorganic growth is essential.

— In this dynamic and evolving environment for inorganic growth, operators need to discriminate between the need to acquire and the need to partner and must develop new competencies to manage both approaches more effectively. In particular, they should confront "co-opetition" and continually reassess their relationship with partners outside the sector along with tackling the persistent issues around revenue-sharing arrangements. To do this, the requirements for operators include working closely with each other to cut network spending and widen addressable markets and improve their ability to collaborate with new types of partners such as application developers, power providers and technology companies.

10. Privacy, security & piracy risks

— Development of digital society has outpaced the ability to supervise it and new business models are bringing in new threats to the telecom industry.

— Security concerns vary by customers and operators are under pressure from government agendas. They need to revisit the classification and sensitivity of customer data.

Steps to respond :

— To manage risks around data effectively, operators need to revisit the classification and sensitivity of customer data and ensure that their systems and processes are future-proofed.

— They should also work with governments on a continuing basis to define and clarify their responsibilities in terms of content and data.

Conclusion

Companies should conduct an annual risk assessment that defines the key risks which confront them and weighs probability and effect on business drivers. The top 10 business risks by the risk radar of Ernst & Young in this article can be used as a starting point for this process.

Steps by companies for risk management :

- Extend risk assessment beyond financial and regulatory risk to consider the wider environment in which the organization operates and the full extent of its operations.
- Conduct scenario planning for major risks that are identified and develop a number of operational responses. This could possibly be part of the organization's strategic plan.
- Evaluate the ability to manage risks that an organization identifies by ensuring in particular that the risk management processes are linked to the actual risks that the business faces.
- Ensure that effective monitoring and control processes are in place to give both early warning and improved ability to respond.
- Keep an open mind about where risks may arise and come from.

As the global economy emerges from the recent downturn, and the agenda of companies and investors turn towards growth, there are major opportunities for telecom operators. A company's ability to capitalize on these opportunities will depend critically on its ability to understand and manage risk. Without a firm underpinning of risk management, no growth strategy will be truly sustainable. ❐

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BOARD OF DISCIPLINE

The Board of Discipline has been reconstituted by the Council at its 265th Meeting held on 19th & 20th October 2010 as :

1. Shri J. K. Puri	–	Presiding Officer
2. Shri Somnath Mukherjee	–	Member
3. Shri Sudhir M. Galande	–	Member

Shri Kaushik Banerjee [Director (Discipline)] — Secretary

Cost and Management Accountant in Telecom Sector

CMA I. Mohamed Ibrahim*

The Telecommunication sector, one of the major components of the economy, has undergone a sea change and is poised for further growth. This will culminate in the economic prosperity of every country. The article intends to bring out the benefits and usefulness of having in the sector the professional service of a CMA.

Communication is one of the vital sectors of the economy. Every country, big or small, in every nook and corner of the world are necessarily to take care of this sector so as to keep pace with the advancements in other sectors of their economy for proper and systematic growth.

Communication is a basic feature of the universe without which nothing can happen. None can stand alone without the aid, help and guidance of the other. The Almighty has blessed his creatures such that they have to depend upon one another for their survival. This is not specific to mankind alone, but to His creatures like birds, animals, insects, etc.

In ancient times, before the advent of languages, mankind resorted to communicate with one another by making different kinds of sounds/noises/signs etc. The concept of communication which was initially confined between mankind in a habitat, step by step spread among habitats. With the advent of languages, our ancestors began to communicate between towns, cities etc. In those olden days the means of communications were through birds, then through mankind themselves. Messengers were the points of communication between kingdoms.

Thus communication is not a recent concept but a one born with the universe. The Almighty has gifted the said wisdom in his creatures for their survival and advancement. With the passage of time, creativity and wisdom insinuated in mankind led to several inventions in communication sector too like telephones, wireless equipments, radios etc. in small ways—even the transistors were of inventions in the seventies only.

The communication which was initially between short distance places subsequently spread among towns and cities of long distances as well as between countnes with improvement in those devices. Such a development led not only to co-operation between countries, but also in trade and commerce etc

It is fresh in our memory that

- It was a difficult task to speak and hear clearly through telephones, even between short distance places. Very often they have to shout out through telephones. That was the situation till seventies/eighties.
- Overseas communications were completely beyond the reach of common man.
- Even in the recent past, say about six/seven years before, the cost of overseas conversation was costly at Rs 40/Rs 45 per minute.
- The business, trade, commerce, industry have to rely completely on postal communication by writing letters etc. involving time and cost.
- Even getting telephone connections was a difficult task, one had to register and wait for his turn.

Technological developments, inventions continue to take place in various countries. Research & developments, exchange of the findings thereon etc. culminated in the development and manufacture of sophisticated and hi-tech telecommunication equipments.

The barriers and difficulties highlighted above were smashed in the current decade as a result of the spectacular advancement in the telecommuni-cation sector. Through satellites as well as installations across the seas each and every part of the world stands connected. It is now handy for anyone in any part of the universe to instantly sp&ak to another person, clearly and without much effort, as if they are nearby. The Cel! Phones which was confined to the reach of rich people till seven or eight years before is now in the hands of even a poor man, through which communication is going on at rapid speed.

Such a phenomenal advancement in telecommunication sector had led to a revolution in each and every sector of the economy, be it industry, trade, commerce, health, education, administration etc. and, consequently, pushed up the economic development of the countries and ultimately enhanced the standard of living and well being of people world over.

The opening of this important sector to players in private culminated in placing timely, hi-tech services

* FICWA.

at low cost at the doorsteps of the common man The elimination of the domination of the Govt. sector in this important sector paved the way for such a mammoth growth and prosperity.

The economies of several countries, even developed ones was jolted in the financial crisis broke out in 2008. The economy of dominating Super-powers such as U.S., European Union countries etc., was shattered in the said crisis, several banks & financial institutions in them have collapsed. The rehabilitation measures put in motion by the countries world over started to gain momentum, which eases out the risk of financial stability. Better growth prospects and low interest rates in many countries are expected to influence the capital inflows in many emerging economies. The International Monetary Fund had estimated a global GDP growth at 4.25% in 2010 against the contraction of 0.5% in 2009.

India continued to be the second fastest growing economy in the financial year 2009-10. With the slowdown in the previous year, Indian Economy rebounded with a GDP Growth of 7.4% as per the revised estimate of the Ministry of Statistics & Programme implementation of the Government of India.. Important sectors like telecommunication, construction, manufacturing, hotel, trade, transport etc., contributed over 50% towards GDP. With the sustained growth in these important sectors of the economy quarter over quarter of the year, together with the accelerated spending on infrastructure development, favorable south-west monsoon it is predicted that the Indian economy will return back to the GDP growth range of 8.5 - 9% during 2010-11.

Indian Telecom Sector

In the global telecom market, India's is the second largest and fastest growing one. There is robust growth potential to this sector, with the availability of strong growth fundamentals, increasing urbanization, rising income levels, favorable demographics in the country.

There is abundant growth potential for this sector both in rural and urban segments of the country. While the urban customers are to be provided with high-tech services like high speed internet connectivity, audio video streaming, navigation of location maps, music downloads, gaming, m-commerce, IPTV and mobile TV; the rural areas, where the basic structure is inadequate, limited or no connectivity, their basic demand for voice calls at lower tariffs and value added services are to be provided.

The convenience of the mobile phones as are instrument for conducting financial transactions and its potential in the process of financial inclusion and growth stands recognized. There is a large untapped potential for these services in our market. The huge growth potential in the telecom industry by means of enhanced coverage, new products and services stimulates high and intense competition with both the existing and new players attempting to maximise their share of the growing teiecom market.

The Indian teiecom sector continues to attain robust growth, adding 19l.55mn new connections during the financial year 2009-10. During the year the number of telecom subscribers in the country was 621.28mn and the overall teledensity was at 52.74% at the end of March 2010. While subscription in urban segments grew to 420.51mn, registering an annual growth of over 37%, having teledensity to 119.45%, the subscription in rural segments grew by over 82% crossing 200mn mark—improving the rural teledensity to 24.3% during the year.

During the year the wireless segment grew by 49% and enhanced the growth of telecom sector. The telecom sector is one of the highly regulated sectors in the country. The Telecom Regulatory Authority of India (TRAI) regulates the sector including fixation/ revision of tariffs for various telecom services.

Despite buoyant customer addition, there is no corresponding growth in the revenue of the entrepreneurs in the sector, owing to the entrance of new operators in the market. The phenomenon of 12 to 13 operators in each circle pierce competition culminated in low cost services to the common man. With the conclusion of the auction of 3G and BWA spectrum, telecom services will take a big leap forward. The fierce competition and price war in this vital sector of the economy enables the other sectors to avail high-efficient, hi-tech telecom services at low cost and develop and grow admirably which will culminate in the overall high growth of the country and enhance the standard of living of the masses.

It is heartening that the Telecom giants like Bharti Airtel Ltd., Idea Cellular Ltd., etc., started to focus on the emerging markets of Asia and Africa. With a billion plus population, vast natural resources and teledensity of less than 30%, Africa will be market for the future and the next growth engine of the global economy. The acquisition of Zain Africa BV's operations in 15 countries with 42mn customers by Bharti Airtel Ltd., is one of the best steps forward.

A Cost & Management Accountant focused with in-depth knowledge of Cost Accountancy—is capable of leading the Costing Department in any industry, manufacturing or service oriented. His professional services immensely helps the entrepreneur. Thus the CMA is an asset to the Telecom industry which is fraught with cutthroat competition, price war etc., where survival for the medium/small players is at stake. In such a highly competitive environment, the Expert Professional Service of a CMA is quite inevitable for the entrepreneur in the Telecom Sector.

Cost and Management Accountant, a high caliber professional, works with other executives of the enterprises shoulder to shoulder, moves along and coordinates with them every now and then. He moves closey with the Cost Accounting System in the organization in an objective manner, enables the top management at every now and then as to the actual progress with reference to the plan or estimate and presents statistical data, findings with conclusions and recommendations etc.

Armed with differently featured and effective tools like Marginal Costing, Variable Cost Analysis, Product Mix analysis & computation, Cost Control, Cost Reduction etc., Telecom Sector finds a Cost and Management Accountant as a friend in need, whose services wouid guide and enable the entrepreneurs and the Telecom Industry as a whole to sustain and prosper. CMA enables to create and sustain value not only to his entrepreneur, but also to the stakeholders as well as to the nation as whole. ❐

NOTIFICATION

The Examination Committee of the Council of ICWAI at its 272th meeting decided to open new examination centers at—

(a) Solapur (Center Code 128) (b) Vapi (Center Code 129) (c) Vashi (Center Code 130) and Akurdi-Pune (Center code 131) with effect from December 2010 term of examination.

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

C. Bose
Sr. Director-Examinations.

RETIREMENT

Shri Dhaneshwar Pradhan has retired from the service of ICWAI on November 30, 2010. We wish him a very happy and healthy retired life.

Shri Ratan Kumar Sarkar has retired from ICWAI on November 30, 2010. We wish him a happy and prosperous life beyond ICWAI.

Emerging Role of Management Accountant in the Telecom Space

Dr. P. Saravanan*

Dr. N. Sivasankaran**

As per the most recent IMF reports, the real GDP of the country is projected to grow by an impressive 9.7% in 2010-11, as compared to an estimated 7.2% in 2009-10. Apart from the manufacturing sector the trade, hotel, transport and communication segment of the services sectors are likely to be the major drivers of this growth. Amongst the service sector, the Indian telecom market has emerged as one of the fastest growing markets in the world. Experts in the telecom space estimate that India holds the promise of becoming the second largest telecom market of the world. The various reforms introduced by successive Indian governments over the last decade have dramatically changed the nature of telecommunications in the country. This article focuses some of the current issues in the telecommunications industry and depicts the role of the management accountant in the rapidly evolving telecom environment.

Telecommunications Industry – An Overview

The telecommunications sector in India continues on its commendable growth path. With plenty of strong potential value still, much attention, both local and global, is being paid to the sector since 1990s. The economic reforms initiated in the 1990s, by the then finance minister and current prime minister through an invitation to the private service providers, resulted in the growth of the industry. This industry is regulated by Department of Telecommunications through the various legislations such as National Telecom Policy, 1994 (NTP 94), the New Telecom Policy, 1999 (NTP 99), the Communication Convergence Bill, 2001 (CCB, 2001), Telecom Regulatory Authority of India (TRAI) and National Broadband Policy (2004).

India, without a doubt is marching to be one of the most dynamic and fastest growing major telecom markets in the world. No signs that the 2008/09 global financial crisis had dampened growth of Indian telecom sector in any significant way, by early 2010 the government had to closely manage the country's national debt as well as the prospect of high rates of inflation. The mobile sector in particular was continuing its strong march forward. The country's mobile subscriber base has already grown from around 10 million subscribers in 2002 to reach 350 million by the start of 2009. By March 2010 it had reached 584 million and based on its then growth rate it was likely to pass 750 million by year-end.

A number of factors are attributable for this amazing growth, including low tariffs, low handset prices and, most importantly, a highly competitive market created by the government and the regulator. Still the government has continued to open the market up to more and more competition. In late 2009 another two mobile operators—namely S Tel and Videocon—launched services. While GSM technology has continued their to be dominant, by early 2009 CDMA was still managing to hang on around 20% market share. The total mobile market was expanding at an annual rate of around 40% coming into 2010. All things considered, the mobile industry should continue to grow for the time being.

Major highlights

- Growth in India's mobile market was continuing in its upward trend;
- By March 2010 the country had 584 million mobile subscribers, up from 350 million just 15 months before;
- The mobile market was continuing to expand at an annual rate in excess of 40% coming into 2011;
- Global System for Mobile communication (GSM) was the dominant mobile technology with 80% of the mobile subscriber market, but Code Division Multiple Access (CDMA) seemed to have stabilized its market share at 20% for the time being.
- The number of broadband Internet subscribers in India has started to become more significant, having more than doubled in the two-year period ending 2009;
- However, broadband subscriber numbers still only comprised 0.7% of the population at the beginning of 2009;
- Digital Subscriber Line (DSL), whilst holding slightly more than 75% of the local broadband market, was steadily losing market share to other non-DSL broadband platforms, especially to wireless broadband platforms;
- After administrative delays, India finally held its auction to assign 3G licences in the first half of 2010. The auction was certainly successful in terms of the high revenue earned by the

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government. There was some debate as to whether the outcome was good for the local telecom industry;

- The 3G auction was followed by an equally high profile auction of WiMAX spectrum that set the scene for a competitive wireless broadband market.

Table 1

Key Telecom Parameter		
Category	**2009**	**2010 (e)**
Fixed-line Services :		
Total number of subscribers	37.1 million	36.5 million
Annual growth (e)	–2%	–2%
Fixed-line penetration (population)	3.00%	2.90%
Fixed-line penetration (household)	18%	18%
Broadband Internet :		
Total number of subscribers	7.8 million	11.0 million
Annual growth	44%	41%
Broadband penetration (population)	0.70%	1.00%
Broadband penetration (household)	3.50%	4.70%
Mobile services :		
Total number of subscribers	525 million	760 million
Annual growth	51%	44%
Mobile penetration (population)	45%	64%

Table 2

Telephone Network Statistics	
Fixed telephone lines in service	37.1 million
Urban subscribers	27.1 million
Rural subscribers	10.0 million
Fixed-line teledensity	3.20%
Digital lines	100% (reached in 2001)
Public payphones	6.07 million
Major public telecom operators	BSNL, MTNL, Tata Indicom
Source : TRAI Report, 2010	

Table 3

Internet users	61.3 million
Internet penetration	5%
Internet subscribers	15.2 million
Number of PCs (e)	42 million
PC penetration	3.50%
Source : TRAI Report, 2010	

Table 4

Total broadband subscribers	7.82 million
Broadband penetration	0.70%
DSL subscribers	6.77 million
Wireless subscribers	1.02 million
Cable modem subscribers	589,600
Broadband household penetration	3.50%
Leased line circuits	30,000
Source : TRAI Report, 2010	

Table 5

Mobile subscribers	582 million
Annual growth	51%
Mobile penetration	45%
Major mobile operators	Bharti Group, BSNL, BPL, Hutchison Group, Idea Cellular Reliance
Source : Various Industry Reports	

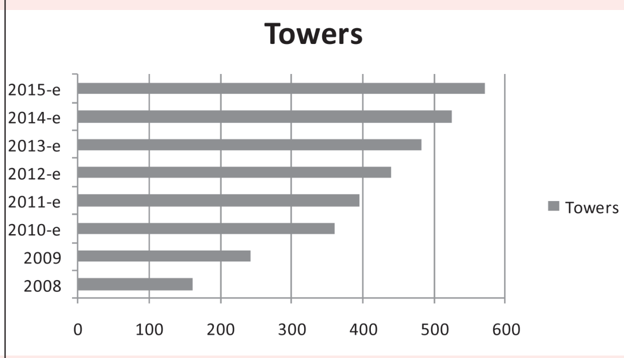
Table 6

3G auction : Number of licences and total fees paid by operators — May 2010		
Operator	**Number of telecom circles**	**Total bid (billion rupees)**
BSNL	20	101.09
Bharti	13	122.95
Reliance	13	85.85
Aricel	13	64.99
Idea Cellular	11	57.69
Vodafone Essar	9	116.18
Tata Teleservices	9	58.64
S Tel	3	3.4
MTNL	2	65.6
Source : DoT, data		

Table 7

Foreign Direct Investment in Telecom Sector – 2004-2008			
Year	**Total FDI (Rs billion)**	**Telecom FDI Rs billion)**	**Tlecom FDI (as a proportion of total FDI)**
2004	121	5.3	4.40%
2005	171	5.9	3.40%
2006	246	30.2	12.30%
2007	706	23.6	3.30%
2008	202	36.5	18.10%
Source : Based on TRAI Repotrs			

Table 8 Telecom Tower Requirement



Source : Based on Edelweiss Securities Limited normalized subscriber estimates and forecast

Exhibit 1
Cost Break up—Ground Based Tower

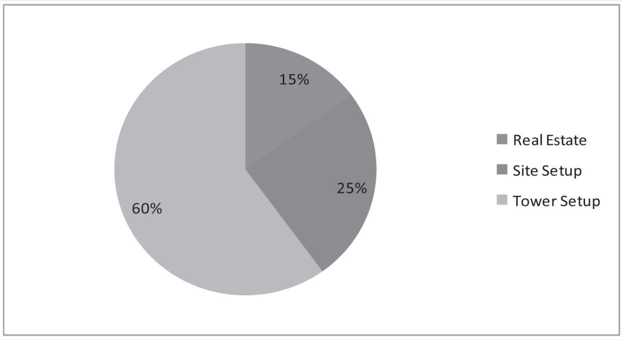
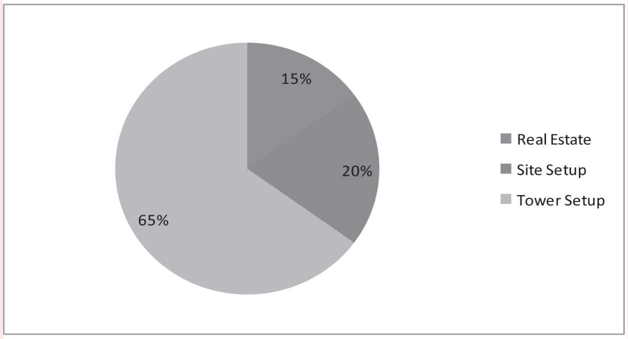


Exhibit 2
Cost Break up—Roof Type Tower



Emerging Role of Management Accountants

Risk Assessment in the Capital Expenditure

The telecom sector is largely charactised by very large upfront investment. This capital expenditure involves a large cash outflow at the beginning followed by a series of smaller cash inflow to the company. The management accountant need to project the cash flows appropriately after considering the uncertainties and risk associated with the project. Here the management accountant will also consider the technology risk. Having assessed the certainty cash flows he needs to apply the sophisticated tools for evaluating the same such as decision tree and sensitivity analysis.

Focus on Tower Infrastructure Cost – Build and Lease or Pool and Share

As far as the telecom sector is concerned, tower infrastructure is the largest set up cost. There are two types of towers normally used :

(a) Ground Based Towers

- These are the towers erected on the ground with a height between 40 and 80 meters.
- Ideal in rural and semi-urban areas owing to the cheaper availability of land.
- The average investment in these types of towers varies in between 2.5 to 2.8 million.

(b) Roof Based Towers

- These towers are placed on roofs of buildings.
- Generally erected on highrise buildings where poles are erected for installing antennas.
- Installed ideally in urban areas and metros
- The average investment in these types of towers varies in between 1.5 to 2 million

Management accountant needs to take a call whether to build and lease the towers or pool and share the tower after duly assessing the cost and benefits.

Adding Value in the Customer Service

With a new focus on marketing and value-added customer service, it is essential that *telecommunications* companies need to understand the nature of their businesses. *Management accountants* will be essential in this context of improving customer service and developing new products and services for emerging markets through their understanding of productivity audits.

Productivity audit is a tool used within telecommunications companies to first identify sources of value to their customers. Secondly, with the rapid development of new products and services for the direct-to-home multi-media market, the business decision to launch a new product or services will require an operational concept that incorporates system knowledge with detailed information on cost and pricing structures. Management accountant plays a vital role on cost assessments and pricing structure.

Human Capital Valuation

From a human resource point of view, the current challenge in many telecommunication companies in India is to effectively balance cost reduction and downsizing with the objective effective operation of the company, finding the optimal size of the corporation. In a world where a limited supply of skilled workers is becoming the key to success, at the core of the optimization problem lies the valuation of human capital and the various cost and benefits of human resources.

The kind of role that the *management accountant* will play in valuing human resources will involve conducting preliminary analyses of staffing needs, spans of control, operationalising downsizing programs, and dealing with resistance and other reactions to change. Because, one of the central themes in telephone companies at this juncture is to contain and reduce labor costs. Apart from the above, management accountant also has the role related to pensions, current and post-retirement benefit costs and the treatment of those liabilities on the balance sheet.

Conclusion

The role of Management Accountants are closely involved in supporting, planning, controlling, directing, communicating and coordinating the decision-making activities of organizations in the private sector and public sector undertaking. But of late, in telecom industry, the greater need for competitive support has risen due to increased competition, greater customer focus, globalization, and the importance of quality. Management accountant must develop systems and procedures capable of providing information which supports both strategic and operational decisions. Very specifically, management accountants must directly involve in the formulation, and the implementation of organizational strategies.

Management accounting as a domain is changing – the nature and extent of change, and the reasons for change, are determined by a number of factors. These factors are changes in world economic and social structures, the globalization of markets, environmental issues, technological development, the importance of quality, and the need for organizations to become customer-focused. ❐

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The role of Telecom in Financial Inclusion — A sunrise opportunity for the CMA in India

CMA C. R. Shiv Kumaran*

India is in the midst of a revolution in the making. Much like the Green and the White Revolutions that swept along our countryside in the 1960s and the 1970s, this revolution is set to make the nation wealthier still. No, this is not about the Economic Liberalization Programme that commenced from 1991, benefits of which is there for all of us to see. Indian cities alongwith a number of urban pockets have emerged as economic clusters wherein increased economic opportunities is leading to the rise of the Indian Middle Class which, in turn, is boosting consumption and thereby promising to add further trillions to the Indian GDP.

The in thing today is the sequel to the Economic Liberalization Programme that is being planned by the Government in a big way. To be very precise the new revolution that is about to sweep India is about enabling Financial Inclusion as a means to thwart poverty. Take a look at the following table :

Structure of the Indian Economy and Labour Force distribution as at 2009

Sector	% contribution to GDP	% of labour force employed
Agriculture	17	52
Industry	28	14
Services	55	34

This table says it all. A higher percentage of the work force is employed in agriculture but then its contribution towards the Gross Domestic Product is very low. If one were to divide % of contribution by % of labour force employed, Industry has a ratio of 2 while the Services Sector has a ratio of 1.60, Agriculture has a dismal ratio of 0.32. This essentially means that the output from the agri sector is not commensurate with the proportion of population employed within. This would also mean that a majority of people who depend on agriculture in rural India are at a subsistence level, if not below it. Same is the case of people who migrate from rural areas to urban areas in search of economic betterment. Our cities today contain a number of invisible residents who though being physically present are nevertheless not visible to our financial system.

Visibility to the formal financial system through financial inclusion helps as it has the capability to boost economic productivity. Financial Inclusion would mean the ability of an individual to have an unrestricted access to the formal financial sector in the country. It will mean the ability to save, ability to borrow and the ability to mitigate risk. As per a CRISIL study, about 120 million households in India face financial exclusion currently. Imagine the economic impact if all new financially included individuals were able to save a minimum of $100 in their micro savings bank account. This would, in turn, mean thousands of crores of funds generated for the formal banking system which, in turn, will invest in further avenues that will aid substantially higher wealth creation. Thus the stakes are high and this is exactly the reason why the government is bringing together various measures to ensure a financially included society. Consider the old proverb of teaching a person to fish instead of giving him a fish. Financial inclusion is exactly like that. It gives the beneficiary the ability to do more.

Imagine the impact once a bank account gets started—an individual can receive earnings into it, what is consumed for will be spent and what is not needed will not be spent. This essentially means that the money will work for them by earning an interest; or, the other way around, money within the savings account will work for the economy as well. Also, with a bank account access to micro lending, products will happen faster. When money starts getting invested for micro activities based on the person's location and occupational interest, it heralds the dawn of local entrepreneurism aimed at satisfying a want or supplying a service. India, as such, being a huge market, will easily absorb such products or services. The resultant cash flow after expenses becomes the capital for loan repayment until a time and after that seed capital for further investment to diversify the business. Imagine this model getting replicated across India. The economic spin-off will be huge.

Having established the importance of Financial Inclusion now let us look at the means of getting the financial products delivered to the millions. One of the most important challenges being faced today with regard to Financial Inclusion is about establishing the

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identity and delivering efficiently the financial products. While developments like the Unique Identity Card promise to take care of the identity part, delivering financial products seamlessly to the intended millions remains a challenge.

It is here that the Indian Telecom Industry will play a greater role in future. If Micro Financial Institutions (MFI) were to reach out to the intended beneficiary through the normal brick and mortar method of building branches it would take years—if not decades — to spread their wings. On the contrary, if MFIs were able to make use of the humble mobile phones, their task is going to be much easier. The mobile phone is wireless, portable and can communicate in the local language. As per the Cellular Operators Association of India, the number of mobile connections in India is either inching towards the 50 crore mark or has already surpassed that mark by now. Success of the mobile phone in India is driven by low cost of both the handset and the service plans offered.

Today the mobile phone has evolved from being just a phone to a low cost computing device. From an instrument that can make phone calls, to a smart device that is more of an organizer and a communicator with the outside world, the humble mobile phone has traversed a lot in India. Recently, there have been reports of the Government favouring Mobile Banking, this itself is a good sign of things to come. Development of software for the mobile phone itself is an industry by itself and one can be quite sure of the availability of talent within the country to meet the specific requirements of the mobile banking segment. With properly codified and standardized mobile software the mobile phone can become a virtual bank account capable of being accessed to and transacted with, at any time. It would be lot cheaper and faster to reach people through the mobile platform. In some countries the practice of money transfer already happens through the mobile.

Imagine the scenario of a client armed with a recognized ID card approaches a micro financial product agent with a need to transfer money to another. He or she will verify self through the ID card and quote his or her account number and the corresponding transferee account number. The agent will then send out a SMS from an authorized number to the bank number asking for the service to be performed. The moment the SMS is received by the bank's server, it checks for authenticity of the details contained in the request by sending a SMS to the intended transferor quoting the amount requested for transfer. The transferor, in the presence of the agent, sends a confirmation SMS to the bank's server. The server, on receipt of the same, transfers the money to the transferee.

Another option would be is to instal micro ATMs suitably across villages. The same can be accessed by either one village or by surrounding villages as feasible. These micro ATMs can be quite different from that of the regular ATMs in that they may not need air conditioning and possibly work using the mobile SIM card. The machine will also not consume much power as it can go into a standby mode the moment a transaction is completed. It can be placed in custody of a responsible person identified specifically for the purpose. Hence, when someone wants to deposit cash into their account, the same can be received by the caretaker and suitable entries can be passed by him through his/her mobile phone into the bank's server. Cash can then be deposited by the caretaker into the ATMs immediately. In case somebody wanted to withdraw money then the same process can be repeated inversely.

The above stated are indicative — technology can be customized adequately to suit requirements that work practically on the ground. Imagine the possibilities once 3G telecommunication becomes a possibility in India. Already plans are afoot in ensuring the successful implementation of the same. A parallel in India can be found when the Government first came up with the concept of PCO based communication spread across India. What was perceived to be a very difficult task then has today resulted in a robust telecommunication infrastructure across the country. The same kind of transformation will happen once 3G is successfully ushered in India.

Today the mobile phones are being looked not as a mere voice call carrier but more as a sophisticated yet cost effective service delivery vehicle.

In such a scenario, the role of a CMA will undergo a drastic change. The role of a CMA till date could have been more towards Project Preparation, Price Fixation, and related assignments. Observe the tariff alternatives available in the market. You go to a mobile service provider for a connection—you are sure to be flooded with numerous options depending upon your requirement. Either you look at the phone as a voice device or as a paging device—options are readily available to choose from. Such tariff dynamism is sure the handiwork of a CMA.

It is also a fact that despite the mobile tariffs being the lowest in the world, Indian Mobile

Companies are profitable. This stands testimony to the fact that the costing function within these organizations is more than being robust. Majority of the practices adopted by the telecom companies in India have been unique. For example, the decision to outsource telecom tower business ensures both operational efficiency and a fixed outgo. Also, it enables the concerned companies to go easy on capital deployment. Also, it is a known fact that a number of telecom companies make their profits by selling value added services. Such innovative financial engineering models could have also been aided by the CMAs.

Now, besides these traditional functions, a CMA can look forward to more challenging roles as mobile telephones become the preferred vehicle for Financial Service delivery. In fact, as the humble (or not so humble right now!) mobile phone is looked at as the delivery provider, more and more MFIs would seek to have tie-ups with telecom companies to host their products. Imagine the model of different airlines using a common airport, wherein the airline fleet makes use of a common airport to operate. This could possibly be the model for cooperation between the MFIs and the Telecom companies. Once this happens a CMA within the Telecom Industry will be looked upon to arrive and provide for the economic basis upon which such cooperation will work. Also, with a plethora of pay per use services getting hosted on the mobile platform, the task of arriving at the right price to be charged or the task of jointly sharing revenues generated will increase. The CMA then will be relied upon to arrive at a correct pricing/ revenue sharing model to facilitate a win-win situation.

Given the tools that a CMA is a rmed with, the role to be played by them within telecom does indeed look bright! ❐

Corporate Social Responsibility in Indian Telecom Sector – A Study

Suvarun Goswami*

The concept of Corporate Social Responsibility (CSR) has emanated from the term social responsibility of a business. The functioning of a business is largely influenced by a lot of internal and external factors known as business environment. A business operates in a society, as such, it has some inescapable obligations to the society. Those inescapable obligations are known as social responsibility of a business. When we are talking about CSR it is nothing but a form of self-regulation observed by the corporate with an objective to pay their tribute to the stakeholders and society at large. Theoretical and conceptual aspects of CSR have mushroomed up comparatively faster than their implementation in practical fields. Nowadays it has been elevated to the status of a good advertisement and indicator of corporate citizenship.

There has been a growing need among all sectors including telecom sector to include a substantial portion in its websites which may be in the name of CSR activities or Mission/Vision Statements or Corporate Initiatives etc. In the era of globalization, the concepts of sustainable development and corporate social responsibility are increasingly attracting public attention and scrutiny. Today the concepts of CSR and sustainable development overlap in many areas. McWilliams and Siegel (2001) defined CSR as situations where the firm goes beyond the compliance and engages in actions that appear to further some social good, beyond the interests of the firm. As such, in reality, CSR implies engagement of corporate in some activities beyond what it is legally bound to do .

In the present article the Indian Telecom Sector has been selected for case study and at the fag end of this article some suggestions have been given that need to be taken care of by the Central Government and the people by whom the CSR is implemented in different organizations.

Introduction

A business operates in a society; as such it has some inescapable obligations to the society. Those inescapable obligations are known as social responsibility of a business. When we are talking about CSR it is nothing but a form of self-regulation observed by the corporate with an objective to pay their tribute to the stakeholders and society at large. Theoretical and conceptual aspects of CSR have mushroomed up comparatively faster than their implementation in practical fields. Nowadays it has been elevated to the status of a good advertisement and indicator of corporate citizenship. There is no unanimity on the definition of what constitutes Corporate Social Responsibility (CSR). Most definitions describe CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (CEC: Green Paper for Promoting a European Framework for Corporate Social Responsibility).

The World Business Council for Sustainable Development defines CSR as "The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large."

According to a global study by CSR network, a UK based CSR consultancy, released in 2004, the top 10 benefits of engaging in Corporate Social Responsibility are :

- Increased profit
- Access to capital
- Reduced operating costs/increased operational efficiency
- Enhanced brand image and reputation
- Increased sales and customer loyalty
- Increased productivity and quality
- Increased ability to attract and retain employees
- Potentially, reduced regulatory oversight
- Reducing risk, and increased risk management.

Methodology

In the present article , at the outset the theoretical background of the term CSR has been elaborated. The sources of data are websites of the sectors under study, different periodicals, journals in the relevant fields, magazines, different reports etc., the details of which have been duly incorporated in the reference section which implies that the date base of the article is secondary in nature. For the purpose of case study both the public sector (**BSNL**) and private sector (**AIRTEL**) have been considered. There was no bias in the selection of the AIRTEL among the different mobile companies. The period of data includes last ten years.

* Assistant Professor, Department of Commerce, Rishi Bankim Chandra Evening College, Naihati, North 24 Parganas, West Bengal.

Objective of the Study

The study is directed towards the following objectives :

1) To evaluate the extent of implementation of CSR in Indian telecom sector.
2) To evaluate the position of CSR implementation in Indian telecom sector.
3) To judge whether there is any consensus among the different mobile companies as regards their thinking in respect of the concept of CSR.
4) To make an analysis as to whether there is any deviation between the CSR activities publicly shown and CSR activities actually done.

Literature Survey

1) Kotler and Lee (2005) have defined CSR as "a commitment to improve community wellbeing through discretionary business practices and contribution of business resources."

2) According to World Business Council for Sustainable Development (WBCSD), CSR of an organization "is the continuing commitment in conformity with its culture to economic development while improving quality of life of the workplace and their families as well as of the local community and society at large."

3) McWilliams and Siegel (2001) defined CSR as situations where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm.

4) National Association of Accountants (USA) Committee on Accounting for Corporate Social Performance in its report (1974) has identified four areas of social performance and reporting, viz: community involvement, human resources, physical resources and environmental contributions and product or service contributions.

5) Corporate Social Responsibility Voluntary Guidelines (2009) issued by Ministry of Corporate Affairs, Government of India, expects the CSR policy of a company should normally cover a few key areas such as care for all stakeholders, ethical functioning, respect to workers, right and welfare of workers, environment awareness, etc.

6) The Strategic Advisory Group on CSR of International Organization for Standardization (ISO) describes CSR as "a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people , community and society."

7) Rousseau, the great political thinker, understood it to be the social contract between business and society.

8) The term CSR can be traced from the early 1930s with the Barle–Dodd debate, Chaster Beranards' 1938 publication The Functions of the Executives, after eight years of the Barley-Dodd debate.

9) J. M. Clark's Social Control of Business in 1939 and Theodore Krep's Measurement of the Social Performance of Business published in 1940 are the worth-noting references to the CSR literature.

10) Howard Bowen's seminal work Social Responsibilities of the Businessman also stands as evidence of the emergence.

Latest Scenario of Corporate Social Responsibility (CSR) in India

The government is likely to make it mandatory for big companies to earmark at least 2 per cent of their net profit for corporate social responsibility (CSR) activities in the new Companies Bill : "The Ministry of Corporate Affairs has agreed that the Bill may now include provisions to . . . ensure that every year at least 2 per cent of its (companies') average net profits during the three immediately preceding financial years shall be spent on CSR activities," an official statement from the Government of India has stated.

The new provisions will apply to companies having a net worth of Rs 500 crore or more, or a turnover of Rs 1,000 crore or more, or a net profit of Rs 5 crore or more, during a year. Directors will have to make suitable disclosures in this regard in their report to members.

"... The committee feels that separate disclosures required to be made by companies in their Annual Report by way of CSR statement indicating the company policy as well as the specific steps taken thereunder will be a sufficient check on non-compliance," it said.

The ministry's statement comes after the Parliamentary Standing Committee on Finance presented its report on the new Companies Bill in the Lok Sabha. It further said that in case a company does not have adequate profits or is not in a position to spend the prescribed amount on CSR activities, the directors would be required to give suitable reasons in their report to members. The Companies Bill, 2009, was re-introduced in Parliament in August last year, after which it was sent to the Standing Committee for vetting.

The revised Bill is expected to be presented in Parliament for passage in the Winter Session with the ambit of Corporate Social Responsibility growing rapidly in the country.

Key CSR Themes in India

- Community upliftment

- Education
- Environment
- Health

CSR Activities of BSNL

BSNL launches 'BSNL 3G Rajdhani Express'

BSNL (Bharat Sanchar Nigam Limited) is rolling out 3G network and related services across India. To publicize and create awareness at mass level and to strengthen its brand presence 'BSNL 3G branded Rajdhani Trains' are being launched in association with Indian Railways and Peacock Media.

BSNL will take care for up-gradation, cleaning and maintenance of Rajdhani trains, which will also add on to CSR activity and to establish its BSNL3G brand in the mindset of people. BSNL has done a full train external vinyl wrap for the first time in India including internal media for captive visibility. This is a massive campaign in terms of visual area as well, since as much as 25,000 square feet of BSNL advertisement creative would be wrapped onto Rajdhani Express with a special quality vinyl approved by RDSO. The medium deliveries are 85,000 per day eyeballs assured through the external vinyl wrap, while internal medias are consumed by approx 1,500 passengers per day. There are approx 350 Panels, 200 Table Tops and 400 Brochure Holders inside one train, along with audio jingles, announcements, contest and activation by in-train promoters which would create a great impact and engaging communication for the brand BSNL and its services. The CSR imagery of BSNL would also gain strength because of the upgraded services experienced by the travelers, including cleaning and maintenance which are viewed to be bought by the BSNL 3G brand. What makes the medium unique is its high and impactful reach with long duration consumption in a receptive environment, with complete exclusivity for the Brand BSNL. This 3 month campaign is expected to attract one and half crore eyeballs negotiating 34 locations across eleven States. Routes being covered by this Rajdhani train are Delhi-Chennai, Delhi-Bangalore & Delhi Trivandrum. Another Rajdhani Train covering Delhi-Sealdah is also scheduled for launch shortly. BSNL's communication on this Rajdhani train is focused on 3G services and entices the consumer to 'get ready for a faster life' by eye catchy visuals on fast gaming, music download, online movie streaming, video calling, live TV and high speed internet services on the move.

BSNL donates computer to a Government school

The Bharat Sanchar Nigam Limited (BSNL) donated a computer with free unlimited broadband usage for the students of the Government Special School for Physically Challenged at Villapuram in the city.

The computer was presented to the school under the corporate social responsibility activities of the BSNL for which Madurai had been allotted Rs. 1 lakh for this year, its General Manager V. K. Sanjeevi said.

Apart from a personal computer, the BSNL has provided table, chair, modem and a telephone with incoming facility. One more educational institution would get a similar facility, he said.

District Rehabilitation Officer Kanagaraj was present.

(Source : The Hindu, October 28 , 2009, Madurai)

Quality Service at affordable prices

Bharat Sanchar Nigam Limited (BSNL) is committed to provide quality Telecom Services at affordable price to the citizens of the remotest part of India, since it is of utmost importance for achievement of the country's social and economic goals. BSNL is the only telecommunication service provider offering rural telephony as part of its social responsibility. Bharat Sanchar Nigam Limited does not have any direct subsidy schemes/programmes for public. However, BSNL is the only service provider offering rural telephonys part of its social responsibility. BSNL plans to provide broadband to 20,000 villages that are already connected through optical fibre. BSNL, with support from government, plans to provide broadband to all gram panchayats, secondary and higher secondary schools and public health care centres by end of 2010. BSNL is offering special tariffs for rural subscribers by providing lower rental and higher free calls as compared to urban area subscribers.

Employees' Welfare activity

BSNL focuses its CSR activities primarily in the field of employees' welfare activities, assistance during natural calamities and offering rural broadband plans. BSNL implements welfare programs and awards such as Bharat Sanchar Sarathy and Sanchar Seva Padak. It also offers its employees corporate group Life Insurance Policy. BSNL, with government support, plans to provide broadband to all gram panchayats, secondary and higher secondary schools and public health care centers by the end of 2007. BSNL is the only service provider offering rural telephony as part of its social responsibility. It received the 'Golden Peacock National Award 2005' for its contribution to the field of CSR, in connecting India's remote areas and adhering to best labor practices. The company has an ISO 9000 certified Telecom Training Institute.

CSR Activities of Airtel

The emerging recognition of the role of the environment and the potential as a tipping point

For Airtel, 5,000 sites are using a green-shelter system that provides cooling for four hours in the Base Transceiver Station. This system saves cost and reduces pollution. A question from the research team is around the use of ISO14001 systems to help take these initiatives further?

The stakeholder perspective

According to the company, "Corporate Social Responsibility is a way of life at Bharti."

Airtel has been looking after the needs and interest of its stakeholders, including employees, consumers, and communities, along with the environment. Its mission recognises stakeholders: "Airtel is strongly committed to being a responsible corporate citizen. Providing a platform to leverage the potential of the citizens of tomorrow and concern for the environment are our top priorities." (Sunil Bharti Mittal – Chairman and Managing Director, quoted from the 2005-06, Annual Report.

Service to underprivileged

Bharti Airtel founded the Bharti Foundation in 2000, with the vision: "To help underprivileged children and young people of our country realise their potential." Through the foundation, several initiatives were started such as the Bharti Computer Centers, which have provided computer learning to more than 130,000 children in five states; the Bharti Library Programme, aimed to encourage reading habits of children; and the Mid-day Meal Programme, in which Bharti Foundation has supported Akshaya Para in providing meals to 43,000 children per day in 292 government schools. For the coming years, the Foundation has plans to start a large number of primary schools in rural areas across the country. It will also provide teachers' training facilities.

Major Findings of the study

From the pilot survey and analysis of data the following findings are worth mentioning :

1) It is observed that a lot of initiatives have been taken by both the public sector and private sector under study but the private sector seem to play pivotal role in the arena of Corporate Social Responsibility (CSR).

2) As there is no clearcut guidelines from the Govt as to what activities constitutes CSR activities it is found that there is no similarity as to the activities undertaken in the name of CSR between the sectors under study.

3) It is also observed that the activities undertaken in the name of CSR do not tally with the mission and vision statements of the respective sectors.

4) It is also visualized that a lot of activities has been undertaken in the name of CSR but the annual report does not reflect the actual cost incurred for the purpose; neither is mentioned the relevant percentage of total turnover expended for the purpose which definitely raises question as to the implementation of CSR activities in reality.

5) It is also observed that in the annual reports some activities has been shown under the heading CSR Activity which should have been regarded as activities of ordinary course of business.

Recommendations and Suggestions

1) The Concerned Ministry should issue necessary and clear cut guidelines as to what activities constitute the CSR activities to bring uniformity in the CSR activities undertaken by different sectors of the Indian Economy which will, inter alia, ensure real implementation of Corporate Social Responsibility.

2) Government should make it mandatory for each sector to spend a certain portion of its distributable profits for CSR activities.

3) It should also be made compulsory for each sector to disclose the amount expended for CSR activities in each financial year in its financial statements. Necessary amendment may be made in the Companies Act in this regard.

4) Like Corporate Sector, Govt should also issue guidelines to make it mandatory for each sector to get its CSR activities audited by competent authority to ensure real implementation of Corporate Social Responsibility (CSR) in India.

5) A mechanism like CSR Audit should be developed by the Govt of India which should lay emphasis on the determination of gap between Vision and Mission Statements and their implementation an actual practice.

6) Central Government may also consider to grant certain tax exemptions to those sectors which contribute substantially in CSR activities in the true sense of the term. For the purpose, Government may specify some activities which will attract more exemption and which activity will attract comparatively lesser benefit in order to streamline the CSR activities of different sectors into the strategic areas. ❐

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Telecom Sector in India: The Way Ahead

Mausumi Bhattacharyya*

Growth trajectory

Growth of telecom sector in India may be studied in three distinct phases. The first phase, i.e. 1991-2001, was characterised by the dominance of the state-owned enterprises. Two licenses were issued in 1995 to four metropolitan circles with fixed license fees and with the arrangement of revenue sharing on the basis of license agreement. Government of India implemented the unified access licensing regime, which enabled basic and cellular mobile service providers to use any modern technology. In 1997, Telecom Regulatory Authority of India (TRAI) was formed to facilitate the growth of the telecom sector in India. The second phase, namely 2001-2004, saw gradual increase in the number of private operators. In 2001, the government of India published guidelines regarding the fourth license for each circle. FDI limit in the telecom sector was increased to 49 per cent. This phase witnessed the revolutionary WLL (wireless in local loop) technology. The third phase started in 2005 and it may be called a consolidation phase. FDI cap in the telecom sector was enhanced to 74 per cent. In 2007 government allowed the players to apply for cross-over-spectrum. A host of new licenses were issued and 12 players per circle were permitted to operate.

Sectoral view

Indian telecom sector is one of the fastest growing telecom sectors in the world with an addition of 120 million subscribers in 2009 alone. India is expected to reach a subscriber base of 500 million by 2010 with a whooping more than one phone per household. Explosion in mobile technology is of course at the root of this revolution. GSM subscribers far outnumber the land line subscribers. While 3.2 per cent of the subscribers used mobile telephony in 2004, 33.7 per cent use the same in 2009. This figure is projected to be 52.1 per cent in 2012. Despite low teledensity in India as compared to China, USA and Russia, India has the second highest minutes of usage per month. This is the secret of multinational telecom companies thronging at the Indian market.

As of now, the telecom sector of India is divided into 22 circles including four metros. Each circle is further subdivided into three subcategories depending on the economic parameters and revenue potential. Telecommunication sector in India is primarily subdivided into two segments, namely, Fixed Service Provider (FSPs) and Cellular Services. Telecom industry in India constitutes some essential telecom services like telephone, radio, television and Internet. India's telecom sector is specifically emphasizing on latest technologies like GSM (Global System for Mobile Communications), CDMA (Code Division Multiple Access), PMRTS (Public Mobile Radio Trunking Services), Fixed Line and WLL (Wireless Local Loop). India has a prospering market specifically in GSM mobile service and the number of subscribers is growing very fast.

Challenges ahead

Since the introduction of the New Telecom Policy (NTP), 1999, by the government, the growth in the telecom sector has been only gaining steam. From a little over a million mobile subscribers in 2000, today there are more than 500 million subscribers. The sector has crossed all targets set by NTP 1999. Against a target of 15 per cent telecom penetration by 2010, it is at 45 per cent now. The 15 per cent target was reached in September 2006 itself. Similarly, while the NTP set a target of 4 per cent rural teledensity by 2010, the country already has a 15.35 per cent rural teledensity as of June 2009. However, the growth path is not as rosy as it appears to be. The sector is faced with several challenges such as :

Management of strategic partnerships

Providing free SMSs or call rates at 40 paise per minute are no longer the differentiators. It is the Value Added Services which matter. There were bunch of partnerships which happened in the last 2 months. AskLaila and Airtel have partnered for local search. Similarly, Amar Chitra Katha-Vodafone and IDEA-Bharat Matrimony have tied up for various value added services. BSNL has recently tied up with Hungama portal for music and game downloads. Strategic partnerships like these should be **nurtured and maintained**.

Capital for expansion

This is a critical factor for the smaller players to

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grow. While there are no smaller players, as the new players are backed up by some heavyweights, expansion is still tough. This is where sharing of infrastructure comes into picture. Indus Towers is one such example. BSNL has recently announced about leasing its towers. Initiatives like these will help both the older and newer players to penetrate new markets.

Attracting and managing talent and intellectual capital

With fierce competition comes the talent poaching. Companies should have some talent retention measures in place. For instance, Airtel has restructured its business into several verticals to retain talent. Not every company can do the same but, this may be an option. High attrition rate is going to play havoc on this sector.

Processes and systems to support exponential business growth

This is where investing in IT and the selection of right tools is crucial. These are the operations that should be outsourced so that the telecom companies can focus on their core areas. Indian telecom companies should outsource aggressively and focus on expanding their network and services.

Concentration of equipment manufacturers

Sourcing of telecom equipments by the players is significantly constrained by limited suppliers. Forced sourcing from a single supplier or a bunch of suppliers could lead to great dependency. This dependency might result in suppliers'-monopoly which may affect the profitability of telecom sector in the long run.

Corporate social responsibility and sustainability

With the Satyam scam jolting India Inc, this would be high on the radar for the companies. Telecom companies need to pay due attention to the sustainability issue. Many of the telecom companies, particularly cellular service providers, have been found to be deducting subscribers' account balance without intimating them. Disgusted with their unscrupulous trade practices, many a subscriber surrenders his or her connection and move to other network for better services. Such practices may not auger well for the sector which still has a long way to go.

Lack of protection for digital intellectual property

Intellectual property rights (IPR) infringements have reached a critical level in the USA and other developed countries. The speed and ease at which the duplication of products protected by IPR occurs has created an urgent need for industries and governments alike to address the protection of IPR in order to keep markets open to trade in the affected goods. India is yet to become a significant victim of IPR violation, but Indian telecom sector too soon may face the same risk in 2-3 years. Thus, Indian policy-makers need to have adequate concern about the digital intellectual property protection issue.

Move for rural clientele

Indian telecom sector is all set for the second revolution. With the major cities already saturated and having a teledensity in excess of 80 per cent, it is the tier 2 and rural areas which will provide the next big leap. India's overall teledensity is 32 per cent. There is a wide gap between the telecom spread in urban and rural areas. Bridging this gap serves as a big opportunity for the telecom providers.

Job creation and attrition

According to a report in *The Economic Times (January 11, 2009)*, the telecom sector is expected to create 150,000 jobs in the country this year, the figure being based on estimates of hiring consultants. The growth has been attributed to the launch of operations in new areas such as 3G and WiMAX. In fact, there are even fears that the number of experienced and skilled telecom personnel to be required would exceed the work force currently available in India. This could lead to an upward push in salaries in the core operations segment, giving the cost structure of telecom sector a further push. The growth in the telecom sector would even lead to further creation of jobs downstream as new retailers for WiMAX and 3G arrive on the scene. Meanwhile, according to a press release by the Telecom Regulatory Authority of India (TRAI), the total number of telephone connections reached 374.13 million at the end of November 2009, resulting in the growth of teledensity to 32.34 per cent in the country.

Merging game

A look at some recent telecom deals reveals how potential investors are looking at the market. After Vodafone put in over $11 billion in cash to take over Hutch in a deal valued at $18.8 billion in 2006, Telekom Malaysia bought 15 per cent of Idea Cellular for $1.5 billion last year; Etisalat bought 45 per cent of the start-up Swan Telecom for $900 million last year while Telenor paid a whopping $1.2 billion for 67 per cent of Unitech's start-up firm with no subscribers. NTT DOCOMO bought 26 per cent of Tata

Teleservices for $2.7 billion less than a year ago. While the newcomers obviously cannot expect to match Bharti's economies of scale, the big game-changer is likely to be 3G. (Is India's telecom sector in deep trouble? See *rediffbusiness.com*. October 5, 2009).

Rising subscribers falling profit

Sure, there are 10 million new subscribers each month, but they are not adding much value. Telecom revenues have not leapfrogged as the number of subscribers did. There is also pretty serious doubt as to how many of these are new subscribers and how many just existing subscribers buying new SIM cards to avail of discounts or schemes on them. It is our common experience that whenever any network provider brings out any offer, some interested subscribers buy it out crazily only to use it for the promotional period. Thus, addition to number of subscribers does not essentially confirm the retention of the new customers. In the build-up to the Bharti-MTN deal, this was pretty much the story we kept hearing— average revenues per user are collapsing in India and will get worse as all telecom growth comes from rural India since 95 percent of urban India is already penetrated. For instance, 24 million rural subscribers were added to Bharti's existing list in the June quarter as compared to 21 million urban ones. So Bharti just needs to get out of India if it wants to grow. The trending down of revenues is a fact—the revenues in the March quarter suggest new subscribers are giving as little as Rs 70 per month to telecom companies.

But given that each telecom tower a company sets up, can service a certain amount of traffic — whether from a lesser number of users calling more or from a higher number calling less is irrelevant — what is important is the profitability of the business. Admittedly, Bharti is the best in class, but its numbers show a completely different side to the Indian telecom business. It shows a business that is giving returns in excess of 30 per cent on capital employed.

Looking ahead

Fitch Ratings outlook for the Indian telecom sector is largely stable for calendar year 2009. The pricing pressure in wireless should continue, as should high capital expenditure, but will be offset by growing revenue from the cellular business due to strong monthly additions in wireless subscribers and increasing revenue from value added services. The wireless sector has been supported by a progressive regulatory regime, falling tariffs, increased affordability of handsets, and higher disposable income.

According to Gartner, a global information technology research and advisory firm, the revenue from India's telecom sector will cross $30 billion by 2013. The total mobile services revenue is projected to grow at a compound annual growth rate (CAGR) of 12.5 percent during 2009-2013 to exceed $30 billion. At the same time, the telecom subscriber base is expected to cross 770 million connections by 2013, growing at a CAGR of 14.3 percent from 452 million in 2009. The factors supporting this increase are :

- increased focus of operators on rural areas
- increased adoption of Value Added Services
- availability of cheaper handsets
- entry of consumer durable and electronic companies into the mobile handset segment
- rising middle class population in the Indian subcontinent.

Conclusion

A cut-throat price war is hammering down call charges, putting pressure on telecom companies' earnings and share prices and threatening bruising stake-out in a sector crowded with new players. Competition was already fierce but has become even more aggressive as new players unleash deeper price cuts with innovative per-second billing plans that have pushed call costs down to reach rock bottom. Thus, the sector is affected by irrational pricing. Urban mobile markets are already saturated but there are still hundreds of millions of customers to be signed up in rural areas — a tantalising prospect for new entrants that see India as one of the few global growth areas. Experts say the sector can only reasonably support four to five players and that consolidation looms. The days ahead throw a challenge of survival before the competing players. Who ultimately stays back is for time only to decide.

There is no denying that provision of world class telecommunications infrastructure is the key to the rapid economic and social development of the country. It is critical not only for the development of information technology, but also for the progress of the entire economy. Telecom sector has the potential to emerge as a major contributor of GDP of the country. Accordingly, it is vital to have a comprehensive telecom policy which would be conducive to the fair growth of this sector. ❒

Role of Cost and Management Accountants in Telecom Sector

CMA Sudarshan Maity*

Telecom industry in India has a major role in Indian economy. The Indian government has been enforcing some effective telecom policies and regulations for the infrastructural growth of this industry. In India, it has a big market potentiality and is a fast growing sector. Government of India is eager to reconstitute this telecom industry by enacting effective policies for more investments from foreign companies, which results in a very competitive and deregulated market in the world. A number of leading multinational telecommunication companies are approaching and showing their interest to invest in the telecom industry in India. These articles will help the readers to understand the strengths, weaknesses, opportunities and threats of Indian Telecom sector.

Introduction

The telecom sector has been one of the fastest growing sectors in the Indian economy in the past six years. This has been witnessed due to strong competition that has brought down tariffs as well as simplification of policy environment that has promoted healthy competition among various players. The mobile sector alone has been growing rapidly and has emerged as the fastest growing market in the whole world. Telecom sector in India is primarily subdivided into two segments, which are Fixed Service Provider (FSPs), and Cellular Services. The 'Indian Telecom Sector' services are not confined to basic telephone but it also extends to internet, broadband (both wireless and fixed), cable TV, SMS, IPTV, soft switches, etc. Telecom industry in India is specifically emphasizing on latest technologies like GSM (Global System for Mobile Communications), CDMA (Code Division Multiple Access), PMRTS (Public Mobile Radio Trunking Services), Fixed Line and WLL (Wireless Local Loop). India has a prospering market, specifically in GSM mobile service, and the number of subscribers is growing very fast.

Telecom Market in India

The Indian telecommunications industry is one of the fastest growing in the world. According to the Telecom Regulatory Authority of India (TRAI), the number of telephone subscribers in India increased from 621.28 million in March 10 to 671.69 million at the end of June 10, registering a sequential growth of 8.1% over the previous quarter as against 10.52% during the quarter end March 10. This reflects year-on-year (Y-O-Y) growth of 44.5% (464.82 million in June 2009 to 671.69 million at the end of June 2010).

The overall Teledensity in India has reached from 39.86 on June 2009 to 56.83 as on 30th June 2010 with year-on-year growth of 42.6%.

Internet subscribers increased from 16.18 millions at the end of March 10 to 16.72 million at the end of June 10, registering a quarterly growth rate of 3.33%. Number of Broadband subscribers increased from 8.77 million at the end of March 10 to 9.47 million at the end of June 10, registering a quarterly growth of 7.97% and year-on-year (Y-O-Y) growth of 43.09%.

Gross Revenue (GR) and Adjusted Gross Revenue (AGR) of Telecom Sector for the QE June 10 has been '41,392.75 crore and '30,481.93 Crore, respectively. There has been an increase of 2.8% & 5.73% in GR & AGR, respectively, as compared to previous quarter and their respective year-on-year (Y-O-Y) growth for June 10 has been 5.84% and 2.52%. Pass-through charges accounted for 26.36% of the GR for the quarter ending June 10.

Rural telephone connections have gone up from 12.3 million in March 2004 to 123.5 million in March 2009 and further to 174.6 million in December 2009. This rapid growth has been possible due to various proactive and positive decisions of the Government and contribution of both by the public and the private sector. The rapid strides in the telecom sector have been facilitated by liberal policies of the Government that provide easy market access for telecom equipment and a fair regulatory framework for offering telecom services to the Indian consumers at affordable prices.

The telecommunication sector continues to register significant success during the years and has emerged as one of the key sectors responsible for resurgent India's economic growth.

- Telecom sector accounts for 1 percent of India's GDP. Likely to double in 2 - 3 years.
- Telecom services contribute around 30 percent to India's total service tax revenue.
- Availability of low cost mobile handsets.
- The robust telecom network has also facilitated the expansion of BPO industry.

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- The Indian telecom sector gives direct employment to more than 5,00,000 people.
- Not just the enabler of software, BPO and ITeS companies, it is also the lifeline of a Fast Growing E-commerce space.
- State-of-the-art telecom infrastructure has led to the rise of cities like Mysore, Mangalore, Jaipur, Ahmedabad, and Kochi on the software services map.
- This has helped spread the benefits of a booming Indian economy to beyond metros and large cities, and wealth creation is happening in tier-2 cities.

Major Players

There are primarily 9 Global System of Mobile Communication (GSM) and 5 Code Division Multiple Access (CDMA) operators providing mobile services in more than 2,000 towns across the country. There are three types of players in telecom services :

- State owned companies (Bharat Sanchar Nigam Limited and Mahanagar Telephone Nigam Limited)
- Private Indian owned companies (Reliance Infocom, Tata Teleservices)
- Foreign invested companies (Hutchison-Essar, Bharti Tele-Ventures, Escotel, Idea Cellular, BPL Mobile, Spice Communications).

Global Market

The Reserve Bank has liberalised the investment norms for Indian telecom companies by allowing them to invest in international submarine cable consortia through the automatic route. In April 2010, the RBI issued a notification stating "As a measure of further liberalisation, it has now been decided to allow Indian companies to participate in a consortium with other international operators to construct and maintain submarine cable systems on co-ownership basis under the automatic route''.

Manufacturing of Telecom Equipment

The Indian telecom industry manufactures a vast range of telecom equipment using state-of-the-art technology. Rising demand for a wide range of telecom equipment, particularly in the area of mobile telecommunication, has provided excellent opportunities to domestic and foreign investors in the manufacturing sector. The last two years saw many renowned telecom companies setting up their manufacturing base in India. According to the Economic Survey 2009-10, the production of telecom equipment in value terms has increased from US$ 9 billion in 2007-08 to US$ 10.53 billion in 2008-09 and is expected to be US$ 12.4 billion in 2009-10.

Merger and Acquisition

India has emerged as one of the top countries with respect to merger and acquisition deals :

- The biggest Merger and Acquisition deal in the sector was made by Anil Ambani's Reliance Communication Ltd that merged GTL infrastructure Ltd, its telecom tower business, for US$ 11 billion.
- In March 2010, Bharti Airtel bought the African operations of Kuwait-based Zain Telecom African business for US$ 10.7 billion.
- Acquisition of Infotel broadband for US$ 1032.26 million by Reliance Industries.
- Norway-based telecom operator Telenor has bought a further 7 per cent in Unitech Wireless for a little over US$ 431.3 million. Telenor now has 67.25 per cent hold of the company. Telenor has now completed its four-stage stake buy and has invested a total of US$ 1.32 billion in Unitech.

Foreign Direct Investment Policy

Foreign Direct Investment (FDI) was permitted in the telecom sector beginning with the telecom manufacturing segment in 1991 — when India embarked on economic liberalisation.

According to the Department of Industrial Policy and Promotion (DIPP), the telecommunications sector which includes radio paging, mobile services and basic telephone services attracted foreign direct investment (FDI) worth US$ 2,554 million during 2009-10. The cumulative flow of FDI in the sector during April 2000 to March 2010 is US$ 8,930.61 million.

Bottlenecks for Indian Telecom Sector

The bottlenecks for 'Indian Telecom Sector ' are :

- Slow reform process.
- Low penetration. Service providers bear huge initial cost to make inroads and achieving break-even is difficult.
- Huge initial investments.
- Limited spectrum availability and interconnection charges between the private and state operators.

Government Initiatives

The government has taken many proactive initiatives to facilitate the rapid growth of the Indian telecom sector.

- The Telecom Regulatory Authority of India (TRAI) was set up in March 1997 as a regulator for the Telecom sector.

- In the area of telecom equipment manufacturing and provision of IT-enabled services, 100 per cent FDI is permitted.
- All telecom services have been opened up for free competition for unprecedented growth.
- No cap on the number of access providers in any service area. In 2008, 122 new Unified Access Service (UAS) licences were granted to 17 companies in 22 service areas of the country.
- Revised subscriber based criteria for allocation of GSM and CDMA spectra were issued in January 2008.
- To provide infrastructure support for mobile services a scheme has been launched to provide support for setting up and managing 7,436 infrastructure sites spread over 500 districts in 27 states. As on December 31, 2009, about 6,956 towers had been set up under the scheme.
- Lease line charges have been reduced to make the bandwidth available at competitive prices to facilitate growth in IT enabled services.
- One India plans i.e., single tariff of Re. 1/- per minute to anywhere in India was introduced from 1st March 2006 by the Public Sector Undertakings. This tariff was emulated by most of the private service providers also. This scheme has led to death of distance in telecommunication and is going to be instrumental in promoting National Integration further.

Role of Cost and Management Accountants in Telecom Sector

Telecom sector in India is growing rapidly. With unprecedented growth of business and more and more competititors appearing in the horizon, responsibility of managers is also being more complex. Since many providers are there, rates are become low every day.

Under The Companies Act, 1956, forty four industries (inclusive of telecom industry) are under the preview of cost audit by a cost accountant within the meaning of the Cost and Works Accountants Act, 1959 (23 of 1959). Cost auditor performs a major role of cost determination, cost for pricing, cost for managerial decision and cost control. Presently, responsibility of CMAs is not only bound to costing in a manufacturing industry. The cost and management accountants are to perform in all the areas of finance, production, accounts, costing, taxation, administration and marketing with their vast knowledge and experiences.

Cost and Management Accountant plays a very significant role in Telecom Sector to stay alive in the present competition and growing market. Role of CMAs brings the nation in the top position with growth of the telecom sector, which alone accounts for 1 percent of the GDP.

Conclusion

At a time when global telecom majors are struggling to cope with their losses and the rollout of 3G networks, which has been a non-starter for close to a year now; India, with its telecom success story, represents an attractive and lucrative destination for investment. India will start using IPv6 (Internet Protocol version 6 — is an Internet protocol version that offers a larger address space than the current IPv4) from March 2012, according to a new roadmap released by the Indian government.

The government plans to connect all revenue villages in India either through landline, mobile or Wireless Local Loop by February 2011. “We have already connected about 96 per cent of the revenue villages. The remaining 25,000 villages will have connectivity by February 2011,” stated Mr. Sachin Pilot, Minister of State for Communications and IT. The government further proposes to provide broadband connectivity to all the Panchayats in the country by 2012. ❒

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Indian Telecommunication Sector and Role of Cost and Management Accountant

Dr. Sukamal Datta*
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Indian telecommunication industry has undergone a revolution in the recent years. Our country has ranked second position in the world just after China in terms of having communication network. High penetration of internet, broadband and mobile subscribers are observed in the country as a result of outgoing investments in infrastructural development.

The Indian telecommunication industry is one of the fastest growing industries in the world. The number of telecom subscribers in India reached 621.28 million as on 31st March 2010, an increase of 3.38 % only in one month from 600.98 million in February 2010 as per record of Telecom Regulatory Authority of India (TRAI). There has been a record breaking of 59.18 million mobile connections – more than twice as many connected in China (29.5 million) during the same period of first quarter of Financial Year 2010. According to TRAI, the number of telephone subscribers' base in the country touched 653.92 million as on 31st May 2010 in increase of 2.49% from 638.05 million in April 2010. The overall teledensity (No. of telephones per 100 people) of India has improved significantly over the recent years and has reached 55.38 on 31st May 2010 due to improving network infrastructure. At the end of May 2010 the wireless subscriber base has increased to 617.53 million from 601.22 million as on 30th April 2010.

Indian telecommunication sector, like many other industrial sectors, has gone through many phases of growth and diversification and has reached the present position. It started in the 19th century with telegraphic and telephonic system and the field of telephonic communication has now expanded to use of advanced technologies like GSM (Global System for Mobile Communication), CDMA (Code Division Multiple Access), WLL (Wireless Local Loop) as well as the great 3G technology in mobile phones.

Now we look back to the history of Indian telecommunication.

Indian Telecom Sector — Govt. Policy and Initiatives

The Government controlled all the aspects of the telecom sector through the Ministry of Post and Telegraphs as a monopoly till the mid—80s. Then telephones were looked upon as luxury rather than as an essential means of communication that could benefit business and administration. As a result, telephones were concentrated around metropolitan cities and urban areas. In the Seventh Five Year Plan (1985-1990) policymakers shifted their stand on telephone from luxury to essential tool of communication for efficient business and economic growth. With the changing views of policymakers the real development of telecom sector was started. The Public Accounts Committee of the Lok Sabha recommended to split the public, postal and telecom operations into separate departments and the reorganization was undertaken in 1986.

In 1985, the Department of Telecommunications (DoT) was established under the Ministry of Communications and Information Technology. DoT is the concerned authority for all mattes relating to telecom. This department is entrusted with the formulation of development policies, granting licenses for various telecom services, promoting standardization, research and development and allowing private investment in the sector. DoT allowed private firms to manufacture telephones issuing license for switching technology from various foreign firms. In 1997, Telecom Regulatory Authority of India (TRAI), an independent regulatory body, was established under the Telecom Regulatory Authority of India Act, 1997. The TRAI's functions are recommending, regulatory and tariff setting in telecom sector. An Appellate Tribunal known as the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) has been set up in May 2000 to protect the interests of service providers and consumers of the telecom sector. TRAI intervenes by regulating the tariffs of only those services the market of which are not competitive.

In April 2002, Universal Service Obligation Fund (USOF) was set up exclusively to meet the universal service obligation. In October 2006, Indian Telegraph Act has been amended to provide support for all telegraph services including mobile and broadband to bridge the digital divide.

As a policy of the Government the BSNL (Bharat Sanchar Nigam Limited) and MTNL (Mahanagar Telephone Nigam Limited), the state owned telecom

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operators have introduced 3G services in around 318 cities benefiting 8,56,000 subscribers. Tata Docomo is the first private sector telecom company which will introduce within a short period 3G mobile services in the market under GSM band. The internet service speed will be 21.1 megabyte per second. In addition to that, TRAI is consulting on 4G, i.e., the fourth generation – the next higher level of telecom services which enables faster downloads than all the earlier versions. It is predicted that in near future mobile number portability (MNP) will be available throughout India initially in the cities of Delhi, Mumbai, Kolkata and Chennai.

The Government has taken huge initiatives for the growth of the telecom sector, some of which are :

- All telecom services have been opened up for free competition.
- National Long Distance Service (NLD) is opened up for unrestricted entry for unprecedented growth.
- International Long Distance Service (ILDS) is opened up for free competition.
- TRAI issued its first directive regarding tariff-setting following National Telecom Policy of 1994 aimed at re-balancing tariffs and to usher in an era of competitive service provision.
- As per the new Telecom Policy (NTP) 1999, Govt. allowed private participation in several new services, which include Global Mobile Personal Communication by Satellite Service (GMPCS), digital Public Mobile Radio Trunked Service (PMRTS), Voice Mail/Audiotex/ Unified Messaging Service.
- To provide low cost mobile handsets.
- A decision to permit Community Phone Service has been announced.
- Multiple Fixed Service Providers (FSPs) licensing guidelines were announced.
- Two telecom PSUs, VSNL (Videsh Sanchar Nigam Ltd.) has been disinvested.
- Entry fee for NLD license reduced from Rs.100 crore to Rs.2.5 crore. Entry fee for ILD license was reduced from Rs.25 crore to Rs. 2.5 crore.
- License fee for Infrastructure Provider II was reduced from 15 per cent to 6 per cent of Adjusted Gross Revenue.
- Single tariff of Re. 1 per minute to anywhere in India was reduced from 1st March 2006 by the Public Sector undertaking.

Privatization of Telecom Sector in India

After the announcement of New Economic Policy the telecom sector was opened up in 1990s by the Government for private investment. In the era of Liberalization – Privatization – Globalization it became necessary to separate Government's policy wing from its operations wing. Accordingly, the Govt. of India corporatised the operations wing of DoT on 1st October 2000 and named it Bharat Sanchar Nigam Limited (BSNL). In April 2002, the Govt. decided to reduce drastically its stake of 51% to 26% in VSNL and open up for sale to private enterprises. Ultimately Tata invested in 25% stake of VSNL.

The Govt. became more liberal in making policies and issuing licenses to private enterprises from April 2000. The Govt. also reduced cellular service providers' license fees were and increased the allowable stake of 74% for foreign companies. As a result of all these factors, service fees reduced and the call costs were slashed in such a way that every common middle class family can afford a mobile phone. In the meantime many private operators, such as Reliance Communications, Tata Indicom, Vodafone, Loop Mobile, Airtel, Idea, etc. successfully entered the high potential Indian Telecom market. **Table 1** shows the group-wise market share within GSM service on 31st March 2010.

Table : 1 Group-wise Market share within GSM Service on 31st March 2010

Service Provider	No. of Subscribers (in millions)	Market Share (in %)	Net Additions in 3 months (in million) (Jan to Mar)
Vodafone	100.86	21.07	09.46
Bharti	127.62	26.66	08.76
Tata	026.91	05.62	08.22
Reliance	046.37	09.69	08.17
Idea	063.82	13.33	06.21
BSNL	063.31	12.22	06.07
Aircel/Dishnet	036.86	07.70	05.84
Unitech	004.26	00.89	03.06
S Tel	001.01	00.21	00.87
MTNL	004.78	01.00	00.22
LOOP	002.84	00.59	00.19
Videocon	000.03	00.01	00.03
Total	**478.68**	**100.00**	**57.10**

Source : *Telecom Regulatory Authority of India, The Indian Telecom Services Performance Indicators, January – March 2010*

It is observed from the **Table-1** that the service provided by different private service providers along with public service providers as on 31st March 2010 to 478.68 million subscribers and net additions during the period from January to March 2010, i.e., within 3 months are to 57.10 million subscribers. On 31st March 2010, highest market share was covered by Bharti (26.66%), followed by Vodafone (21.07%), Idea (13.33%) and BSNL (12.22%). The public players and the private players share the fixed line and the mobile segments.

According to the Department of Industrial Policy and Promotion (DIPP), the telecom sector including mobile services, basic telephone services and radio paging attracted foreign direct investment (FDI) worth US$2,554 million during 2009-10. The cumulative flow of FDI in the sector during the period from April 2000 and March 2010 is US$ 8,960.61 million.

The booming domestic telecom market has been attracting huge amount of investment in manufacturing of handsets. In the beginning there were only Siemens handset in India but at present whole series of new handsets with sophisticated technologies of Nokia, Sony Ericsson, Samsung, etc. have come up. Touch screen and advanced technological handsets are gradually gaining popularity. Latest handsets incorporate multimedia applications, Video generators, camera, high storage memory, MP3 players, multimedia games, etc. The mobile value added services (VAS) include text or SMS, menubased services, downloading of music or ringtones, Mobile TV, videos and sophisticated m-commerce applications. As per the industry report, VAS—at present which accounts for 10-12% of the telecom operators' revenue—is expected to reach 20% growth by 2013. It is also revealed from the report that the telecom industry witnessed merger and acquisition (M&A) deals worth US$ 22.73 billion during April-June 2010. The biggest M&A deal in the sector was made by Reliance Communication Ltd. that merged with GTL Infrastructure Ltd., its telecom tower business, for US$ 11 billion.

The Reserve Bank of India has liberalized the investment norms for Indian telecom companies by allowing them to invest in international submarine cable consortia through the automatic route. The RBI also notified that the banks may allow remittances by Indian companies for overseas direct investment. Taking the advantage of RBI's liberalized investment norm, Bharti Airtel bought 15 African markets from Kuwait-based Zain Telecom for US$ 10.7 billion in March 2010. It is the only Indian player that entered into the league of top 10 telecom players globally. Combining the 15 new markets with the existing three markets, the purchase gives it just under 170 million subscribers out of a potential customer population of 450 millions in all 18 markets. The newly acquired markets include: Congo Brazzaville, Democratic Republic of Congo, Chand, Burkina Faso, Ghana, Kenya, Madagascar, Gabon, Niger, Nigeria, Malawi, Zambia, Uganda, Sierra Leone, and Tanzania.

Table : 2 Worldwide Mobile Telecom Rankings

Rank	Provider	Total Connections	No. of Markets
1	China Mobile	525,331,266	02
2	Vodafone Group	309,580,257	23
3	Telefonica Group	202,333,430	20
4	America Movil Group	186,544,900	17
5	Airtel Group	169,468,523	18
6	China Unicom	147,587,000	01
7	Deutsche Telekom Group	127,919,986	12
8	Telenor Group	101,367,838	10

Source : *Wireless Intelligence*

It is observed from the **Table-2** that India's Bharti Airtel Group entered telecom's top five in the world.

SWOT Analysis of Indian Telecom Sector

There are three types of service providers in Indian telecom sector: (i) State owned companies (BSNL & MTNL), (ii) Private Indian owned companies (Reliance Infocom, Tata Teleservices), and (iii) Foreign invested companies (Hutchison-Essan, Bharati Tele-Ventures, Escotel, Idea Cellular, BPL Mobile, Spice Commu-nications).

The telecom sector has been one of the fastest growing sectors in Indian economy. This sector witnessed strong competition among the service providers and that has caused to bring down tariffs. Per-minute call rates in India are one of the cheapest in the world. We may focus now on the present position of Indian telecom sector by carrying out a SWOT (Strength, Weakness, Opportunity and Threat) analysis. We think this analysis will focus on internal and external environment of this sector and—after critically examining all the aspects necessary corrective steps may be taken for development of telecom industry of India.

Strengths

- There exists a well-developed infrastructure for the telecom industry.
- Call cost is one of the cheapest in the world.
- Services of this sector not confined to basic telephones but also extends to internet, broadband, cable T.V., SMS, IPTV, soft switches etc.
- India has one of the fastest growing cellular markets in the world in terms of number of subscribers.
- Telecom Regulatory Authority of India's performance is transparent and competent.

- The growth of middle class society in the country opens a huge market of telecom sector.
- Owing to availability of advanced technology of low costs, the companies can also provide services at low cost.
- Gross revenue of telecom sector has been increasing.

Weaknesses

- The Indian telecom sector has one of the highest levies and duties imposed on it.
- The service provides have to incur a huge initial fixed cost to make inroads into the semi-rural and rural markets. Achieving break-even under these circumstances may prove to be difficult.
- This sector requires players with huge financial resources due to infrastructural constraint in semi-urban rural areas.
- Problem of limited spectrum availability and the issue of interconnection changes between the private and state operators.
- Broadband experience is very bad. Net charges in India are too high as compared to US. Slow internet speeds can frustrate users attempting to download.
- Clubbing low tariffs, falling ARPUs and high levies and duties means lower funds to be reinvested in the business.
- The return on capital expenditure for mobile services is very low in India.
- The major weakness is the ability of an operator to adequately scale operations, retain talent and to satisfy growing subscriber demands.
- The current telecom policy has lowered the entry barrier, while making it difficult to exit due to three years look-in period.

Opportunities

- The Indian telecom market is expected to grow massively by 2012 and market size will be over US$ 8 billion.
- Indian telecom industry is growing at a great pace. As a result, India is expected to become a manufacturing hub for telecom equipment.
- Excellent opportunity will be created to domestic and foreign investors in the manufacturing sector due to huge demand of telecom equipments.
- Due to rapid growth of telecom network, there are further opportunities to expand telecom infrastructure and research & development.
- With the rural Indian growth story unfolding, the telecom sector is likely to see tremendous growth in India's rural and semi-urban areas in the years to come.
- There is a wide scope for telecom service providers with a large untapped potential market due to the country's increasing population and its low teledensity.
- In near future, Next Generation Network will be an attractive proposition. In that case the existing fibre network can easily be converted to next generation network and then used for delivering multiple services at cheapen cost.
- Infrastructure equipment cost is down to a fraction of what prevailed just a few years ago. Telecom companies can think about better expansion plans now.
- The number of high-speed Internet users is likely to touch 275 million by 2015.
- The country's mobile subscriber base is expected to reach 993 million by 2014.

Threats

- Increase of unhealthy competition from different new big players.
- Due to rapid growth of cellular phone industry in India, landline providers are facing stiff competition from cellular operators.
- More than 1 per cent decrease in adjusted gross profit in the first quarter ended in March 2010 over the previous quarter reveals the gloomy financial position of telecom industry.
- Although the end consumer is reaping significant benefits the telecom service providers are going to face tough time.
- The price war is going to hunt all players in the industry.

Role of Cost and Management Accountants in Telecom Sector

The growth and prosperity of any entity or any business organization depends on the way the resources of its disposal are efficiently managed and utilized. This prosperity and growth in the context of telecom sector has got tremendous importance in the backdrop of the competitive globalized economy. In the post-globalized economy the managerial strategies have occupied the pivotal role. All managerial strategies provide fruitful results only when these are backed up by sound information system with good quality and relevant information. In this perspective, Cost and Management Accountants (CMAs) provide necessary and relevant information to the management for taking appropriate decision in the right time. Determination of cost of products and services in the telecom sector is the basic professional work of a cost and management accountant.

We have already discussed that there exists wide scope of development of telecom industry in India and, at the same time, the players in the industry are facing tough competitions due to new entrants of giant companies with huge foreign direct investment. In this situation, the CMA advises the concerned company as how to react to changes of prices of products and services in the face of stiff competition.

Only the company with sound cost and management accounting system are likely to survive in this fiercely competitive market. The management of telecom companies depends a lot on the CMAs for advisory services on various important issues like project appraisal, analysis of possible alternative course of action with financial implications, capacity utilization, capital restructuring decision, and many more.

It is well known that all players in the telecom industry are offering different schemes to their customers—thinking about the individual requirements of their customers. Considering all the existing schemes prevailing in the market the CMA must chose the most appropriate plan for control of operation. Such a plan would consider the business cost standards, expense budgets, sales forecasts, profit planning, programme for capital investment and financing and, finally, take necessary procedures for effective implementation of the plan.

The CMAs have to consult with all segments a management responsible for policy or action conserving any phase of operations of the business as it relates to the attainment of objectives and the effectiveness of policies and procedures.

The CMA of a telecom company always appraises the economic and social forces and governments' influences and interprets their effect upon the business.

The CMA of a telecom company, being a member of cross-functional team and having unrestricted access to management information system, makes a contribution by providing relevant and accurate facts and figures to the top management for taking the right decision in the appropriate time to fulfill the objective of the company.

The CMAs also try to identify ways to control production and service costs to keep them as low as possible and also suggest a selling price for the product or service that will recover costs and provide a reasonable profit.

Conclusion

A large population and rise in consumers' income and spending owing to strong economic growth enabled India to achieve the fastest growing telecom market in the world. There is a wide scope to increase overall teledensity—particularly in rural area which, in turn, will help to a stable growth of telecom market. But opening of the industry to fair competition is going to hunt the profitability of players in the field. So only those companies in this sector will survive as well as progress which will be able to provide quality product and service at minimum cost. This inevitable proposition enables the CMAs of the telecom sector to understand and identify weakness in terms of quality improvement of the product and services compared to the companies' major competitors and suggest cost effective measures to improve organization efficiency to meet competitive pressures. ❐

ANNOUNCEMENT

We at ICWAI are committed to encourage sustainable development policies for the future. One such issue very dear to the Institute's heart is environmental preservation. Towards this end we propose to come out with a special edition of the Research Bulletin on 'CLIMATE CHANGE AND PROTECTION'.

We request the active participation of all readers through sharing of news, views and opinions on the abovementioned topic. The articles may cover a wide canvas touching upon issues of the economic, social and physical impact of climate change; variants of urban pollution and rural environmental damage; and steps for controlling the damage with special emphasis on improvement of quality of human life, rehabilitation measures and costs of preservation. Write-ups containing case studies and live examples will be preferred.

All interested can send their write-ups to Research & Journal Dept., ICWAI, 12 Sudder Street, Kolkata 700 016 or email to rnj.sumita@icwai.org.

Role of Cost and Management Accountants in M & A Success

CMA V. Gopalan*

Although 'due diligence' is carried out by the acquirers to find potential black holes, the aim of due diligence is not just this, but practically much more. This article aims at highlighting the role of 'Cost and Management Accountants' by offering end to end solution in the area of M&As, both during 'due diligence' and during post integration implementation, to achieve higher levels of success in M&As, as several failures in M&As are the growing cause of concern now!

Due diligence is towards looking for opportunities, realising the full potentials, leveraging of the resources and capabilities, identification of synergistic benefits, post-merger integration planning, etc in all areas including finance, management, HR, IT, legal, forex, secretarial, risk management systems and more importantly 'costing'.

There is a growing realization that the future growth of Indian companies will be influenced by the share that they can garner in the world market, not just in terms of domestic production and exports, but also by acquiring even intangibles such as brands and goodwill in global markets to position firmly overseas, to establish, upgrade and prove their competitive strength without any boundary barriers.

Phased liberalization in the policy of overseas investments has enabled Indian corporates to establish presence in overseas markets on an unprecedented scale redefining the global outreach of Indian entities.

The broad 'Business Drivers' are increase in shareholder value, sales growth, improved profitability, higher valuation multiples in capital market, enhancing delivery capability, achieving economies of scale, cost optimization, reach out new geography/new customer segment, add product or service ranges, improve brand image, to increase capacity, to integrate vertically, to capture synergies, to enhance cross-selling opportunities etc.

These are achieved both through 'organic' or 'inorganic' growth and M&A plays crucial role as an inorganic growth strategy. Organic growth is achieved through expansion or modernization methods whereas inorganic growth is attained by way of M&A or other methods of corporate restructuring.

'M & A' is the most acknowledged 'inorganic' growth strategy followed world over by corporates in the past decade, though North American and European companies were historically been the most active cross border buyers till late 1990s. Inorganic growth helps meeting the maturation of businesses in some locations with saturation of markets elsewhere.

Generally, acquisitions are made keeping the long term prospects of the company in mind and they indirectly contribute for improving the macro economic indicators of the nation while the short term profitability is compromised in the proces. Unfortunately, if long term goals are not achieved due to erosion of wealth in the interim period, the purpose of acquisition is totally defeated. The 'Cost and Management Accountants (CMAs)' with their expertise assessing the potentials of a firm can contribute towards smooth and successful integration to ensure best outcome of M&A in any industry.

Broadly, M & A decision can be with any of the two objectives viz, 'Efficiency objective' : Keeping only the short-term profit as the motive, or 'Strategic objective' : With long term goals such as market position and market share.

As per a study conducted by Grand Thornton, a leading consulting organization, the primary objectives of M & A are :

Table

S. No.	Primary Objective of M&A	%
1	To improve revenue and profitability	33
2	For faster growth in scale and quicker time to market	28
3	For acquisition of new technology or competence	22
4	To eliminate competition & increase market share	11
5	To get tax shields	3
6	Other objectives	3
	Total	**100**

From the foregoing, it is obvious that the primary and topmost objective of M&A is to improve revenue and profitability. In fact, financial experts would agree that improving 'bottom line' is more important than improving 'top line' ie. improvement in

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profitability through any strategic actions of the management is desired by the stakeholders. Here comes the role of CMAs in two ways; first by helping the acquiring company through proper 'due diligence' at the acquiring stage itself so that the strengths are properly captured and secondly by implementing the measures effectively to achieve the envisaged results.

In many of the recent and most publicised M&As, more particularly cross border acquisitions, it is a pity to note that the revenues have shown many fold increase but the margins have shown a decline. In many cases, even after investing huge amounts to the order of several thousand crores of rupees on acquisitions, the combined entities have shown EBIDTA at levels lesser than even the pre-acquisition levels! It is a clear indication that the benefits of acquisitions were lost! One prominent factor is the difference between the 'pre acquisition costing' and the 'post acquisition costing'. Had alone proper due diligence were done and more care taken on post integration management of cost, huge financial gains could have been achieved.

There is no denial of the fact that the rationale used to explain M&A activity is that acquiring firms seek improved financial performance. To achieve improved financial performance several 'cost related' factors play dominant role such as :

(a) ***Economy of Scale :*** The very motive of M&A is that the combined entity has to reduce 'fixed costs' by eliminating duplication in expenses, both operational and non-operational also reducing overall costs by increased levels of operations thereby increasing profit margins;

(b) ***Process improvements :*** Whenever any M&A is envisaged, there is an expectation of increase in operational efficiency resulting in cost reduction/cost control through effective process control measures;

(c) ***Synergy :*** Major cost reduction possibility is in achieving 'Synergies' in operations;

(d)***Complementary products :*** M&A generates possibility of complementary products. If not properly identified, major benefits are lost;

(e) ***Use of resources :*** Proper merger of resources, in both the target and acquiring firms can create enormous value; etc.

The role of CMAs has been felt more and more with the failure of achieving the above objectives by large number of M&As in the recent years. Many mergers were not done to see large efficiency gains; they were in fact done because that was the trend now.

While deciding on any M&A, it is advised that a 'transaction value matrix' is defined by the acquirer with the help of a CMA to identify the key sources of value to be derived from the target, either on 'stand alone basis' or as a 'combined entity'. If this exercise is carried out as an effective 'due diligence' process and with these value metrics if the acquisition process is carried out, there is greater chances of realizing significant value from different parts of the deal matrix.

The role of CMAs in the M & A process is very important in two other areas, viz MIS and budgetary planning and controls. The success of M&A is to a large extent depends on proper information systems at periodical intervals to the decision makers as operations are distributed in different locations and time zones. Also, effective analysis of the information regularly is very critical to achieve the desired results. CMAs can even manage this for several companies as an outsourced function.

M&A is to achieve significant enterprise value and frankly only very few M&As actually have succeeded. As per several studies, both in India and abroad, only less than one third of M&As, more particularly cross border M&As have achieved success! Success is considered to be achieved only when the value has been demonstrated from an integrated company producing accretive results at levels at or above those anticipated.

Robert Norohna, in his article 'India Inc's M&A value dips 53% in four years', published in 'News behind the News' dated March 2, 2009 studied several cross border acquisitions and stated that the success rate of most of the cross border mergers effected since 1990 was very low, mainly because of errors in due diligence, transaction and post-acquisition integration. He said, "About 33% of all such mergers which took place in the past 18 years till 2008 yielded only marginal returns. Only 17% of the acquisitions contributed significantly to values. And about 50% of the merged entities suffered sizable erosion in their margins. A clear opportunity is seen for CMAs to contribute for M&A success.

In the new M&A environment, the CMAs have an opportunity before them to exhibit their professional uniqueness by demonstrating their skills by bringing out the desired outcome and preserve value in every phase of the deal. ❐

An Insight into IFRS 8 — "Operating Segments"

Dr. M. Kiran Kumar*

IFRS 8 was issued in November 2006 and its effective date was 1 January 2009. This version includes amendments resulting from IFRSs issued up to 31 December 2009. IFRSs has been amended with respect to IAS 1 Presentation of Financial Statements (as revised in September 2007, effective date 1 January 2009), Improvements to IFRSs (issued April 2009, effective date 1 January 2010), IAS 24 Related Party Disclosures (issued November 2009 effective date 1 January 2011)

IAS 14 Segment Reporting was issued by the International Accounting Standards Committee in August 1997. It replaced IAS 14 Reporting Financial Information by Segment (issued in August 1981 and reformatted in 1994). Now IFRS 8 has been supersedes IAS 14 and it has been withdrawn.

Objective : International Financial Reporting Standard 8 Operating Segments sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

Scope and application

(a) Separate financial statements of an entity or individual

(i) whose debt or equity is traded on a public market (whether a stock exchange or foreign national, or an unorganized market, including local and regional markets)

or

(ii) to register, or is in the process of registering, its financial statements in a securities commission or other regulatory organization, in order to render some kind of instrument in a public market;

(b) the consolidated financial statements of a group with a dominant entity

(i) whose debt or equity is traded on a public market (whether a stock exchange or foreign national, or an unorganized market, including local and regional markets)

or

(ii) to register, or is in the process of registering, its financial statements in a securities commission or other regulatory organization, in order to render some kind of instrument in a public market.

(c) If an entity that is not obliged to implement the IFRS chooses to disclose information on segments that do not comply with its content, it need not describe that information as information segments.

(d) If a financial report containing the consolidated financial statements of an entity dominant included in the scope of the IFRS and its separate financial statements, only require information segments in the consolidated financial statements.

Identification of Operating Segment is a component of an entity

- that engages in revenue earning business activities
- whose operating results are regularly reviewed by the chief operating decision maker, to decide on resources to be allocated to the segment and assess its performance.
- for which discrete financial information is available.

Types of operating segments : Operating segments are the individual operations that the chief operating decisions maker reviews for the purpose of assessing performance and making resources allocation decisions. Operating segments could be identified on a number of different bases viz., products, services, customers, geography, legal entity, individual plant, individual property etc.

Not all operations of an entity will necessarily be an operating segment (nor part of one). Eg. A corporate headquarters or some functional departments that may earn no or incidental revenues and so would not be an operating segment. IFRS 8 states specifically that an entity's post-retirement benefit plans are not operating segments.

Identification of reportable segments

Once an operating segment has been identified the entity needs to report segment information if the segment meets any of the following quantitative thresholds:

- its reported revenue (external and inter-segment) is 10% or more of the combined revenue, internal and external, of all operating segments, or

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- its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined profit of all operating segments that did not report a loss and (ii) the combined loss of all operating segments that reported a loss, or
- its assets are 10% or more of the combined assets of all operating segments.

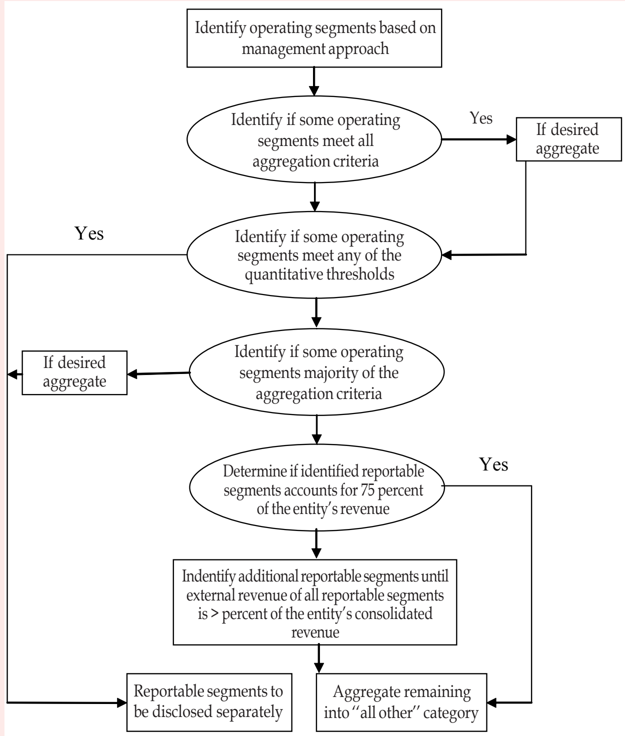
If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments must be identified as reportable segment (eve if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity's revenue is included in reportable segments.

Eg:

Business components	Revenue External	Internal	Total	Profit	Assets
1	80000	–	80000	10000	50000
2	–	45000	45000	5000	30000
3	10000	–	10000	1000	4000
4	8000	–	8000	500	3000
5		18000	18000	1000	8000
6	5000		5000	3000	9000
7		9500	9500	1500	14000
Total	103000	72500	175500	22000	118000

Component	% of Revenue to Total Revenue	% of Profit to total Profit	% of assets to total assets
1	45.58	45.45	42.37
2	25.64	22.73	25.42
3	05.70	04.55	03.39
4	04.56	02.77	02.54
5	10.26	04.55	06.78
6	02.85	13.64	07.63
7	05.41	06.82	11.86
	100.00	**100.00**	**100.00**

Components 1 and 2 would be separately reportable since they meet all three size criteria. Components 3 and 4 do not meet any of the size criteria and need not be shown separately. Component 5 satisfies the first condition i.e., 10% or more revenue in total revenue, Component 6 satisfies the second condition i.e., 10% or more profit in total profit, Component 7 satisfies the third condition i.e., 10% or more assets in total assets. Therefore components 5, 6, and 7 are also needed to report separately. The external revenue of component 1 is 77.67 per cent of the total external revenue—so the 75 per cent threshold is comfortably achieved.



Source : www.kpmg.com

Often, two or more operating segments with similar economic characteristics show a long-term similar financial performance.(For example, one would expect gross margins similar to long-run average in two operating segments with similar economic characteristics.) Then those segments can add two or more segments operating in a single operating segment if aggregation is consistent with the basic principle of this IFRS, the segments have similar economic characteristics and are similar in each of the following aspects :

(a) the nature of products and services
(b) the nature of production processes
(c) the type or category of customers that is intended for its products and services
(d) the methods used to distribute their products or provide their services
(e) if applicable, the nature of the regulatory environment to subject, for example,banking, insurance or utilities.

Disclosure

The disclosure principle in IFRS 8 is that an entity should disclose 'information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.' In meeting this principle, an entity must disclose :

- general information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues;

- information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities and the basis of measurement; and
- reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity's financial statements.

In addition, there are prescribed entity-wide disclosures that are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services.

Analyses of revenues and certain non-current assets by geographical area are required

– with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments. If the information necessary for these analyses is not available, and the cost to develop it would be excessive, that fact must be disclosed.

The Standard has also introduced a requirement to disclose information about transactions with major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of the entity's revenues, the total amount of revenue from each such customer and the segment or segments in which those revenues are reported must be disclosed. The entity need not disclose the identity of a major customer, nor the amount of revenues that each segment reports from that customer. For this purpose, a group of entities known to the reporting entity to be under common control will be considered a single customer, and a government and entities known to the reporting entity to be under the control of that government will considered to be a single customer.

IFRS replaces "IAS 14 Segment Reporting". The main differences are :

Element	IFRS	IAS 14
Identification of segments	(i) IFRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance	(i) IAS 14 required identification of two sets of segments – one based on related products and services, and the other on geographical areas. IAS 14 regarded one set as primary segments and the other as secondary segments
	(ii) IFRS includes a component of entity in definition operating segment that sells primarily or exclusively to other operating segments of the entity	(ii) IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers. It wont' consider the different stages of vertically integrated operations for identification of separate segments
Measurement of Segment Information	(i) IFRS requires the amount reported for each operating segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance	(i) IAS 14 required segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the entity
	(ii) The IFRS requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment	(ii) IAS 14 defined segment revenue, segment expense, segment result, segment assets and segment liabilities
Disclosure	(i) IFRS requires an entity to report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and to make decisions about resources to be allocated to the segment	(i) IAS 14 did not require disclosure
	(ii) IFRS requires an entity to disclose specified amounts about each reportable segment, if the specified amounts are included in the measure of segment profit or loss and are reviewed by or otherwise regularly provided to the chief operating decision maker	(ii) IAS 14 required the entity to disclose specified items of information about its primary segments
	(iii) IFRS requires an entity to disclose specified amounts about each re-portable segment, if the specified amounts are included in the measure of segment profit or loss and are reviewed by or other-wise regularly provided to the chief operating decision maker.	(iii) IAS 14 required the entity to disclose specified items of information about its primary segments

Amendments to IAS 34 Interim Financial Reporting

IFRS 8 will expand significantly the requirements for segment information at interim reporting dates. Because amounts reported will be consistent with those reported internally, the Board has concluded that it will now be possible to expand segment information in interim reports without undue cost or delay.

Amendments to IAS 36 Impairment of Assets

IAS 36 requires goodwill to be tested for impairment as part of impairment testing the cash generating unit to which it relates. In identifying the units (or groups of units) to which goodwill is allocated for the purpose of impairment testing, IAS 36 limits the size of such units or groups of units by reference to the entity's reported segments. As a result of IFRS 8 replacing IAS 14, that maximum limit is now determined by reference to the entity's operating segments as determined in accordance with IFRS 8 – which may differ from the limit previously arrived at in the context of IAS 14. ❐

Main differences between IFRS 8 and Statement of Financial Accounting Standards (SFAS) 131

Aspect	IFRS 8	SFAS 131
Non-current assets (Vs) Long-term assets	Non-current assets under IFRSs include intangible assets, therefore they are required to disclose if regularly provided to and /or considered by the COMD	Long-term assets impes hard assets that cannot be readily removed, which would appear not to include intangible asses; therefore there is no explicit requirement to disclose intangible assets
Segment liabilities	Segment liabilities are disclosed if regularly provided to and/or considered by the COMD	No requirement to disclose segment liabilities
Entities with a matrix form of organization	Operating segments are determined based on the core principle of IFRS 8	Operating segments are determined based on products and services
Extraordinary items	The concept of extra-ordinary items was eliminated from IFRSs in 2003	Extraordinary items are required to be disclosed, if regularly provided to and /or considered by the CODM

FOR ATTENTION OF MEMBERS

"CD of List of Members, 2010 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."

BENEVOLENT FUND FOR THE MEMBERS OF THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

An Appeal

Benevolent Fund for the members of the Institute of Cost and Works Accountants of India was created with the noble purpose of extending grants and financial assistance of prescribed amount to the members and beneficiaries of the Fund for medical treatment, financial distress and death. In the recent past, although the grants and financial assistance could be extended to the eligible members and beneficiaries of the Fund in time, it would have been possible to provide enhanced benefits if the membership of Fund had been larger. We, therefore, appeal to those members of ICWAI who have not yet become members to apply for life membership of the Fund immediately. For details and application form, please visit the website : www.icwai.org.

IAS 28, Investments in Associates — A Closer Look

CMA K. S. Muthupandian*

International Accounting Standard (IAS) 28, Investments in Associates, prescribes the circumstances in which investors must use the equity method of accounting for investments in associates. In July 1986, the International Accounting Standards Committee (IASC) issued the Exposure Draft E28, Accounting for Investments in Associates and Joint Ventures. In April 1989, the IASC issued IAS 28, Accounting for Investments in Associates, effective from January 1, 1990. IAS 28 was reformatted in 1994, and amended in 1998, 1999 and 2000. In December 1998, IAS 28 was amended by IAS 39, Financial Instruments: Recognition and Measurement, effective from January 1, 2001. In April 2001, the International Accounting Standards Board (IASB) resolved that all Standards and Interpretation issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn. On December 18, 2003, the IASB issued a revised IAS 28 with a new title – Investments in Associates, effective from January 1, 2005. On January 10, 2008, the IASB issued some significant revisions of IAS 28 as a result of the Business Combinations Phase II Project relating to loss of significant influence. On May 22, 2008, IAS 28 was amended for Annual Improvements to IFRSs 2007 about impairment testing. The effective date of May 2008 amendments to IAS 28 was fixed as January 1, 2009. The effective date of January 2008 amendments to IAS 28 was fixed as July 1, 2009.

The objective of IAS 28 is to prescribe the accounting treatment investors shall apply to their investments in associates and the required disclosures. Effectively, it describes when the relationship between an investor and an investment reflects an investor/associate relationship.

Scope and Application

IAS 28 applies in accounting for all investments in which an investor has significant influence. However, it does not apply to investments in associates held by :

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39. Such investments shall be measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change.

Key Definitions

Paragraph 2 of IAS 28 provides definitions for the following key terms (among others) :

Associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Equity method is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the associate (investee). The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Separate financial statements are those presented by a parent, an investor in an associate, or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

Identification of Associates

Significant influence is evidenced by factors such as where an investor :

- holds, directly or indirectly (e.g. through subsidiaries but excluding voting power held by

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associates), 20 per cent or more of the voting power of the investee

- has representation on Board of Directors or equivalent governing body of the investee
- participates in policy-making processes of the investee
- engages in material transactions with the investee
- interchange of managerial personnel, or
- provision of essential technical information to the investee.

An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or reduce another party's voting power over the financial and operating policies of another entity (i.e. potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements—whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.

An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator, or regulator. It could also occur as a result of a contractual agreement.

Prescribed Accounting Treatment

IAS 28 requires that associates are accounted for using equity method of accounting. Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate. Subsequently, the carrying amount of the investment is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss.

The following transactions will have an impact on the carrying amount of the investment :

- distributions received from an investee reduce the carrying amount of the investment
- adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognised in the investee's profit or loss.

When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

In its consolidated financial statements, an investor should use the equity method of accounting for investments in associates unless:

- the investment is classified as held for sale in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations*
- in accordance with IAS 27, the exception allowing a parent with an interest in an associate not to present consolidated financial statements applies
- all of the following apply:

— the investor is a wholly owned subsidiary or is a partially owned subsidiary of another entity and its other owners (including those not otherwise entitled to vote), have been informed about, and do not object to, the investor not applying the equity accounting

— the investor's debt and equity instruments are not traded in a public market

— the investor did not file nor is it in the process of filing its financial reports with a securities commission or regulatory organisation, for the purpose of issuing any instrument in a public market

— the ultimate or any intermediate parent of the investor produces consolidated financial statements available for public use and in accordance with IFRSs.

When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relation to the performance of the associate. Because the investor has significant influence over the associate, the investor has an interest in the associate's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of profits or losses of such an associate. As a result, application of the equity method provides more informative reporting of the net assets and profit or loss of the investor.

The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with IAS 39. The investor shall discontinue the use of the equity method from the date that it ceases to have significant influence.

An investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance with IAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in IAS 31, *Interests in Joint Ventures*. On the loss of significant influence, the investor shall measure at fair value any investment the investor retains in the former associate.

The investor shall recognise in profit or loss any difference between :

(a) the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and

(b) the carrying amount of the investment at the date when significant influence is lost.

When an investment ceases to be an associate and is accounted for in accordance with IAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39.

If an investor loses significant influence over an associate, the investor shall account for all amounts recognised in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over the associate. For example, if an associate has available-for-sale financial assets and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. If an investor's ownership interest in an associate is reduced, but the investment continues to be an associate, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as :

(a) goodwill relating to an associate is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.

(b) any excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.

Dissimilar Reporting Dates

The most recent available financial statements of the associate are used in applying the equity method. When the end of the reporting period of the investor is different from that of the associate, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor, unless it is impracticable to do so. If restatement is impracticable, IAS 28 requires that adjustments shall be made for the effects of any significant events or transactions that occur between the date and the date of the investor's financial statements. In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months.

Dissimilar Accounting Policies

IAS 28 states that the investor's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances. Therefore, if an associate uses accounting policies that differ from those of the investor, adjustments are required for consistency.

Impairment losses

After application of the equity method, including recognising the associate's losses in accordance with paragraph 29, the investor applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor's net investment in the associate.

The investor also applies the requirements of IAS 39 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.

Because goodwill that forms of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36, *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IAS 39 indicates that the investment may be impaired. An impairment loss recognized in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate.

Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

In determining the value in use of the investment, an entity estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

(b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result.

The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Separate Financial Statements of the Investor

Equity accounting is required in the separate financial statements of the investor even if consolidated accounts are not required; for example, because the investor has no subsidiaries. But equity accounting is not required where the investor would be exempt from preparing consolidated financial statements under IAS 27. In that circumstance, instead of equity accounting, the parent would account for the investment either (a) at cost, or (b) in accordance with IAS 39.

Prescribed Disclosures

Required disclosures include :

- the fair value of investments in associates if published price quotations are available
- a summary of the associates' financial information including the aggregated amounts of assets, liabilities, revenues and profit or loss
- the explanations when investments of less than 20% are accounted for by the equity method or when investments of more than 20% are not accounted for by the equity method
- use of a reporting date of the financial statements of an associate that is different from that of the investor
- the nature and extent of any significant restrictions on the ability of associates to transfer funds to the investor in the form of cash dividends, repayment of loans or advances
- the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate
- explanation of any associate is not accounted for using the equity method
- summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues, and profit or loss
- investments in associates which are equity-accounted shall be classified as non-current assets with separate disclosure of the profit or loss of the associates, the carrying amount of the investments and the investor's share of any discontinuing operations

The following disclosures relating to contingent liabilities are also required :

- investor's share of changes recognised directly in the associate's equity shall be directly recognised in the investor's equity and shall be disclosed in the statement of changes in equity
- in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, investor shall disclose its share of contingent liabilities of an associate incurred jointly and those that arise because the investor is severally liable for all or part of the associate's liabilities.

Venture capital organisations, mutual funds, and other similar entities must provide disclosures about nature and extent of any significant restrictions on transfer of funds by associates.

Presentation

- Equity method investments must be classified as non-current assets.
- The investor's share of the profit or loss of equity method investments, and the carrying amount of those investments, must be separately disclosed.
- The investor's share of any discontinuing operations of such associates is also separately disclosed.

The investor's share of changes recognised directly in the associate's other comprehensive income are also recognised in other comprehensive income by the investor, with disclosure in the statement of changes in equity as required by IAS 1, *Presentation of Financial Statements*.

Interpretations

The Standards Interpretations Committee (SIC) of the IASC and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB has issued the following four Interpretations relating to IAS 28 :

- SIC 3, *Elimination of Unrealised Profits and Losses on Transactions with Associates* (issued in December 1997 and superseded by 2003 revision of IAS 28)
- SIC 20, *Equity Accounting Method – Recognition of Losses* (issued in July 2000 and superseded by 2003 revision of IAS 28)
- SIC 33, *Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interest* (issued in December 2001 and superseded by 2003 revision of IAS 28)
- IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (issued on December 16, 2004, effective from January 1, 2006).

IFRIC 5 : Some entities have obligations to decommission assets or to perform environmental restoration or rehabilitation. Some such entities contribute to a fund established to reimburse the decommissioning, restoration or rehabilitation costs when they are incurred. The fund may be set up to meet the decommissioning costs of a single contributor or for many contributors.

If an entity recognises a decommissioning obligation under IFRSs and contributes to a fund to segregate assets to pay for the obligation, it should apply IAS 27, SIC 12, *Consolidation – Special Purpose Entities*, IAS 28, and IAS 31, to determine whether decommissioning funds should be consolidated, proportionately consolidated or accounted for under the equity method.

When a fund is not consolidated, proportionately consolidated, or accounted for under the equity method, and that fund does not relieve the contributor of its obligation to pay decommissioning costs, the contributor should recognise :

- its obligation to pay decommissioning costs as a liability, and
- its rights to receive reimbursement from the fund as a reimbursement under IAS 37.

A right to reimbursement should be measured at the lower of (i) the amount of the decommissioning obligation recognised, and (ii) the contributor's share of the fair value of the net assets of the fund. Changes in the carrying amount of this right (other than contributions to and payments from the funds) should be recognised in profit or loss.

When a contributor has an obligation to make potential additional contributions to the fund, that obligation is a contingent liability within the scope of IAS 37. When it becomes probable that the additional contributions will be made, a provision should be recognised.

Sweep issue on IAS 28 : Clarification on the partial use of fair value amendment

In February 2010, the IASB approved an Annual Improvement amendment to IAS 28 to enable a parent entity to measure part of the investment in an associate at fair value in its consolidated financial statements when that part is designated as at fair value through profit or loss in accordance with the scope of exclusion in paragraph 1 of IAS 28 (the 'venture capital organisations' exception). This amendment will be issued as a consequential amendment in the forthcoming IFRS on Joint Arrangements.

Comparative Indian Standard

The Accounting Standard issued by the Institute of Chartered Accountants of India (ICAI) comparative to IAS 28 is AS 23, *Accounting for Investments in Associates*. AS 23 is based on IAS 28 (revised 2000). The major differences between these two standards are Conceptual Differences: Goodwill/Capital reserve is calculated by computing the difference between the cost to the parent of its investment in the subsidiary and the parent's portion of equity in the subsidiary in AS 23, whereas, in IAS 28, fair value approach is followed.

In the IFRS convergence process, the ICAI has issued Exposure Draft (ED) of IFRS-converged Indian Accounting Standards. There is no major difference between the ED of AS 23 and IAS 28 except that where the financial statements of the associate used in applying equity method are prepared as of a different date from that of the investor, IAS 28 requires that this difference should not be more than three months. However, the ED of AS 23 provides that this difference should not be more than three months, unless impracticable.

Conclusion

The IASB agreed that significant influence over the investee is not required at the level of the venture capital organisation to measure the investment at fair value through profit or loss at group level. Finally, the proposed amendments are likely to use the phrase 'venture capital organisations or mutual funds, unit trusts and similar entities, including investment-linked insurance funds' (or something similar), until such time as the IASB's forthcoming exposure draft proposing a definition of an 'investment entity' is issued in a final IFRS. ❐

Accounting Information System: Combination of Information Technology and Traditional Accounting Controls

Dr. Mukesh Chauhan*

Shivani Gupta**

Introduction

Accounting Information System is vital to all organizations nowadays. This is the era of information technology. Informational Technology has touched all spheres of life. All organizations are adapting IT in their business processes. The organizations have adapted Management Information System (MIS) in taking strategic business decisions. AIS is a division of MIS. An accounting information system (AIS) is the system of records a business keeps to maintain its accounting system. This includes the purchase, sales, and other financial processes of the business. The purpose of an AIS is to accumulate data and provide decision makers (investors, creditors, and managers) with information.

Management Information System

Management information systems (MIS) is an organized approach to gathering information from company operations and making a strategic management decision. Developing quality characteristics for gathering information is essential to making solid management decisions. MIS, or management information systems, are used to manage the data created within the structure of a particular business. These systems store the data and allow the business to manipulate, analyze and compile the data through the use of software applications. Reports and analyses pulled from an information system can assist in the directing, planning and decision making needs of managers.

Definition of MIS

An MIS can be defined as a combination of people, computers and procedures for collecting and organizing information to facilitate decision making. In any organization a reasonable amount of time and effort is devoted to data collection, documenting, processing and communication. Every individual looks for information that is relevant to her duties. Thus, information is people oriented and varies with the nature of people's work in the organization.

Types of MIS

There are four types of management information systems (Exhibit 1) :

1. ***Transaction processing systems :*** These systems process a large volume of routine recurring transactions. Example: a bank's system for recording deposits and payments.

2. ***Operations information systems :*** These systems gather comprehensive data, organize it and summarize it in a form that is useful for managers. Example: an inventory management system.

3. ***Decision support systems :*** These systems help mangers with the necessary information to make intelligent decisions. They have three fundamental components: database of relevant information, decision making models, and a user friendly interface.

4. ***Expert systems :*** These systems are meant to mimic humans in making decisions in a specific field.

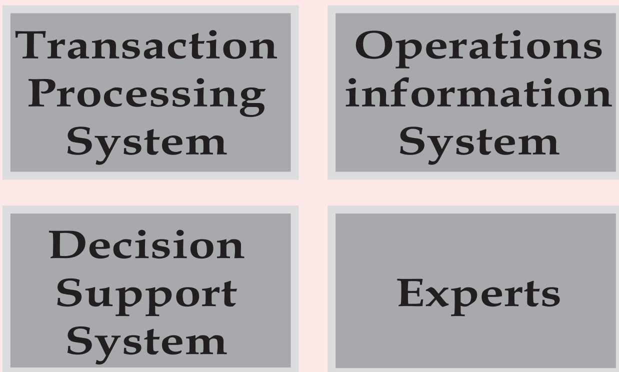

Exhibit 1 : Types of MIS

Features of Management Information System

1. ***Information Management :*** Businesses gather information every day in the form of invoices, proposals, daily sales figures and time cards. This information can provide a business insight into their operations, create a platform for decision making and reveal ideas that feed strategic planning. Gathering

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the information requires a consistent and reliable process in order for the information to be useful. Information management requires a system that supports the business model the information comes from.

2. *Structures:* Management information structures provide a central location in which to store and manage the information from. The structure or system is fed by people (employees, vendors, suppliers, customers) who input (provide) the data and output the data (creating reports and disseminating the data). Software and hardware supply the equipment needed to process, store and control access to the data. Business rules (how production cost is figured, formulas for vacation time, how accounts payable are processed for payment) dictate how the software should operate.

3. *Data Collection :* Data found in information management systems is gathered by hand or electronically. Documents can provide data that is then input into the system or data can be gathered through conversation and input directly into the system via a form. Data can also be gathered using an electronic device such as a barcode scanner that is then downloaded into the management system. Delivering data into the system can occur from outside the system via customers, vendors or suppliers. Access to data may be controlled via a separate set of rules implemented by the business.

4. *Use of Software Tools:* Software programs designed to fit the business rules and its required documents are the entry points for an information system. Hardware is needed to operate the software and can include large computer networks or a simple single server with a small number of desktops. Each business department may have a separate software program that shares its data with other programs or all departments can enter data through a central software program. Oracle and Microsoft offer management information system software products for medium to large businesses.

5. *Output Generation :* Software applications allow the sorting and analyzing of data. Output typically comes in the form of reports. Reports can be disseminated electronically or by hand. A report can provide information about sales figures, production goals or even the financial value of the business as a whole. Annual reports and quarterly sales figures are created from data located in a management information system.

Characteristics of Information provided by MIS

1. *Relevance :* Information should be relevant to the strategic decision that company management is currently reviewing. Because companies may review several business opportunities at one time, avoiding information not relating to the decision is essential.

2. *Accurate :* MIS information should be accurate and avoid any inclusions of estimates or probable costs. Making decisions based on estimates can lead to cost overruns or lower profits from future operations.

3. *Timely* : Many management decisions are based on information from a certain time period, such as quarterly or annual periods. Information outside of the requested time frame may skew information and lead to an improperly informed decision.

4. *Exhaustive :* MIS information gathering should resemble an upside-down triangle. The early stages of information gathering should be exhaustive, including all types of company information. As management narrows its decision-making process, the information is refined to include only the most relevant pieces.

5. *Cost-Effective :* The MIS needs to be a cost-effective and efficient system for gathering information. Most of these systems are developed internally, creating costs that cannot be passed to clients.

While management information systems have become more complex and capable, given the complexity of decisions facing organizations, there is still the need for human judgment and intuition in decision making. Designing and implementing an MIS is not an end in itself. Such initiatives should go hand in hand with assessing information needs of the organization and training people to effectively use the system in decision making.

Accounting Information System

Accounting Information System—shortly called as AIS is defined as the system of records maintained by an organization to keep its accounting system. The system incorporates many functions like buying, selling and other pecuniary processes of the organization. In fact, AIS is a division of Management Information System, shortly called MIS. The responsibility of AIS is to build up statistics and give decision makers like investors, creditors, and managers the data to make decisions.

Accounting Information System is basically the combination of learning and applying accounting with the design, implementation, and monitoring of information systems. The system makes use of fresh information technology resources along with usual accounting controls and methods to supply users the financial information needed to control their organizations.

The accounting information system is an integral part of any business. It should provide users with timely information to aid in decision making. Accounting information systems are helpful with preparing financial statements, taxes, reconciling bank accounts and generating reports.

Accounting Information Systems (AISs) combine the study and practice of accounting with the design, implementation, and monitoring of information systems. Such systems use modern information technology resources together with traditional accounting controls and methods to provide users the financial information necessary to manage their organizations.

Definition of Accounting Information System

Accounting Information System—shortly called AIS—is defined as the system of records maintained by an organization to keep its accounting system. The system incorporates many functions like buying, selling and other pecuniary processes of the organization.

Accounting information system is a system of records, usually computer based, which combines accounting principles and concepts with the benefits of an information system and which is used to analyze and record business transactions to prepare financial statements and provide accounting data to its users. Some accounting information systems are still manual, i.e. accounting records are made with a pen, paper and manual entries into accounting books.

Features of Accounting Information System

1. Timely Information : Accounting information system should provide the users with timely information. This information helps users and business owners with strategic planning, budgets and other valuable sales information. Payroll, bank reconciliations and creating spreadsheets are some of the tasks that accounting information system should be capable of handling.

2. Easy to Use : Raw data such as vendor names, sales dates and amounts and purchases are entered into the system. Point of sale devices offer another means for data to be input directly into accounting information system. Once the data is input, the system processes any calculations, reports, and reconciliations. For popular accounting information systems such as Quickbooks, reconciling bank and credit accounts is as simple as clicking mouse to match accounts with one another.

3. Internal Controls : Accounting information system makes it easier for the user to establish internal controls. These internal controls include various inventory decisions resulting from sales data. A good accounting information system helps detect fraud, theft and other mismanagement.

4. Decision Making : Data recorded and processed in accounting information system yields reports that aid managers and owners in the decision making process. These business decisions include how much inventory should be carried and how much money should be spent. Most accounting information systems can yield statistics that indicate performance of products or services. This information can further be analyzed to make decisions regarding sales, cost of goods sold and efficiency.

5. External Financial Reporting : One of the most important characteristics of accounting information system is its ability to produce information that helps to generate year-ending financial statements. From accounting information system user should be able to create company's balance sheet, income statement, shareholder or owner's equity and statement of cash flows. Many accounting information systems have the ability to create financial statements within the software itself.

Accounting Information Systems : Customization

These systems can be customized to meet the needs of a business. For example, information technology professionals responsible for business processes and information technology professionals responsible for the accounting information system can work together to develop and implement such a system that it automatically gets information from other sources already in use by the business. Also, the systems can be set up to feature certain functions that are important to the business and eliminate functions minor to the business. Information can be automatically fed or manually fed into a business accounting information system at whatever pace and however often it is necessary.

Benefits of Accounting Information System

Businesses use accounting information systems to make their accounting activities easier, quicker, and more accurate, since accounting records are analyzed and financial statements are prepared within the system, which allows to save time of employees and avoid mistakes. Since many accounting information systems are equipped with error-reducing mechanisms and gather information regarding transactions electronically and automatically, data entry and computing errors are rare. Such systems are often automatically populated with transaction information, many accounting processes are less cumbersome and time-consuming when using such system.

The AIS is usually a computerized system comprising business and accounting software and computers. This automated system allows companies to collect and review information in a timelier manner than using the traditional, manual-style AIS. Companies may also be able to lower business costs by eliminating waste in the production process or limiting the number of hours workers are allowed to spend on one project.

AIS has the following benefits :

1. Integrate Accounting Functions : Integrated accounting information systems collect management accounting information and financial accounting information in the same accounting ledger. Traditional accounting methods have separated this information between two accounting ledgers; management accounting is typically used by business managers for decision making purposes while financial accounting information is used by external users. Integrated accounting puts this information in one system—so company accountants can reconcile the information and present a full picture to internal and external users of the company's financial information. Using computerized AIS can help accountants complete this process quickly and accurately—so managers can make timely business decisions regarding new opportunities.

2. Work with Current Systems : The AIS should be able to work with current company software rather than around it. Business technology can sometimes be difficult to integrate and align when working with different systems or computer software modules. Integrated AIS is oftentimes sold as individual accounting modules, allowing companies to pick and choose which module it wants to implement in its current system. Common AIS modules include general accounting, cost allocation and accounts payable. These modules are typically used by both management accounting and financial accounting functions, helping companies to integrate these processes under one AIS module.

3. Improve Information Collecting : Integrated AIS modules should improve the company's accuracy when collecting and reporting vital accounting information. The systems should be easy to work with and allow multiple employees to access the information as needed. Installing complicated software or technology can have a downward effect on employee productivity; more time should not be spent managing the system rather than the information collected by the system. Accountants may not be the most technological employees in an organization. Installing or implementing difficult AIS module or systems that cannot integrate with current business or accounting software may limit the accountant's ability to gather and prepare accurate and timely financial information.

4. Makes Accounting Process Easier : Accounting information systems are useful for companies and businesses wanting to make the accounting process easier by utilizing a computer program or other system that will perform payroll and other functions. These systems, commonly including accounting software, make it easier to compile financial data for use in taxes, payroll, and other bookkeeping requirements.

5. Future Forecasting : The use of information systems is very important in recording vital financial data that will be used in the future. Major corporations, especially in the retail industry, will keep such data as sales, profits, expenses, and many other items for future use in financial reports. This is very important also because it will not only be used for daily practices, but will be necessary for tax purposes for the remainder of the year.

6. Reference for legal and audit issues : Data has to be kept on file for a number of years, in the event of an audit or other financial issues that may arise. Legal issues can cause severe problems and even end in the destruction of a company. By using computerized accounting information systems to organize and retain this data, companies have a much better chance to survive and succeed.

Process of AIS

1. Recording : Recording is the first step in these systems that are used by companies including pertinent data such as expenses and profits that are very important to keep on file.

2. Processing : After the recording phase, the information will be processed for use. When processed, it is filed in the areas where it is most important. These systems have various groupings or categories to maintain files until they need to be used in the future for whatever reasons.

3. Communication : The final step that is part of most software programs is the communication phase. This is the process of actually utilizing the records that have been recorded and processed. Common communications of this data will be used for payroll and tax purposes. The process of AIS is shown in Exhibit 2

Recording → **Processing** → **Communication**

Exhibit 2: Process of AIS

Development of Accounting Information System

The development process of an Accounting

Information System involves three main phases including planning, analysis, and design. However, each phase needs a time duration ranging from a few weeks to as long as several years depending upon its nature.

Phase 1—Planning : Being the first phase of the development process, the planning of the project is considered as an important step. The planning phase involves resolving the possibilities and purposes of the project, the definition of project responsibilities, control requirements, project phases, project budgets, and project deliverables.

Phase 2—Analysis : Second in line, the analysis phase involves resolving and filing the accounting and business processes carried by the organization. They are reformed in such a way to provide advantage of best practices or of the operating characteristics of modern system solutions. The phase further can be sub-divided into three main categories :

a. ***Data analysis :*** It is the complete analysis of the accounting information presently being gathered by an organization. These are then compared with the information that the organization has been previously preparing for managerial purposes. Basically, this is used in planning accounting transaction processing systems.

b. ***Decision analysis :*** It is the complete analysis of the decisions a manager is liable for making. They are considered as individual decisions and therefore are viewed on individual basis. It is determined by the help of models created to support the manager in collecting relevant information to develop and design alternatives, and to make actionable choices.

c. ***Process analysis :*** It is the complete analysis of the organization's business processes. The processes are identified and divided into series of events on the basis of adding and changing data. With some modification it improves the organization's operations in terms of lowering cost, improving service, improving quality, or improving management information.

Phase 3—Design : The design phase accumulates on the result produced by the analysis phase and builds up detailed, specific designs that can be applied in subsequent process. The process involves events such as designing of inputs, processing, storage, and outputs of the planned Accounting Information System. It involves the detailed design of all inputs, processing, storage, and outputs of the proposed accounting system. Inputs may be defined using screen layout tools and application generators. Processing can be shown through the use of flowcharts or business process maps that define the system logic, operations, and work flow. Logical data storage designs are identified by modeling the relationships among the organization's resources, events, and agents through diagrams. Also, entity relationship diagram (ERD) modeling is used to document large-scale database relationships. Output designs are documented through the use of a variety of reporting tools such as report writers, data extraction tools, query tools, and on-line analytical processing tools. In addition, all aspects of the design phase can be performed with software tool sets provided by specific software manufacturers.

Exhibit 3: Development Phases of AIS

AIS Technology

Input : The input devices commonly associated with AIS include: standard personal computers or workstations running applications; scanning devices for standardized data entry; electronic communication devices for electronic data interchange (EDI) and e-commerce. In addition, many financial systems come "Web-enabled" to allow devices to connect to the World Wide Web.

Process : Basic processing is achieved through computer systems ranging from individual personal computers to large-scale enterprise servers. However, conceptually, the underlying processing model is still the "double-entry" accounting system initially introduced in the fifteenth century.

Output : Output devices used include computer displays, impact and nonimpact printers, and electronic communication devices for EDI and e-commerce. The output content may encompass almost any type of financial reports from budgets and tax reports to multinational financial statements.

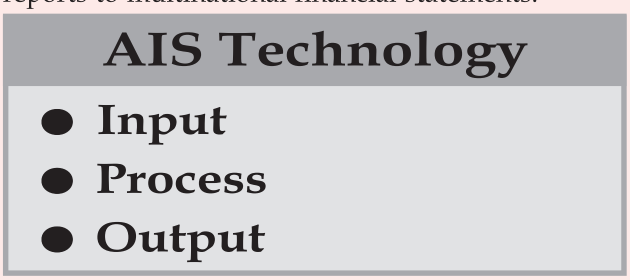

Exhibit 4 : AIS Technology

Implementation of AIS

The implementation phase consists of two primary parts : construction and delivery :

a. Construction : Construction includes the selection of hardware, software and vendors for the implementation; building and testing the network communication systems; building and testing the databases; writing and testing the new program modifications; and installing and testing the total system from a technical standpoint.

b. Delivery : Delivery is the process of conducting final system and user acceptance testing; preparing the conversion plan; installing the production database; training the users; and converting all operations to the new system.

Security in AIS

Security exists in several forms

Physical Security

Operations Levels Security

Database Security

Appolication Security

Exhibit 5 : Types of Security in AIS

1. Physical security : In typical AISs the equipment is located in a locked room with access granted only to technicians. Software access controls are set at several levels, depending on the size of the AIS. The first level of security occurs at the network level, which protects the organization's communication systems.

2. Operating Level Security : The operating system level security protects the computing environment.

3. Database Security : Database security is enabled to protect organizational data from theft, corruption, or other forms of damage.

4. Application Security : Application security is used to keep unauthorized persons from performing operations within the AIS.

Testing of AIS

Testing is performed at four levels

Unit Testing

Program Testing

System Testing

Acceptance Testing

Exhibit 6 : Types of Testing in AIS

1. Unit Testing : Stub or unit testing is used to ensure the proper operation of individual modifications.

2. Program Testing : Program testing involves the interaction between the individual modification and the program it enhances.

3. System Testing : System testing is used to determine that the program modifications work within the AIS as a whole.

4. Acceptance Testing : Acceptance testing ensures that the modifications meet user expectations and that the entire AIS performs as designed.

Phase Out Old AIS and Put New AIS in Use

Conversion entails the method used to change from an old AIS to a new AIS. There are several methods for achieving this goal. One is to run the new and old systems in parallel for a specified period. A second method is to directly cut over to the new system at a specified point. A third is to phase in the system, either by location or system function. A fourth is to pilot the new system at a specific site before converting the rest of the organization.

Support in AIS

The support phase has two objectives

1. The first is to update and maintain the AIS. This includes fixing problems and updating the system for business and environmental changes. For example, changes in generally accepted accounting principles (GAAP) or tax laws might necessitate changes to conversion or reference tables used for financial reporting.

2. The second objective of support is to continue development by continuously improving the business through adjustments to the AIS caused by business and environmental changes. These changes might result in future problems, new opportunities, or management or governmental directives requiring additional system modifications.

Attestation

AISs change the way internal controls are implemented and the type of audit trails that exist within a modern organization. The lack of traditional forensic evidence, such as paper, necessitates the involvement of accounting professionals in the design of such systems. Periodic involvement of public auditing firms can be used to make sure the AIS is in compliance with current internal control and financial reporting standards.

After implementation, the focus of attestation is the review and verification of system operation. This requires adherence to standards such as ISO 9000-3 for software design and development as well as standards for control of information technology. Periodic functional business reviews should be conducted to be sure the AIS remains in compliance with the intended business functions. Quality standards dictate that this review should be done according to a periodic schedule.

Conclusion

Accounting Information System deals with almost all types of business functions from accounting transac-tion processing systems to complicated financial management planning and processing systems. The Accounting Information System offers advanced analyses for better resource allocation and performance tracking. Management Accounting Information System helps in providing organizational planning, monitoring, and controlling every activity. Thereby the managerial-level employees get benefited as they are enabled to have access to superior reporting and statistical analysis. They are also helpful in gathering data, to develop different scenarios, and to decide the best possible answer among alternative scenarios. ❐

ANNOUNCEMENT

The Management Accountant — January, 2011 will be a special issue on **'CMAs AND THEIR ROLE IN ENERGY SECTOR'.** Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita@icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th December, 2010.

ANNOUNCEMENT

The Management Accountant — February, 2011 will be a special issue on **'EDUCATION BOOM'.** Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita @icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th January, 2011.

ANNOUNCEMENT

The Management Accountant — March, 2011 will be a special issue on **'PUBLIC PRIVATE PARTNERSHIP : CONCEPTS AND TECHNIQUES'.** Articles, views and opinions on the topic are solicited from readers to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita @icwai.org, followed by hard copy to the Research & Journal Department, 12 Sudder Street, Kolkata-700016 to reach by 15th February, 2011.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA ORGANISING MANAGEMENT DEVELOPMENT PROGRAMME

On Emerging Business for Capital Base and its Allied Fiscal Mechanism 11-13th February 2011
At The Peerless Inn, Kolkata

Friday 11th February 2011

9-30-10.00 A.M — REGISTRATION ❖ 10.00 A.M-10.30 A.M ❖ INAUGURATION 10.30 A.M-10.45 A.M ❖ TEA/ COFFEE BREAK
10-45 A.M – 12.00 NOON — SESSION-1 **STOCK MARKET AND OVERVIEW :** ● WHY PEOPLE SHOW INTEREST IN STOCK MARKET? ● WAYS TO TRADE IN THE STOCK MARKET. ● BASIS ON WHICH STOCK MARKET IS DETERMINED POSITIVE OR NEGATIVE. ● UPWARD/DOWNARD MOVEMENT OF INDEX. ● HOW THE SHARES ARE SELECTED FOR INCLUSION IN THE INDEX ● IMPACT OF OF HOME MARKET INDEX BY FOREIGN MARKET INDEX. ● ROLE OF SEBI AND THE STOCK EXCHANGE
12.00 NOON – 1-30P.M — SESSION-2 **IPO AND BOOK BUILDING PROCESS :** ● PRIMARY MARKETS VS SECONDARY MARKET ● IPO AND FPO-THE SIGNIFICANCE AND TIMING ● GREEN SHOE OPTIONS AND RED HERRING PROSPECTUS ● BOOK BUILDING PROCESS ● GREY MARKET
1-30 P.M-2.15 P.M — LUNCH **2.15 P.M-3-45 P.M — SESSION-3** **PRIVATE EQUITY & VENTURE CAPITAL :** ● SCOPE OF PRIVATE EQUITY & VENTURE CAPITAL. ● MARKET SIGNIFICANCE OF PRIVATE EQUITY AND VENTURE CAPITAL ● STAGE OF VENTURE CAPITAL INVESTING ● YARDSTICK TO ENTREPRENURE FROM THE PRICE EARNING AND EARNING PER SHARE SUPPORT
3-45 P.M. – 5-00 P.M — SESSION-4 **PREFERENTIAL ALLOTMENTS :** ● WHAT IS IT? ● WHAT ARE THE PRICING GUIDELINES ● LOCK IN REQUIREMENTS ● ITM,ATM & OTM OPTIONS AND STRIKING PRICE ● LISTING OF HOME SHARES IN FOREIGN MARKET ● FUNGIBILITY
Saturday 12th February 2011
10.00 AM. — 12.00 NOON — SESSION-5 : ● CRITICAL ANALYSIS OF GOVERNMENT POLICIES BOTH INDIRECT TAXES ● AND DIRECT TAXES FOR THE ENSUING FISCAL YEARS TO COME ● ANALYSIS OF ANTICIPATED ISSUES ARISING THROUGH ● DIRECT TAX AMENDMENTS 2011
12.00 NOON – 1-30P.M SESSION-6 **LTU (LARGE TAX PAYER UNIT) :** ● CRTICAL ISSUES UNDER LARGE TAX PAYER UNIT ● SCOPE, BENEFITS & IMPLICATION ● PROBLEMS FACED WHILE DEALING WITH GOVT. DEPT.
1-30 P.M – 2.15 P.M — LUNCH **2-15 P.M – 3.45 P.M — SESSION-7** **CENVAT :** ● RESTRICTIONS AND RELAXATION ON CENVAT FOR MANUFACTURERS AND SERVICE PROVIDERS ● UTILISATION OF CAPITAL CENVAT–CRITICAL FACTORSAVAILMENT AND UTILISATION OF CENVAT OF COMMON INPUTS AND SERVICES ON EXEMPTED AND UNEXEMPTED GOODS AND SERVICES
3.45 P.M — 5-15 P.M **SESSION-8 :** ● EXCISE AUDIT-2000(EA-2000) ● IT'S COVERAGE AND SCOPE ● FREQUENCY AND COMPLIANCE ● E-FILING OF PAYMENTS AND RETURNS THROUGH ACES
Sunday 13th February 2011
10.00 AM. – 12.00 NOON — SESSION-9 **VALUE ADDED TAX(VAT)** ● PROBLEMS FACED BY TRADE & INDUSTRIES AND ITS SOLUTIONS. ● ASSESSMENT PROCEDURES ● INPUT TAX CREDIT-DISPUTES AND SOLUTIONS ● E-FILING AND E RETURNS- PROCEDURES AND COMFORTS TO THE ASSESSEES
12.00 NOON — 1.30P.M — SESSION-10 **RESPONSIBILITY OF SERVICE RECEIVER ON BEHALF OF SERVICE PROVIDER :** ● HOW MANY SERVICES AS PER SERVICE TAX RULES ● DEFINITION OF FOREIGN SERVICE PROVIDER ● COMPLIANCE BY SERVICE RECEIVER AND ITS SCOPE

1-30 P.M – 2.15 P.M — LUNCH **2-15 P.M – 3.45 P.M — SESSION-11** **GOODS AND SERVICE TAX(GST) :** ● INTEGRATION OF STATE AND CENTRAL TAX-ROAD MAP ● SCOPE & HURDLES AND WAY FORWARD ● REVIEW OF EMPOWERED COMMITTEE'S ● DELIBERATIONS
3.45 P.M – 4-30 P.M — SESSION-12 **RECENT CASE LAWS :** ● ANALYSIS AND IMPLICATION ● QUESTION & ANSWER (Open House Session)

Participation Fees : Rs. 6000.00 per Participant
Rs. 5000.00 per participant (Self Sponsored/Practicing Members)
Fee includes course fees, course material, lunch and tea/coffee, during the programme
A Crossed Cheque/Demand Draft in favour of "The Institute of Cost and Works Accountants of India" payable at Kolkata
For further details and Registration please contact :

Shri D. Chandru Addl. Director (Professional Development & Programme) and Secretary —Continuing Education Programme Committee THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIAICWAI Bhawan, 3, Institutional Area, Lodi Road, New Delhi-110 003M-9818601200 (D) - 011-24643273 Email : cep.chandru@icwai.org	Shri Swapan Kumar Mazumdar Assistant Director-PD & P ICWAI, Kolkata 12 Sudder Street, Kolkata-700 016 Ph.No: (O) (033) 22521031/1034/1035,22521602/1492, Extn. 321 (M) 98310 43067 Email: cep.swapan@icwai.org

NB : 10 CEP hours will be allotted to each participant

The Institute of Cost and Works Accountants of India

Welcomes you to the 52nd National Cost Convention – 2011

Hosted by Southern India Regional Council

Theme : NEW ENTERPRISE CHALLENGES— SUSTAINABILITY & VALUE CREATION

On 6th, 7th & 8th January, 2011

At Le Royal Meridien, No.1, GST Road, St. Thomas Mount, Chennai – 16.

Students' Convention, Practitioners' Convention & Chapters' Meet
will be held on 5th January, 2011
(Venue to be confirmed)

CEP Credit Hours : 10 Hours

Highlights :

- Discussions on the Current Business Scenario
- Thought Provoking Technical Sessions
- Speakers of National and International Repute

Dr.I.Ashok
Co-Chairman
Convention Committee

M. Gopalakrishnan
Chairman
Convention Committee

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Examination Time Table & Programme – December 2010

Certificate in Accounting Technicians [CAT]

Day & Date	Time	Foundation Course (Entry Level) Part I
Tuesday, 14th December, 2010	02.00 P.M. to 05.00 P.M.	Organisation and Management Fundamentals
Wednesday, 15th December, 2010	02.00 P.M. to 05.00 P.M	Accounting
Thursday, 16th December, 2010	02.00 P.M. to 05.00 P.M.	Economics and Business Fundamentals
Friday, 17th December, 2010	02.00 P.M. to 05.00 P.M.	Business Mathematics and Statistics Fundamentals

Day & Date	Time	Foundation Course (Entry Level) Part II
Friday, 10th December, 2010	09.30 A.M. to 12.30 P.M.	Financial Accounting
Saturday, 11th December, 2010	09.30 A.M. to 12.30 P.M	Applied Statutory Compliance

	Examination Fees	
Inland Centres	**Foundation Course (Entry Level) Part I**	**Rs. 730/-**
	Competency Level Part II	**Rs. 730/-**

1. Application Forms for CAT Examination can be down loaded from Institute's website www.icwai.org and filed on line also.
2. Last date for receipt of Examination Application Forms without late fee is **11th October, 2010** and with late fee of Rs. 100/- is **20th October, 2010**.
3. Examination Fees to be paid through Bank Draft of requisite fees drawn in favour of "ICWAI A/C CAT" payable at New Delhi.
4. Student will send their Examination Application Forms along with the fees to Directorate of CAT at "ICWAI Bhawan", 3, Institutional Area, Lodi Road, Delhi – 110 003.
5. **Examination Centres** : Agartala, Ahmedabad, Akurdi, Allahabad, Alwar (Rajasthan) Asansol, Aurangabad, Bangalore, Baroda, Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Berhampur(Ganjam), Calicut,Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Neyveli, Noida, Panaji(Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ran chi, Raigarh (Chattisgarh), Rourkela, Salem, Shillong, Solapur, Surat, Shahjahanpur, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair.
6. A candidate who is fulfilling all conditions will only be allowed to appear for examination.
7. Probable date of publication of result : Foundation Course (Entry Level) Part – I is **1st February 2011** and Competency Level Part – II is **20th February 2011.**

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 2010

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.
Friday 10th December 2010	Financial Accounting	Capital Market Analysis & Corporate Laws	
Saturday 11th December 2010	–	Financial Management & International Finance	
Sunday 12th December 2010	Commercial and Industrial Law & Auditing	Management Accounting Strategic Management	
Monday 13th December 2010	Applied Direct Taxation	Indirect & Direct – Tax Management	
Tuesday 14th December 2010	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Organisation and Management Fundamentals
Wednesday 15th December 2010	–	Advanced Financial Accounting & Reporting	Accounting
Thursday 16th December 2010	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Friday 17th December 2010	Applied Indirect Taxation	Business Valuation Management	Business Mathematics and Statistics Fundamentals

Programme for Management Accountancy — December 2010 Examination

Friday 10th December 2010 09.30 A.M. to 12.30 P.M.	**Friday** 10th December 2010 02.00 P.M. to 05.00 P.M.	**Saturday** 11th December 2010 09.30 A.M. to 12.30 P.M.	**Saturday** 11th December 2010 02.00 P.M. to 05.00 P.M.	**Sunday** 12th December 2010 09.30 A.M. to 12.30 P.M.
Management Accountancy	Advance 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)	Rs. 950/- US $100	Rs. 850/- US $90	Rs. 800/- US $60	Per Group Rs. 2500/-
Two Groups (Inland Centres) (Overseas Centres)	Rs. 1800/- US $100	Rs. 1600/- US $90		

1. Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of Rs. 30/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
2. **Last date for receipt of Examination Application Forms without late fees is 11th October 2010** and with late fees of Rs. 200/- is **20th October 2010**.
3. Examination fees to be paid through **Bank Demand Draft** of requisite fees drawn in favour of the Institute and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICWAI, 12 Sudder Street, Kolkata –700 016 or Regional Offices or Chapter Offices. Any query can be sent to Sr. Director (Examination) at H. Q.
5. **Finance (No. 2) Act 2009, involving Assessment Year 2010-2011, will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct—Tax Management (Final) for the purpose of December 2010 term of Examination under Revised Syllabus 2008.**
6. **Examination Centres** : Agartala, Ahmedabad, Allahabad, Asansol, Aurangabad, Akurdi, Bangalore, Baroda, Bhilai, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Berhampur (Ganjam), Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Solapur, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vellore, Vijayawada, Vindhyanagar, Vapi, Vashi, Waltair, and Overseas Centres at Dubai and Muscat.
7. **A candidate completing all conditions will only be allowed to appear for examination.**
8. **Probable date of publication of result** : **Foundation — 1st February 2011, and Inter & Final — 20th February 2011.**

C. Bose
Sr. Director (Examinations)

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Notification

16th September 2010

No. G/18-CWA/9/2010—In pursuance of Sub-Section 5 of Section 18 of the Cost and Works Accountants Act, 1959, the Annual Report of the Council of the Institute and the Audited Accounts of the said Institute for the year ended 31st March 2010 are hereby published for general information.

B. M. Sharma, President

51st ANNUAL REPORT, 2009-2010

The Council of the Institute of Cost and Works Accountants of India takes pleasure in presenting this 51st Annual Report giving the achievements & activities of Departments, Committees, Regions and Chapters of the ICWAI. The present Council started its journey from 22nd July 2009 under the Presidentship of Shri G. N. Venkataraman, Vice-President Shri B. M. Sharma and other Central Council Members.

I. National Events

1. India Corporate Week

The Ministry of Corporate Affairs observed India Corporate Week from 14th to 21st December 2009 on the theme "Corporate Sector and Inclusive Growth". To commemorate the occasion, the Institute, its Regional Councils and Chapters organized programmes independently as well as in collaboration with other sister professional bodies and associations. At the Concluding Session of the India Corporate Week, Her Excellency, Smt. Pratibha Devisingh Patil, President of India, presented a Trophy to ICWAI in recognition of its excellent contribution towards growth and development of profession of Cost and Management Accountancy and promoting good governance culture in Corporate India.

2. ICWAI 51st National Cost Convention

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

3. Investors' Awareness Programme

The Institute organized 52 Investors' Awareness Programme on behalf of the Ministry of Corporate Affairs, Government of India, in different metros and two-tier and three-tier cities throughout the country.

4. ICWAI 7th National Award for Excellence in Cost Management 2009

The 7th National Award for Excellence in Cost Management 2009 was held on 8th July 2010 at Scope Auditorium, SCOPE Complex, Core VIII, 7 Lodhi Road, New Delhi. The function was inaugurated by Shri Salman Khurshid, Hon'ble Minister of State for Corporate Affairs, and Shri R. Bandyopadhyay, IAS, Secretary, MCA, graced the occasion as Guest of Honour. The Award ceremony was preceded by a Seminar on 'Cost Audit under New Mechanism and Cost Accounting Standards'.

5. Recognition from Karnataka and Kerala Governments

Karnataka Government has amended its VAT Act and Cost Accountants can also conduct VAT Audit.

Government of Kerala has included Cost Accountants for the purpose of adoption of Double Entry Accrual Based System of Accounting in Urban Local Bodies.

6. National Seminar on "Regulatory Practices-Role of Management Accountants" at Bhubaneswar from 25th - 27th June 2010.

Cuttack-Bhubaneswar Chapter of the Institute of Cost and Works Accountants of India (ICWAI) organized a 3 day National Seminar on "Regulatory Practices — Role of Management Accountants" at Bhubaneswar during 25th to 27th June 2010.

7. CAT course inauguration at Srinagar, Kashmir

ICWAI has launched CAT course in Srinagar through Global College of Professional Studies (GCPS) as a Recognized Oral & Coaching Centre (ROCC) on 5th April 2010 to impart CAT oral coaching. With the opening of CAT Coaching Centre in the Kashmir Valley the Institute has established Oral Coaching Centres for CAT from Kashmir to Kanyakumari.

8. Cost Accounting Standards Board (CASB)

The development of cost accounting standards are going at a fast pace and the Council has already notified 12 Cost Accounting Standards. The application of these Cost Accounting Standards has been made mandatory with effect from accounting period commencing on or after 1st April 2010 for the preparation and certification of General Purpose Cost Accounting Statements.

9. MOU between ICWAI and CBEC

ICWAI and Central Board of Excise & Customs have signed a Memorandum of Understanding (MOU) on 13th April 2010 to set up ACES Certified Filing Centres (CFCs) by practicing members of the Institute across the country.

10. MOU between ICWAI and MCX Stock Exchange Ltd. and United Stock Exchange (USE) Ltd.

Institute entered into Memorandum of Understanding with MCX Stock Exchange Ltd (MCX-SX) on 7th May 2010 and United Stock Exchanges Ltd on 13th May 2010 in Kolkata. The MoUs will enable joint programmes by ICWAI and MCX-SX for various certification programmes on financial markets, cost accounting standards and effective corporate functioning.

11. National Seminar on Cost and Strategic Management for growth of SME Sector

A national seminar on 'Cost and Strategic Management for growth of SME Sector' was held on May 19, 2009, in Mumbai. It was inaugurated by Shri Jagdish Capoor, Chairman, HDFC Bank, and ex-Deputy Governor, RBI.

II. INTERNATIONAL EVENTS

1. Second CMA Global Management Accounting Summit 2010

The 2nd CMA Global Management Accounting Summit on the theme of "CMA for Sustainable Business" was held in Colombo from 29th June to 1st July 2010. ICWAI co-hosted the Global Summit with the host Institute of Certified Management Accountants of Sri Lanka and other co-host institutes of the region. CMA, Canada and IMA-USA were the Technical Partners in the Summit.

2. CAT Course In Muscat

The Institute of Management Accountants of Oman launched their CAT Course on 15th November 2009, in collaboration with ICWAI. IMA-Oman has also successfully conducted the first exam in June 2010 with help from ICWAI.

3. SAFA Assembly and Board Meetings

S/Shri G. N. Venkataraman, President, B. M. Sharma, Vice-President, Kunal Banerjee and A. N. Raman represented ICWAI at SAFA Board and Committee Meetings held at Colombo on 26th & 27th April 2009.

SAFA Board Meeting was held at Karachi, Pakistan on 18th & 19th August 2009 which was attended by S/Shri G. N. Venkataraman, President Kunal Banerjee, V. C. Kothari, and A. N. Raman.

SAFA Board and Assembly Meetings were held in Dhaka during 5th to 7th November 2009. S/Shri Kunal Banerjee and A. N. Raman, Vice President, SAFA and Board member attended the meetings which discussed many important issues regarding Enterprise Governance and implementation of IFRS and the role of SAFA member bodies.

4. CAPA Board and Annual General Meeting

An International Seminar of CAPA on SMEs and SMPs was organized by CAPA and World Bank. Shri G. N. Venkataraman, President and Shri S. R. Bhargave, Central Council Member participated effectively in the above programme at Beijing in October 2009. On the sidelines of the Seminar, the President had discussions with our counterparts in China.

Shri G. N. Venkataraman, President, along with Shri B. M. Sharma, Vice-President, ICWAI, attended the Confederation of Asian and Pacific Accountants (CAPA) Board Meeting and Annual General Meeting held on 20th & 21st May 2010 in Wellington, New Zealand. There was also a presentation from all countries of CAPA as well as from India on the latest professional achievements.

5. SAFA Vice-Presidentship

Shri A. N. Raman, Central Council Member, was nominated by the Council of ICWAI for the post of Vice President SAFA and Shri Raman was elected as Vice President SAFA at the SAFA Assembly held on 23rd January 2010 at Kathmandu unanimously.

III. DEPARTMENT ACTIVITIES

A) Studies

During the year under review, 23,156 new registrations took place which was a rise of 4,690 students from previous year. ICWAI also initiated the process of implementation of Net-based education processing System by which instant Registration, Coaching and Examination Application etc. will be possible. Updated Study Materials, Scanners & Revisionary Test Papers for the students of ICWAI Exam were made available on the Institute's website.

B) Certificate in Accounting Technicians (CAT)

The CAT course launched in 2009 to meet the demands of the students' community, especially from rural and remote areas of the country, established itself on a firm footing during the period 2009-10. During the year, 236 Recognised Oral Coaching Centres (ROCCs) across the country were set up. ROCC meets were organized in Delhi, Chennai, Mumbai and Kolkata covering the four regions and during the meets, the issues related to the course, centres and students were thoroughly discussed and corrective measures, wherever necessary, were taken. Online filing of Examination Form was introduced to CAT Students for June Examinations. Out of 919 candidates who appeared for June 2010 Examinations, 206 candidates filed examination forms online. The total students admitted to CAT Course till the end of Batch III stands at 1519.

C) Examinations

The ICWAI June 2009 examination was held from 18-25 June 2009 and in Dec 2009 term, examination was conducted during 10-17 Dec 2009. There were 35,527 students and 43,657 students who appeared in June 2009 and December 2009 examinations, respectively. CAT examination was also conducted in 80 centers including 2 overseas centers.

D) Membership

During the year, 1,279 applicants were admitted as Associate members and 251 Associate Members were elevated as Fellow Members. As on 31st March 2010, the total number of members stood at 27,517; out of which 23,884 are Associate Members and 3,633 are Fellow Members. The number of Members in Practice was 1,581 as against 1,496 in the previous year. During the year, efforts were made by the Members' Facilities & Services Committee to bring the defaulting members into the fold by vigorous follow up. List of Members and list of members holding Certificate of Practice have been made available to the members in CD.

E) Research & Journal Department

The Institute published special issues of the journal during the period. Every month the e-copy of the journal was also hosted on the Institute's website. The Journal Division also published Research Bulletin 2010 containing illuminating articles in the areas of finance and management. The Department organized for the first time essay competitions. The essays were evaluated by eminent academicians. The department is also leveraging the benefit of the ICMS package for real time updation of reader's (members/students/others) details on its records.

F) Continuing Education Programme Committee

During the year 2009-10, the Continuing Education Programme Directorate of the Institute organized 77 (seventy seven) programmes throughout India and abroad. During the year the Directorate took the initiative of organising 18 exclusive Programmes/Workshops on International Financial Reporting Standards (IFRS) at different locations.

G) Information Technology

Apart from investments in hardware and software, IEPS application is now extended to CAT. An application for uploading Coaching Revalidation Status/De novo Status database on website was created. An offline application developed for Training and Placement Directorate using Net platform for maintaining the database of students registered for practical training was launched. Separate sub-sites have been created for CAT (cat.icwai.org), MDP (mdp.icwai.org), Expert Group & related data, as well as MOUs signed by the Institute and for RTI.

H) Cost Accounting Standards Board

1. Cost Accounting Standards Board (CASB)

During the year 2009-10, nine meetings of the CASB were held. Six Cost Accounting Standards viz. Employee Cost (CAS 7), Cost of Utilities (CAS 8), Packing Material Cost (CAS 9), Direct Expenses (CAS 10), Administration Overheads (CAS 11) and Repairs and Maintenance Cost (CAS 12) were finalised during the year by CASB and subsequently approved and released by the Council of the Institute. The application of these Cost Accounting Standards (CAS 1 to 12) has been made mandatory with effect from accounting period commencing on or after 1st April 2010 for the preparation and certification of General Purpose Cost Accounting Statements. During the year Exposure draft of Cost Accounting Standard on Cost of Service Cost Centres was also finalised and released by the Board.

2. Corporate Laws & Cost Audit Committee

The Corporate Laws & Cost Audit Committee held four meetings during the year. The Committee took initiative to make representations to the members of the Standing Committee as well as the Ministry of Corporate Affairs on a regular basis.

3. Regional Councils & Chapter Co-ordination Committee

RCs' and Chapters Meet was organized at New

Delhi on 25th November 2009 for a detailed deli-beration on the amendment to the Chapter Bye-laws. The Committee considered the suggestions received from different stakeholders and recommended necessary changes in the circulated Chapter Bye-laws and submitted its recommendations to the Council. The Committee also decided to modify the Evaluation Report on the performance of the Chapters of the Institute, Creation one new category "D" Chapter from 2010-11 to encourage incoming chapters, fixation of criteria for different chapters and circulation of one Information Book let for the RCs and Chapters

IV. REGION & CHAPTERS ACTIVITIES

i. Western India Regional Council

WIRC organized 34 CEP Training Programs for the benefit of the Practicing as well as general members. It organized a One Day Seminar on 'Cost and Strategic Management for Growth of SME Sector', on Wednesday, the 19th May 2010, in Mumbai.

Second Students' Conference of WIRC was held on Saturday, the 13th February 2010, at Nasik by Nasik-Ojhar Chapter of Cost Accountants.

WIRC organized a Chapters' Meet and a two day residential orientation programme at Panchmarhi (MP) from 4th to 6th October 2009.

Total number of students enrolled at its seven Learning Centres during the year was 1864. Total number of students enrolled during the year under Postal Coaching was 2,680.

Campus Interview :

WIRC conducted three Campus Interviews successfully during the years 2007-2008 and 2008-2009. More than 400 students from Mumbai and other parts of the Region participated in the Campus Interview.

ii. Southern India Regional Council

Regional Cost Convention was held at Hyderabad on 4th and 5th December 2009 and the theme was : "Business Strategies for Economic Revival—Role of Management Accountants". The Institute of Public Enterprise in association with the ICWAI organised a National Conference on 'Cost Audit — Enterprise Governance' on 13th November 2009 at Hyderabad. Institute of Public Enterprise, in association with ICWAI, organised a National Conference on 'Corporate Social Responsibility and Corporate Governance' at Bangalore. In connection with the celebration of "India Corporate Week" by the Govt. of India during December 2009, a series of programmes (jointly conducted by MCA and ICWAI) were organised by SIRC throughout South India. A Faculty Meet was organized on 15th November 2009 at SIRC premises wherein issues related to methodology of class allotments for subjects, corrections in the study materials Faculty facilities etc. were discussed. A Campus Interview for Dec 2008 Batch for CWA Final passed candidates was held on 19th April 2009. Around 300 students from all over Southern Region participated in the Campus Recruitment.

iii. Eastern India Regional Council

EIRC organized a management development programme with Indo-Italian Chamber of Commerce and Industry (IICCI) at Hotel Hindustan International. On 28th October 2009, EIRC organized a seminar on "Direct Tax Code and Goods & Service Tax" jointly with Raniganj Chamber of Commerce (RCC) at the premises of Raniganj Chamber of Commerce. On 6th November 2009, EIRC organized a seminar on "Direct Tax Code" at EIRC premises jointly with the Income, Tax Department, MOF, Govt. of India. A seminar on "Energy and Environment" and "Rural Development : Role of Cost & Management Accountants" was organised at Kolkata on 16th January 2010. EIRC organized a programme jointly with Confederation of Indian Industry (ER) on "Valuation Management" on 9th March 2010 at the auditorium of CII. Top companies came to EIRC premises for recruitment. EIRC organized the Regional Students' Conference, 2010 on 14th February 2010, at Santragachi. The theme of the conference was "India Redefined—CMAs with the difference".

iv. Northern India Regional Council

More than 30 programmes, seminars, meetings, conferences, workshops, etc. during the year 2009-10 under the Scheme of Corporate Membership. NIRC organized regular seminars and professional development programs in 2009-10, which were attended by large number of members. First ever Residential Regional Conference organized at Agra. More than 16 organisations sponsored the Conference. 'Go-Green Campaign' organized by NIRC of ICWAI—first ever environmental movement initiated by the Institute. Members' Offsite Meet—a Professional Safari organized at Jim Corbett Park; received an overwhelming response from members with over 140 participants. Various Activities organized for Students —Essay writing competition/blood donation/Road Show Organized as a part of the Corporate Week.

Gupta & Co.
Chartered Accountants

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2229-6241, 2229-0871/72
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Email : guptaco55@hotmai.com

Auditor's Report on Consolidated Financial Statements To the Council of the Institute of Cost and Works Accountants of India :

1. We have audited the accompanying consolidated financial statements of the Institute of Cost and Works Accountants of India ("the Institute"), and its four Regional Councils and ninety one Chapters (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at 31st March 2010, and the consolidated income and expenditure account for the year then ended, and a summary of significant accounting policies and other explanatory information.

2. Management is responsible for the preparation of these consolidated financial statements, which have been prepared on the basis of separate financial statements and other financial information regarding components, which give a true and fair view of the consolidated financial position and consolidated financial performance in accordance with accounting principles generally accepted in India.

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the standards on auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that our audit provides a reasonable basis for our qualified audit opinion.

4. (a) We did not audit the financial statements of four Regional Councils, whose financial statements reflect total assets of Rs.17,43,22,006 as at 31st March 2010, and total revenues of Rs.10,59,24,018 for the year then ended as considered in the financial statements. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us by the management of the Institute, and our opinion, in so far as it relates to the amounts included in respect of these Regional Councils is based solely on the reports furnished by these auditors.

(b) We also did not audit the financial statements of forty-nine Chapters, whose financial statements reflect total assets of Rs.17,15,68,825 as at 31st March 2010, and total income of Rs.9,95,84,992 for the year then ended have been audited by other chartered accountants. We also did not audit the financial statements of thirty Chapters whose financial statements reflect total assets of Rs.15,47,83,281 as at 31st March 2010 and total revenues of Rs.6,80,21,718 for the year then ended have been certified by cost accountants. In so far as it relates to the amounts included in respect of these Chapters, our report is based solely on these certified financial statements, which we have relied upon as provided by the management of the Institute for the purpose of our examination of consolidated financial statements of the ICWAI Group.

(c) We also did not audit the financial statements of twelve Chapters, whose financial statements reflect total assets of Rs.1,30,63,035 as at 31st March 2010, and total income of Rs.44,72,495 for the year then ended. We further report that in respect of the financial statements of these Chapters we have relied upon the unaudited financial statements as certified by the management of the Institute. Our opinion, so far as it relates to the amounts included in respect of these Chapters, is based solely on these certified financial statements. Since these financial statements for the financial year ended 31st March 2010, which were compiled by the management of these Chapters, any adjustments to their balances could have consequential effects on the consolidated financial statements.

5. In so far as it relates to the results of operations and the financial statements of the Institute included in these consolidated financial statements, we draw attention to the following :

i) The inventories of publication stocks, study materials and prospectus valued at Rs.183.09 lakhs were not physically verified by the management during the year. Further, the inter reconciliation of stocks between the regional Councils and Chapters and with the Head Office was also not available.

ii) In our opinion and according to the information and explanations given to us, the maintenance of books of account by the Delhi Office and the internal control system required further improvement.

iii) In our opinion and according to the information and explanations given to us, the internal control system for reconciliation of sale of study notes and suggested answers to Regional Councils and transactions with Regional Councils and Chapter needs to be improved.

iv) From the available information it has not been possible for us to determine the extent of approximate adjustments arising out of the observations made by us and referred to above (i to iii) adversely affecting the year-end position of surplus and general fund.

6. Subject to the matters referred to in paragraph 4 and 5 above :

We report that the consolidated financial statements have been prepared by the Institute's management in accordance with the requirements of Accounting Standard 21, on Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India (after certain necessary adjustments by Head Office).

(a) Based on our audit and on consideration of the reports of the other auditors on separate financial statements and on the other financial information of the components, and the certified financial statements of Chapters included in the consolidated financial statements, and to the best of our information and according to the explanations given to us, we are of the opinion that the accompanying consolidated financial statements read together with notes thereto give a true and fair view in conformity with the accounting principles generally accepted in India :

i) in the case of the consolidated balance sheet, of the state of affairs of the Group as at 31st March 2010; and

ii) in the case of the consolidated income and expenditure account, of the excess of income over the expenditure of the Group for the year ended on that date.

For Gupta & Co.
Chartered Accountants
Firm's registration number : 301028E

S. K. Ganguli
Partner
Membership No. 6622

Place of Signature : Kolkata
Date : 16th September, 2010

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Consolidated Balance Sheet as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	SCH. No.	This year 2009-2010 Rs.	Rs.
4,48,877,006	**INSTITUTE FUND :**			738,121,402
5,285,261	General Fund	**(1)**		5,913,533
2,183,418	Employees' Gratuity Fund	**(2)**		2,616,686
3,738,196	Employees' Benevolent Fund	**(3)**		4,035,430
64,548,871	Misc. Prize & Other Fund	**(4)**		94,924,690
524,632,752	Other Funds	**(5)**		**845,611,741**
	TOTAL			
	Represented By :			
	Fixed Assets :			
197,168,957	a) Gross Block	**(6)**	212,902,869	
97,152,933	b) Less Depreciation		102,918,641	
100,016,024	c) Net Block			109,984,228
9,365,901	Capital Work in Progress			5,119,134
389,740	Investment			98,111
512,624,922	Current Assets	**(7)**	818,554,076	
13,946,858	Loans & Advances	**(8)**	20,270,929	
526,571,780		**(9)**	**838,825,005**	
114,040,599	Less : Current Liabilities & Provisions	**(10)**	109,676,410	
412,531,181	**NET CURRENT ASSETS**			729,148,595
2,329,906	Miscellaneous Expenditure (to the extent not written off)			1,261,673
524,632,752	**TOTAL**			845,611,741
	Notes on Accounts			
		(16)		
	Schedules referred to above form part of the Accounts			

As per our report attached.

For Gupta & Co. Chartered Accountants

M. Gopalakrishnan, Vice President

B.M. Sharma, President

S. K. Ganguli
Partner
Membership No. 6622

R. N. Pal, Sr. Director (F & A)

S.M. Galande, C.E.O.

Kolkata
Dated : 16th Sept., 2010

Dated : 15th Sept., 2010

Consolidated Income and Expenditure Account for the year ended 31st March, 2010

Last year 2008-2009 Rs.	Particulars	SCH. No.	This year 2009-2010 Rs.
	INCOME :		
11,178,675	Membership & Other Fees	**(11)**	15,479,090
377,234,799	Tuition & Other Fees	**(12)**	520,721,975
61,447,227	Examination & Other Fees	**(13)**	75,012,230
30,351,649	Continuing Education Programme Receipt		30,533,692
61,583	Global Summit Receipt		–
8,110,083	National Award and Convention Receipt		7,821,938
625,810	Journal Subscription		814,415
1,040,648	Advertisement for Journal		109,550
677,352	Rent Receipt		986,692
1,022,716	Sale of Publication		801,911
26,595,154	Interest		44,119,582
4,088,159	Other Income		5,695,717
522,433,855	**Total**		**702,096,792**
	EXPENDITURE :		
117,304,604	Establishment	**(4)**	132,242,813
43,442,742	Office Expenses	**(15)**	61,232,144
318,496	Statutory Audit Fees		365,306
406,363	Internal Audit Fees		205,566
6,131,891	Travelling & Conveyance		8,131,915
19,352,372	Examination Expenses		28,221,328
13,532,601	Council & Committee Meeting Expenses		16,973,011
1,329,629	Election Expenses incl. Tribunal		1,013,453
4,570,659	Journal Expenses		5,430,937
1,291,848	Membership Subscription To Foreign Bodies		1,516,073
910,368	Conference & Meeting International		1,710,695
20,979,991	Continuing Education Programme Expenses		28,601,410
73,750	Global Summit Expenses		–
5,635,977	National Award for Cost Excellence Expenses		–
3,429,543	Professional Development Expenses		21,327,967
86,509,349	Coaching Expenses		69,392,717
20,242,694	Study Materials & Prospectus Consumed		26,038,275
574,775	Publication Stock Consumed		199,468
1,014,270	Non Moving Stock Written Off		1,616,613
1,223,359	Sundry Debtors – Written Off		806,491
15,758,707	Depreciation	**(6)**	18,477,898
364,033,988	**TOTAL**		**423,504,080**
(1,470,925)	Prior Period Adjustment		1,262,652
156,928,942	Balance being surplus of Income over Expenditure transferred to General Fund		**279,855,364**
	Schedules referred to above form part of the Accounts		

As per our report attached.

For Gupta & Co. Chartered Accountants

M. Gopalakrishnan, Vice President

B.M. Sharma, President

S. K. Ganguli
Partner
Membership No. 6622

R. N. Pal, Sr. Director (F & A)

S.M. Galande, C.E.O.

Kolkata
Dated : 16th Sept., 2010

Dated : 15th Sept., 2010

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS

Schedule No. 1 :

GENERAL FUND
as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.	Rs.
291,846,901	Balance as per previous Balance Sheet		**448,877,006**
	Add :		
1,475,499	i) Capitalization of Chapter's Building	3,250,140	3,250,140
293,322,400			
	Less :		
	i) Adjustment against		
6,177,732	Stock of Study Material & Prospectus	501,893	501,893
287,144,668			
796,110	Add : Entrance Fees (Member)	955,185	
4,007,286	Registration Fees (Student)	5,685,600	6,640,785
291,948,064			
156,928,942	Add : Net Surplus for the year as per Income & Expenditure Account		**279,855,364**
448,877,006	**Total**		**738,121,402**

Schedule No. 2 :

EMPLOYEES' GRATUITY FUND
as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
4,828,145	Balance as per previous Balance Sheet	**5,285,261**
4,57,116	Add : Contribution for the year	757,305
5,285,261		**6,042,566**
–	Add : Interest earned on Fixed Deposit of Fund for the year	–
5,285,261		**6,042,566**
–	Less : Amount Paid to Trust	–
–	Less : Transferred to General Fund	–
–	Less : Gratuity paid to Employees' during the year	129,033
5,285,261	**Total**	**5,913,533**

Schedule No. 3 :

EMPLOYEES' BENEVOLENT FUND
as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
1,848,367	Balance as per previous Balance Sheet	**2,183,418**
317,600	Add : Contribution during the year	421,782
39,740	Add : Interest earned on Fixed Deposit of Fund for the year	42,500
22,289	Less : Paid to Employees during the year	31,014
2,183,418	**Total**	**2,616,686**

Schedule No. 4 :

MISC. PRIZE & OTHER FUND
as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
3,285,506	Balance as per previous Balance Sheet	**3,738,196**
511,902	Add : Addition during th e year	246,316
150,995	Add : Income credited during the year	206,831
(210,207)	Less : Cost of the prize	(155,913)
3,738,196	**Total**	**4.035,430**

Schedule No. 5 :

OTHER FUND
as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
39,236,977	Building Fund	**48,879,998**
5,241,822	Library Fund	7,709,827
400,000	Silver Jubilee Fund	400,000
587,778	CASB Fund	323,849
19,082,294	Misc. Fund	37,611,016
64,548,871	**Total**	**94,924,690**

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS

Schedule No. 6 :

FIXED ASSETS
as at 31st March, 2010

Description of Assets	Gross Block				Depreciation/Amortisation				Net Block	
	Opening Cost 01.04.09	Addition during the period	Less : Sale/ Adjustment of Fixed Assets during the period	Total as on 31.03.2010	Up to 01.04.09	For the year	Add/(Less) : Depreciation Adjustment of Fixed Assets During the year	Up to 31.03.2010	This year 2009-2010	Last year 2008-2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Freeehold Land	18,531,761	–	–	18,531,761	–	–	283,463	283,463	18,248,298	18,531,761
Leasehold Land	6,505,802	–	–	6,505,802	1,317,598	109,865	118,987	1,546,450	4,959,352	5,188,204
Freehold Building	87,524,761	15,094,969	–	102,619,730	41,447,284	6,391,486	(1,422,183)	46,416,587	56,203,143	46,077,477
Furnture & Fitting	24,673,127	–	(840,229)	23,832,898	10,846,290	2,435,456	(2,520,459)	10,761,287	13,071,611	13,826,837
Libray Books	7,947,750	861,034	–	8,808,784	7,947,750	861,034	–	8,808,784	–	–
Office Equipments	21,206,187	–	(866,556)	20,339,631	11,402,671	1,952,252	(3,636,534)	9,718,389	10,621,242	9,803,516
Generators	867,250	962,448	–	1,829,698	867,250	138,540	26,705	1,031,495	798,203	–
Lift	416,062	–	–	416,062	374,953	5,116	7,003	387,072	28,990	41,109
Motor Car	496,939	3,000	–	499,939	153,321	58,233	3,316	214,870	285,069	343,618
Computer & Sortware	28,993,790	519,246	–	29,513,036	22,790,290	6,525,916	(5,571,490)	23,744,716	5,768,320	6,203,500
Cycle	5,528	–	–	5,528	5,526	–	2	5,528	–	2
	197,168,957	**17,440,697**	**(1,706,785)**	**212,902,869**	**97,152,933**	**18,477,898**	**(12,712,190)**	**102,918,641**	**109,984,228**	**100,016,024**

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS

Schedule No. 7 :

INVESTMENT (AT COST) as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
	SHARES OF CO-OPERATIVE TRUST :	
500	50 Shares of Rs. 10/- each in Rohit Chambers Premises Co-operative Society Limited, Mumbai (earlier shown as Jai Brindaban Premises Trust Fund, Bombay)	500
11	Coimbatore Co-operative Housing Society Ltd.	11
	MUTUAL FUND (UTI 64 & TATA OPPORTUNITY FUND)	
242,629	– Pune Chapter*	–
16,100	– Maduri Chapter	16,100
81,500	– Nellai Pearl City Chapter	81,500
49,000	– Ranchi Chapter*	–
389,740	**Total**	98,111

*These investment has been sold out during the FY 2009-10

Schedule No. 8 :

CURRENT ASSETS as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.	Rs.
	Stock :		
2,522,886	Publication Stock (at Cost)		
527,742	Paper Stock (at Cost)		2,293,134
8,623,147	Study Material incl. Prospectus Stock (at Cost)		599,367
880,399	Stock of Other Material (at Cost)		20,571,252
3,295,349	Sundry Debtors		1,424,015
11,868,768	Other Receivables		7,207,071
	Cash and Bank Balances :		
1,250,038	In hand (including Cash, Cheques & Postage Stamps)	17,879,453	
	Balances with Scheduled Banks :		
21,083,292	On Current Account	24,459,826	
23,381,118	On Savings Account	25,271,063	67,610,342
439,192,183	**Fixed Deposits with Banks :**		692,698,682
512,624,922	**Total**		**818,55,076**

Schedule No. 9 :

LOANS AND ADVANCES as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
1,230,320	Building Loan to Employees	1,542,531
29,000	Vehicle Purchase Advance to Employees	22,473
6,794,072	Other Advances	9,579,429
615,722	Festival Advance to Employees	922,172
875,086	Advance Membership Subscription to Foreign Bodies	844,911
1,399,760	TDS Receivable	2,771,108
571,612	Prepaid Expenses	1,897,602
2,431,286	Deposit	2,690,703
13,946,858	**Total**	20,270,929

Schedule No. 10 :

CURRENT LIABILITIES AND PROVISION as at 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
	Current Liabilities :	
7,384,495	Library Deposit	5,009,345
5,772,304	Sundry Creditors	10,053,883
95,515,575	Other Liabilities	88,920,468
121,478	TDS Payable	121,478
5,246,747	Provisions	5,571,236
114,040,599	**Total**	**109,676,410**

Schedule No. 11 :

MEMBERSHIP & OTHER FEES for the year ended 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
9,295,180	Annual Membership Fees	11,529,198
761,430	Members Certificate of Practice Fees	835,679
1,121,1855	Grad C.W.A. Fees	1,427,872
880	Members Complaint/Restoration Fees	22,500
–	Certified Facilitation Centre Fees	397,523
	Membership & Certification Fees–IMA (USA)	1,266,318
11,178,675	**Total**	**15,479,090**

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

SCHEDULE FORMING PART OF ACCOUNTS

Schedule No. 12 :

TUITION AND OTHER FEES
for the year ended 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
6,062,829	Student Registration Fees	8,528,400
10,510,050	Practical Training Registration Fees	18,276,540
143,300	Practical Training Exemption Fees	675,880
229,212,169	Tuition Fees	268,065,317
317,200	CAT Course Income	13,213,544
57,710,269	Computer Training Fees	105,602,192
56,599,010	Service Fees	86,652,256
2,752,785	Revalidation of Coaching Completion Certificates Fees	3,654,980
6,810,197	Sale of Prospectus	9,425,659
6,032,990	Sale of Study Notes	1,850,142
989,045	Library Subcription	4,709,135
85,955	Sale of Postal Coaching, Revalidation & Denovo Forms	67,930
377,234,799	**Total**	**520,721,975**

Schedule No. 13 :

EXAMINATION AND OTHER FEES
for the year ended 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
56,462,019	Examination Fees	69,624,617
855,406	Verfication Answers paper Fees	784,363
1,486,905	Sale of Suggested Answer including Scanner	1,870,530
2,642,897	Sale of Exam. Forms	2,732,720
61,447,227	**Total**	**75,012,230**

Schedule No. 14 :

ESTABLISHMENT
for the year ended 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
96,722,701	Salaries & Allowances	96,787,688
6,112,914	Employer's Cont. to Employees' Gratuity Fund	15,266,383
5,705,434	Employer's Cont. to Employees' Provident Fund	7,168,955
114,900	Employer's Cont. to Employees' Benevolent Fund	119,188
3,660,883	Employer's Cont. to Employees' Leave Encashment	6,091,705
1,309,460	Employees' Leave Encashment–Existing	2,418,422
2,353,969	Medical Expenses	2,578,212
478,300	Leave Travel Allowance to Employees	519,200
291,081	RPFC Adminitration & E.D.L.I. Inspection Charges	216,185
554,962	Training & Development (H.R.D.)	1,075,875
117,304,604	**Total**	**132,242,813**

Schedule No. 15 :

OFFICE EXPENSES
for year ended 31st March, 2010

Last year 2008-2009 Rs.	Particulars	This year 2009-2010 Rs.
4,898,981	Printing & Stationery	6,374,435
5,615,384	Postage, Telegrams, Telephones & Fax	6,929,790
3,674,079	Elctricity Chargs	4,674,368
114,715	Generator Expenses	146,009
433,558	Rates & Taxes	1,534,714
1,828,094	Insurance	161,573
5,595,809	Repair & Maintance	10,099,049
1,750,865	Car Expenes	1,330,061
70,258	Interest on Caution Money Deposit	14,300
3,367,540	Study Material Distribution Expenses	2,434,826
868,601	Legal Charges	1,526,807
380,737	Bank Charges	364,510
2,043,496	Computer Maintenance Expenses	2,128,200
1,299,829	Public Relation Expenses	2,224,474
478,435	Watch & Ward Expenses	443,811
357,129	Books & Periodicals	654,721
115,750	Delegate Fee	130,754
422,661	Gazette Notification	139,220
1,130,103	Staff Welfare	2,413,102
1,508,184	Rent	2,568,702
4,760,946	Administrative Charges	8,949,753
2,727,588	Sundry Expenses	5,988,965
43,442,742	**Total**	**61,232,144**

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Notes Forming Part of Consolidated Accounts For the Financial Year Ended 31st March 2010

Schedule No - 16

A. Significant Accounting Policies :

1. Basis for preparation of Financial Statements

The Financial Statements are prepared under the historical cost convention, the Generally Accepted Accounting Principles (GAAP) in India, the applicable Accounting Standards, the relevant provisions of the Cost and Works Accountants Act, 1959, as amended by the Cost and Works Accountants (Amendment) Act, 2006 and are on accrual basis unless otherwise stated.

2. Basis of Consolidation

The financial statements of the HQ and its four Regional Councils and Ninety One Chapters are consolidated on a line-by-line basis by adding together the book values of like items of assets and liabilities, income and expenses, after eliminating all material intra-group balances and intra-group transactions resulting in unrealized Surplus and Deficit and making necessary adjustments wherever required for non-uniform accounting policies.

3. Entrance Fee

Entrance Fee from members is capitalized.

4. Registration Fee

Registration Fee received from students to the extent of 2/5th thereof is capitalized.

5. Revenue Recognition :

The Institute recognizes significant items of income on the following basis:

(a) Members' Subscription
Revenue in respect of Members' Subscription and Certificate of Practice Fee is recognized where there is certainty with respect to the receipt of such amount.

(b) Tuition and other Fees
Revenue in respect of Postal and Oral Tuition Fees are recognized as and when the student is enrolled.

(c) Sale of Publication
Revenue in respect of sale of publications is recognized when such publications are transferred to a user for a price.

(d) Examination Fees
Revenue in respect of Examination Fees is recognized as and when received.

(e) Others
Revenue from Programme and Research Fee is recognized as and when such activity is undertaken.

(f) Interest
Income from interest on Fixed Deposit with Banks is recognized on time proportion basis taking into account the amount outstanding and the applicable rate.

(g) Income from Investments is recognized as and when, the right to receive the payment is established.

6. Expenditure

The expenditure is recognized on accrual basis including expenses related to postal and oral coaching except in the following cases :

(i) The Annual Grants to Chapters are recognized as and when disbursed,

(ii) Expenses incurred for Elections are recognized proportionately over the term of the Council.

7. Fixed Assets :

Fixed assets are stated at cost less accumulated depreciation. Cost comprises the purchase price and any cost, attributable to bringing the asset to its working condition for its intended use. Assets under creation are shown as capital work-in-progress.

8. Depreciation/Amortization :

(a) Depreciation on Fixed Assets is provided on written down value method as per Income Tax Act, 1961.

(b) Leasehold land is amortized over the Lease period. The premium paid for acquisition of Lease Hold Land is amortized over the period of lease. The ground rent, if any, are recognized as expense in the year for which such charges are due or payable.

(c) Library books are depreciated at 100% in the year of purchase.

9. Investments :

Long term investments are stated at cost. However, when there is a decline other than temporary, in the value of long term investments, carrying amount is reduced to recognize the decline.

10. Inventories

Study Materials, Prospectus, other Publications and Paper Stock are valued at Cost or Net Realizable Value, which is lower. Cost is determined on weighted average basis and cost of paper is determined on first-in-first-out basis.

11. Accounting for Provisions, Contingent Liabilities and Contingent Assets

(i) A provision is recognized

(a) when there is present obligation as a result of past event;

(b) it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of obligation.

(ii) No provision is recognized for

(a) any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Institute;

(b) any present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or a reliable estimate of the amount of obligation cannot be made.

Such obligations are disclosed as Contingent Liabilities. These are assessed at regular intervals and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for except in extremely rare circumstances where no reliable estimate can be made.

12. Foreign Currency Transactions :

Transactions in foreign currency are denominated at the exchange rate prevailing on the transaction date. Monetary items are reported by using the closing rate. Exchanged items arising on the settlement of monetary items or reporting the monetary items at rate different from those at which they were initially recorded or reported, are recognized as income or as expenses in the period in which they arise.

13. Employee Benefits

(i) Short term benefit

The short term employee,benefit is recognised as expense when claimed during the period. Unclaimed amount is provided for.

(ii) Post employment benefit such as P.F, Gratuity, Leave Encashment etc. are provided, as applicable.

14. Impairment of Assets

At the Balance Sheet date, impaired assets, if any, are identified and necessary provision, as required, is made.

15. Prior Period income/expenditure

Prior period items which arise in the current period as a result of errors or omissions in the preparation of financial statements in one or more prior periods are separately disclosed in the Income & Expenditure Account.

B. NOTES FORMING PART OF ACCOUNTS

1. The consolidated financial statement is prepared considering Head Quarters, four Regional Councils and ninety one Chapters except Jhagrakhand-Chirimiri Chapter under WIRC.

2. Exemption in respect of Income Tax has been granted u/s 10(23A) read with Section 11 of the Income Tax Act, 1961. Accordingly, no provision for Income Tax has been made.

3. All Prize Funds maintained by the Institute have been incorporated in the accounts together with relevant investments in Rxed Deposit thereof in terms of the decision of the Council. The funds have been sponsored by the different donors.

4. Miscellaneous Expenditure (to the extent not written off) includes :

(i) Election related expenses of Rs.10,13,453/- (2007-2011) is to be recognized in the next year as per Accounting Policy, after charging Rs. 10,l3,453/-(l/4 portion) in the current year's Income & Expenditure Account.

(ii) Lease Rent of Rs. 2,48,220/- (Kalyan Ambernath Chapter, Rs.1,22,400/- & Jaipur Chapter Rs. 1,25,820/-) are to be recognized in the remaining period of the lease.

5. Other Advances include Rs. 2,88,384/- due from certain Past Council Members owing to disallowances by the MCA, Govt. of India and presently the matter is sub-judice. Further, it includes Rs.15,29,775/- towards advance paid to ICWAI Management Accounting Research Foundation.

6. The balances with Institute's Current Accounts and Loans & Advances are subject to confirmation.

7. As at 31st March 2010 there is no amount including interest payable to Micro, Small and Medium Enterprises as defined under "The Micro, Small and Medium Enterprises Development Act, 2006", based on the information available with he Institute.

8.(i) Head Quarters

(a) Provident Fund contributions are made to the Institute of Cost and Works Accountants of India Employees Provident Fund Trust.

(b) The liability in respect of Gratuity, as per the Gratuity Act,1972 (as amended), is recognized on the basis contribution made to the LICI against the Group Gratuity Policy.

(c) The liability in respect of leave encashment is recognized on the basis of contribution to an Approved Leave Encashment Fund maintained with the LICI

(ii) WIRC

(a) The liability in respect of Gratuity, as per the Gratuity Act, 1972 (as amended), is recognized on the basis contribution made to the LJCI against the Group Gratuity Policy.

(b) Reimbursement of expenses have been made on cash basis.

(c) Computer software has been amortised over a period of three years and the impact due to this change is not readily ascertainable.

(iii) SIRC

(a) Contribution to Provident Fund, Family Pension Fund and Deposit Linked Insurance are accounted for on accrual basis.

(b) The Liability in respect of Gratuity and Leave Encashment is recognized on the basis of yearly premium paid to LIC on the basis of actuarial valuation.

(c) Coaching Fees are recognized over the actual period of coaching and the impact due to this change is not readily ascertainable.

(d) Incomes other than Coaching Fees, Commission on Sales, Programme Fees and Interest Income are recognized on Receipt basis. The impact due to this change is not readily ascertainable.

(e) Depreciation on Fixed Assets have been provided for the full year, irrespective of the date of purchase and the impact due to this change is, not readily ascertainable.

(f) Computer software has been amortised over a period of three years and the impact due to this change is not readily ascertainable.

(iv) EIRC

(a) Gratuity Fund is maintained with the LICI with a ceiling of Rs. 1,00,0007-.

(b) Contribution to Employees Provident Fund is deposited to the Public Provident Account maintained with the SBI.

(c) No depreciation has been provided on Furniture & Fixtures and Library Books acquired out of grant received from the HQ.

(V) NIRC

(a) Coaching Fees are recognized as and when a student is enrolled as per Accounting Policy of the Institute, although in previous year the same was recognized on proportionate basis for January Term and the impact due to this change is not readily ascertainable.

(b) Depreciation has been charged as per IT Act, as against 10% in the last year and the impact due to this change is not readily ascertainable.

9. Expenditure on ongoing Renovation Work, as per following details, amounting to Rs. 51,19,134/- (Previous year Rs.93,65,901/-) has been shown as Capital Work-in-Progress :

- Asansol Chapter – Rs. 14,74,172/-
- Dhanbad-Sindri Chapter – Rs. 3,91,905/-
- Kota Chapter – Rs. 13,03,468/-
- Durgapur Chapter – Rs. 17,70,000/-
- Cochin Chapter – Rs. 1,26,339/-
- Visakhapatnam Chapter – Rs. 53,250/-

10. Following amount has been written off during the year :

(a) Obsolete Study Materials and Suggested Answers (Old Syllabus) Rs.16,16,613/- as under :

HQ – Rs. 14,88,4987-
NIRC – Rs. 19,153/-
Jalandhar Chapter – Rs. 2,000/-
Visakhapatnam Chapter – Rs. 19,473/-
Cuttack-Bhubaneswar Chapter – Rs. 8,489/-
Pune Chapter – Rs. 79,000/-

(b) Old and Non-recoverable Debtors amounting to Rs.6,65,216/- as under :

HQ – Rs. 5,66,491/-
Pune Chapter – Rs. 48,283/-
South Orissa Chapter – Rs. 10,000/-
Patna Chapter – Rs. 17,657/-
Bokaro Steel City Chapter – Rs. 13,000/-
Faridabad Chapter – Rs. 9,785/-

11. Summerised position in respect of the title deeds of Land and Buildings capitalised In the books of Head Quaters are as under :

(Rs./Lakhs)

Classification of Deeds available at HQ	Freehold Land	Leasehold Land	Building
Original	60.05	0.12	22.92
Photocopy	79.80	56.44	113.75
Not available	23.01	0.11	8.38

12. Bank Balance includes Rs. 266/- (Previous Year Rs. 3,891/-) lying in in-operative Bank Account as on 31st March, 2010

13. Figures, pertaining to Regional Councils and Chapters have been re-grouped and re-classified, wherever considered necessary to bring them in line with the Institute's financial statements.

Signatures to Schedule Nos. 1 to 16

M. Gopalakrishnan Vice President	B. M. Sharma President
R. N. Pal Sr. Director (F & A)	S. M. Galande C.E.O.

Date : 15th September, 2010.

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

Names of the Regional Councils and Chapters included in the Consolidated Accounts for the FY 2009-10

WIRC AND ITS CHAPTERS

SL. NO.	NAME OF THE CHAPTERS
1	WIRC
2	AHMEDABAD
3	AURANGABAD
4	BARODA
5	BHILAI
6	BHOPAL
7	BILASPUR
8	CHANDRAPUR
9	GOA
10	INDORE-DEWAS
11	JABALPUR
12	JHAGRAKHAND-CHIRIMIRI*
13	KALYAN AMBARNATH
14	KOLHAPUR-SANGLI
15	KORBA
16	KONKAN
17	KUTCH-GANDHIDHAM
18	NAGPUR
19	NAVI MUMBAI
20	NASIK-OJHAR
21	PUNE
22	RAIPUR
23	RAJKOT
24	SURAT-SOUTH GUJARAT
25	VINDHYANAGAR

* Not Included

WIRC AND ITS CHAPTERS

SL. NO.	NAME OF THE CHAPTERS
1	EIRC
2	AGARTALA
3	ASANSOL
4	BAKARO STEEL CITY
5	CUTTACK-BHUBANESWAR
6	DHANBAD-SINDRI
7	DURGAPUR
8	GUWAHATI
9	HOWRAH
10	JAJPUR-KEONJHAR
11	JAMSHEDPUR
12	KHARAGPUR
13	NAIHATI-ICHAPUR
14	PATNA
15	RAJPUR
16	RANCHI
17	ROURKELA
18	SAMBALPUR
19	SERAMPORE
20	SILCHAR
21	SILIGURI-GANGTOK
22	SOUTH ORISSA
23	TALCHER-ANGUL

SIRC AND ITS CHAPTERS

SL. NO.	NAME OF THE CHAPTERS
1	SIRC
2	BANGOLORE
3	BHADRAVATI-SHIMOGA
4	COCHIN
5	COIMBATORE
6	GODAVARI
7	HYDERABAD
8	KOTHAGUDEM
9	KOTTAYM
10	MADURAI
11	MANGALORE
12	MATTUR SALEM
13	MYSORE
14	NELLAI PEARL CITY
15	NELLORE
16	NEYVELI
17	PALAKKAD
18	PONDICHERRY
19	RANIPET VELLORE
20	TRIUCHIRAPALLI
21	THRISSUR
22	TRIVANDRUM
23	UKKUNAGARAM
24	VIJAYAWADA
25	VISAKHAPATNAM

NIRC AND ITS CHAPTERS

SL. NO.	NAME OF THE CHAPTERS
1	NIRC
2	AJMER-BHILWARA
3	ALLAHABAD
4	CHANDIGARH-PANCHKULA
5	DEHRADUN
6	FARIDABAD
7	GHAZIABAD
8	GORAKHPUR
9	GURGAON
10	HARDWAR-RISHIKESH
11	JAIPUR
12	JALANDHAR
13	JAMMU-SRINAGAR
14	JHANSI
15	JODHPUR
16	KANPUR
17	KOTA
18	LUCKNOW
19	LUCHIANA
20	NANGAL
21	NOIDA
22	PATIALA
23	UDAIPUR

SUMMARY

REGIONAL COUNCILS	CHAPTERS	TOTAL
4	92	96

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ARTICLES

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